

## Memorandum

**To:** All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

**From:** Charles C. McLeod, Chairperson  
Actuarial Standards Board  
Michael Banks, Chairperson  
Working Group on Pension-Specific Standards

**Date:** June 14, 2010

**Subject:** **Final Standards of Practice for Revised Practice-Specific Standards for Pension Plans (Part 3000)**

*Document 210040*

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### INTRODUCTION

The attached final Standards of Practice for Revised Practice-Specific Standards for Pension Plans (Part 3000) (the “final Standards”) were approved by the Actuarial Standards Board (ASB) on June 3, 2010. The ASB’s Policy on Due Process for the Adoption of Standards of Practice was followed in the development of the final Standards.

### BACKGROUND

In August 2008, the ASB established a Pension Funding Standards Working Group (the “Designated Group”) with responsibility for development of these Standards of Practice. The Designated Group consists of Michael Banks, Sophie Cournoyer, Malcolm Hamilton, Greg Heise and Charles McLeod. Each Designated Group member is a member of either the ASB or the Committee on Pension Plan Financial Reporting (PPFRC) of the Canadian Institute of Actuaries (CIA).

A notice of intent with an accompanying draft of changes to the Standards of Practice was issued on September 3, 2008 (<http://www.actuaries.ca/members/publications/2008/208064e.pdf>). An exposure draft (the “original exposure draft”) was issued on April 1, 2009 (<http://www.actuaries.ca/members/publications/2009/209026e.pdf>). A revised exposure draft was issued on February 16, 2010 (the “revised exposure draft”) (<http://www.actuaries.ca/members/publications/2010/210006e.pdf>). The final Standards replace sections 3100 to 3700 of the current Standards of Practice. Section 3800, Pension Commuted Values, is renumbered section 3500 with only minor consequential changes. A related change is made to the General Standards subsection 1110 – definition of funded status.

## **CHANGES FROM CURRENT STANDARDS OF PRACTICE**

The final Standards reflect a number of changes compared to the current Standards of Practice. A summary of the significant changes is included as Appendix A. This summary is not exhaustive as to all changes. Actuaries practicing in the pension area will need to review the final Standards carefully before completing work governed by them.

## **CHANGES FROM REVISED EXPOSURE DRAFT**

A red-lined version of the final Standards showing these changes can be obtained from Josée Gonthier, CIA French Editor, at [josee.gonthier@actuaries.ca](mailto:josee.gonthier@actuaries.ca). Changes from the revised exposure draft are

reference to the possibility of using a fixed income related discount rate for a going concern valuation has been added (paragraph 3230.02),

modification of the preclusion in the revised exposure draft from assuming any additional returns, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy, to allow such additional returns to be assumed where the actuary has reason to believe, based on relevant supporting data, that such additional returns will be consistently and reliably earned over the long term and provides a description the rationale for such assumption (paragraphs 3230.03, 3260.02),

clarification is added that when selecting the scenario that maximizes the wind-up liabilities of a pension plan, the scenario relates to the circumstances resulting in the wind-up (as opposed to the methods of settlement or other matters) (paragraphs 3240.10, 3260.12, 3260.19), and

various clarifications and improvements in wording.

## **COMMENTS RECEIVED**

Comments on the revised exposure draft were received from four consulting firms, the Government of Alberta, the Canadian Association of Pension Supervisory Authorities (CAPSA), staff of the Canadian Accounting Standards Board (CASB), the Healthcare of Ontario Pension Plan (HOOPP) and the British Columbia Superintendent of Pensions.

A summary of the comments received and the Designated Group's responses to those comments is contained in Appendix B.

## **EDUCATIONAL GUIDANCE**

The ASB understands that updated draft educational notes are being prepared by the PPFRC and will be distributed upon approval by the CIA's Practice Council in respect of

Calculation of Incremental Cost on a Hypothetical Wind-Up or Solvency Basis,  
and

Determination of Best Estimate Discount Rates for Going Concern Funding  
Valuations.

The ASB also understands that the PPFRC is considering the development of an educational note regarding the use of the forecast actuarial cost method. The ASB has encouraged the CIA's Practice Council to develop such an educational note.

**EFFECTIVE DATE**

The effective date is December 31, 2010. Certain provisions of the final Standards conflict with the existing Standards of Practice. Therefore, early implementation of the revised Standards is not permitted.

CCM, MB

**APPENDIX A**  
**SUMMARY OF CHANGES FROM CURRENT STANDARDS**

**INTRODUCTION**

This Appendix summarizes the more significant changes from the current Standards of Practice (Practice-Specific Standards for Pension Plans, found at [www.actuaries.ca/members/publications/2009/209028e.pdf](http://www.actuaries.ca/members/publications/2009/209028e.pdf)) to the final (revised) Standards. Section or paragraph references cited are to the final Standards unless indicated otherwise. This list is not exhaustive and readers are encouraged to consult the text of the final Standards.

