



Comments by Actuarial Standards Board (Canada) on Draft Statement of Intent to issue an International Standard of Actuarial Practice – Actuarial Services in relation to IFRS X Insurance Contracts (ISAP [4])

1. Do you agree an ISAP is needed on actuarial services in relation to IFRS X?

Yes

No

2. Are any of the proposed topics inappropriate for inclusion in ISAP [4]?

Yes

No

If yes, please explain why the particular topic should not be included in ISAP [4].



3. What other topics should be included in ISAP [4]?

We believe that the standard should include the following topics because of their relative importance and to provide a framework for more detailed guidance in actuarial notes:

- A section on “Considerations in testing and dealing with onerous contracts”, including
 - (i) For non-onerous portfolios, what to do if the Contractual Service Margin (CSM) on some cohorts within the portfolio go below zero
 - (ii) For onerous portfolios, what to do if the CSM on some contracts within the portfolio stay positive
 - (iii) For onerous contracts, what to do with CSM / assumptions if the contract becomes less onerous or no longer onerous on subsequent re-measurement. In particular, actuarial standards should give guidance on the issue of at what point CSM is re-established versus improvements capitalized into income should the IASB not do so.
- A section on “Considerations for determining the applicability of the Premium Allocation Approach”.
- A section on “Considerations for determining the applicability of current discount rates for income purposes when there are linked crediting rates that do not qualify for mirroring”, and principles for setting such rates.

4. Please use this space for any additional comments not covered above.

The following are suggestions we hope will be useful in the drafting process.

For the section “Principles for determining the classification of contractual obligations” the standard should provide guidance on the amount of insurance risk that has to be present in a contract in order to classify the contract as an insurance contract.



For the section “Considerations when determining the level of aggregation of contracts in measurement” there are different sub-sections needed to deal with “cohort” versus “portfolio” level aggregation

- (i) Level of aggregation for determining “portfolio” at which the basic model is applied (including “onerous” contract testing)
- (ii) Level of aggregation for determining “cohorts” at which the CSM is established.

For the section “Considerations when determining the pattern of recognition of the Contractual Service Margin” there are different sub sections needed which should be specified:

- (i) What liabilities have a CSM versus do not, e.g. claims liabilities.
- (ii) What changes cause CSM to unlock versus do not. In particular, it is not clear how all the potential impacts of changes in the investment return are treated. For example, are changes driven directly by changes in the observed market yield curves treated the same as more subjective changes to future yields such as rates beyond the reliable observable period? Are changes from change in timing of cash flows from second order impacts such as interest sensitive lapse assumptions treated the same as the direct impact of changing discount rates on the original cash flows?
- (iii) How to re-determine cohort level CSM's when a portfolio unlocks (assuming a portfolio has different cohorts). This can include the basic issue of whether unlocking is done at cohort level or portfolio level, and if the latter, how then the cohort level allocation of the CSM change is done
- (iv) How to set interest rates for the accretion of CSM's.

For the section “Considerations for determining current interest rates” reference should be made to the principles of IAS 13 where observable rates are sparse or non-existent.



5. Please provide the name of the person completing the consultation response, association and email address for further clarifications (if needed).

Name	Jim Christie, Chair
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Type of response	<input type="checkbox"/> Personal <input checked="" type="checkbox"/> Organization

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