**TERMINOLOGY**

A definition of funded status has been added to the General Standards (Part 1000) and references to financial position and financial condition have been eliminated.

**SECTION 3100 SCOPE**

This section has been revised to reflect a substantial reorganization of the Standards into the following sections:

- 3200 Advice on the Funded Status or Funding of a Pension Plan
- 3300 Full or Partial Wind-up Valuation
- 3400 Accounting for Pension Costs
- 3500 Pension Commuted Values

Clarification is provided that the wind-up of a pension plan involves the settlement of plan benefits and distribution of all plan assets.

A proviso that section 3700 of the current Standards of Practice, Wind-up, Hypothetical Wind-up or Solvency Valuation applies only to plans registered under the Income Tax Act (Canada) has been eliminated.

**SECTION 3200 ADVICE ON THE FUNDED STATUS OR FUNDING OF A PENSION PLAN**

Notable changes are made to paragraphs

**3210 General**

3210.06 provides for consideration of letters of credit,

3210.08 describes matters included in the circumstances of the work,

3210.09 requires the actuary to be familiar with relevant regulatory guidance,

3210.10 provides that a valuation to establish the value of a letter of credit, advice regarding an amount of assets to be earmarked, and advice on the implications of a plan amendment constitute advice on funding,

3210.11–3210.13 describe some permissible provisions for the terms of an appropriate engagement including objectives of funding with possible reference to a funding policy and that the terms of an appropriate engagement may specify the

use of a particular actuarial cost method and/or a particular asset valuation method, consistent with the Standards of Practice.

A specific description of the objectives of funding, applicable to all plans, in the current Standards of Practice has been eliminated.

A requirement of the current Standards of Practice that the forecast actuarial cost method not be used for registered plans has been removed.

A provision of the current Standards of Practice that, where appropriate, the actuary would select a sufficiently long forecast period that the valuation reflects the long-term cost allocation pattern has been removed.

### **3220 Types of Valuation**

3220.01–3220.02 provide that the actuary would undertake one or more types of valuation when giving advice on the funded status or funding of a pension plan. Types of valuation for a continuing pension plan include going concern, hypothetical wind-up and solvency valuations.

### **3230 Going Concern Valuation**

3230.01 provides that assumptions for a going concern valuation are either best estimates or best estimates modified to incorporate margins for adverse deviations to the extent required by law or the terms of engagement.

3230.02 provides that the discount rate assumption for a going concern valuation of a funded pension plan may either reflect the expected return on plan assets or be based on fixed income yields.

3230.03 provides that, in establishing the discount rate for a going concern valuation, the actuary may not anticipate any additional returns, net of fees, from an active investment management strategy except to the extent the actuary has reason to believe, based on relevant supporting data, that such additional returns will be consistently and reliably earned over the long term.

3230.05 identifies factors the actuary would consider in establishing assumptions regarding contingent benefits for a going concern valuation.

A requirement of the current Standards of Practice to include assumed future salary increases in a going concern valuation has been eliminated.

A requirement of the current Standards of Practice that assumptions should be consistent with the asset valuation method has been eliminated.

### **3240 Hypothetical Wind-up Valuation**

3240.06 provides that assets should be valued at market value for purposes of a hypothetical wind-up valuation, as opposed to liquidation value under the current Standards of Practice.

3240.10–3240.11 provide considerations for the postulation of scenarios and the treatment of contingent benefits in a hypothetical wind-up valuation.

### **3260 Reporting: External User Report**

3260.01 provides that the description of membership data is to include any limitations thereof and adds a requirement that significant terms of engagement are described.

3260.02 modifies reporting with respect to a going concern valuation to

- add a requirement to describe the extent of any margin for adverse deviations included with respect to each assumption in a going concern valuation,

- add a requirement to describe the rationale for any additional returns, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy included in the discount rate assumption,

- report the funded status at the calculation date and the service cost, or rule for calculating the service cost, from the calculation date to the next calculation date,

- require the description of any contingent benefits and the extent to which such benefits are reflected in the valuation, and

- require the description of any benefits, other than contingent benefits, excluded from the valuation.

3260.04 requires that a report that includes a going concern valuation, other than a maximum funding valuation for a designated plan, report the effect on the valuation of a 1% reduction in the discount rate.

3260.05 modifies reporting with respect to a hypothetical wind-up valuation to require

- a description of the basis for inclusion and the amount considered in respect of a letter of credit,

- a description of the postulated scenario, and

- a description of the extent to which contingent benefits are reflected in the valuation.

3260.06 provides for new requirements for a report that includes one or more hypothetical wind-up or solvency valuations, unless the pension plan is a “designated plan” for “connected persons” only. For any one such valuation the report would include

- the incremental cost between the calculation date and the next calculation date,

- the effect on liabilities of a 1% reduction in discount rates, and

- if the report does not include a going concern valuation, a gain and loss reconciliation from the prior valuation.

3260.07 incorporates revised language for advice on funding

- to expressly permit the reporting of a range of contributions, and

to describe what should be reported where contributions are fixed by the terms of a pension plan.

3260.11 adds additional guidance with respect to identifying limitations on the review of data.

3260.12 specifies minimum requirements as to the information regarding valuations to be included in an external user report on funding. For registered plans the following are required,

- a going concern valuation, if required by law or if required by the terms of engagement,

- a hypothetical wind-up valuation under the scenario that maximizes the wind-up liabilities, unless the plan does not define the benefits payable on wind-up or the plan is a “designated plan” which covers only “connected persons”, and

- any other hypothetical wind-up or solvency valuation required by law.

3260.13 provides examples of the significant terms of an appropriate engagement.

3260.14 provides that a gain and loss analysis for a going concern valuation is to include the effect of a change in the actuarial cost method or asset valuation method determined at the calculation date.

3260.15 specifies that, when preparing the required sensitivities for changes in discount rates, all other assumptions are kept unchanged.

3260.16 requires a description of and rationale for a change in actuarial cost method.

3260.17 requires a description of and rationale for a change in asset valuation method.

3260.19 permits the exclusion of benefits contingent on a factor other than the circumstances of wind-up and the possible effect of plan member earnings after the calculation date for purposes of the “maximum cost” hypothetical wind-up valuation.

A requirement of the current Standards of Practice to describe the effect of the actuarial cost method on the future security of benefits and on the pattern of future contributions has been eliminated.

## **SECTION 3300 FULL OR PARTIAL WIND-UP VALUATION**

### **3310 General**

3310.06 specifies matters that would be included in the circumstances of the work.

### **3320 Assumptions**

3320.01 provides that assumptions may be either best estimate assumptions or include margins for adverse deviation to the extent required by law or by the terms of an appropriate engagement.

3320.02 provides that assumed wind-up expenses would either be applied to reduce the value of assets or to increase the value of liabilities.

A requirement of the current Standards of Practice that best estimate assumptions would be chosen so as not to distort the value of a member's benefit relative to other members has been eliminated.

A provision of the current Standards of Practice indicating that the recommendations for commuted values (with possible modifications) may be used where a bona fide annuity quote is not available has been eliminated.

### **3330 Reporting: external user report**

3330.02 provides that reporting of detailed membership data is subject to applicable privacy legislation.

3330.16 provides for the possibility of the settlement of benefit entitlements by means other than the purchase of annuities or lump sum transfers.

3330.20 provides that wind-up expenses would either reduce the value of plan assets or increase plan liabilities when calculating the ratio of assets to liabilities.

Requirements of the current Standards of Practice to report the determination and amount of any claims to a pension benefit guarantee fund and report the amount of any claims to a trustee in bankruptcy have been eliminated.

Examples of settlement methods in the current Standards of Practice have been eliminated.

## **SECTION 3400 ACCOUNTING FOR PENSION COSTS**

### **3410 General**

3410.05 provides for the inclusion in the value of pension obligations of a commitment for benefits beyond the terms of the plan where required by the terms of engagement.

### **3420 Reporting: external user report**

3420.01 includes a requirement to describe any commitment for benefits beyond the terms of the plan which are reflected in the valuation.

## APPENDIX B

### COMMENTS RECEIVED AND THE DESIGNATED GROUP'S RESPONSES

#### INTRODUCTION

This appendix contains a summary of the comments received on the revised exposure draft and the Designated Group's responses to those comments. Although the responses are described as those of the Designated Group, as is required by the ASB's Policy on Due Process for the Adoption of Standards of Practice, they also reflect the views of the ASB. Paragraph references are to the revised exposure draft unless noted otherwise.

#### COMMENTS RECEIVED

Comments were received from four consulting firms, the Government of Alberta, the Canadian Association of Pension Supervisory Authorities (CAPSA), staff of the Canadian Accounting Standards Board (CASB), the Healthcare of Ontario Pension Plan (HOOPP) and the British Columbia Superintendent of Pensions.

#### **Benefits guaranteed by a life insurer (paragraph 3100.02)**

##### *Comments Received*

Paragraph 3100.02 provides that the Standards of Practice in sections 3200 to 3400 do not apply to a pension plan whose benefits are guaranteed by a life insurer. CAPSA commented that

they believe plans that have purchased annuities in respect of a portion of plan benefits remain responsible for those benefits in case of insurance company failure,

while the inclusion of the value of annuity contracts will not affect the plan's funding, it is sufficiently important for users to be aware of these contracts and their value,

new types of annuity contracts are being developed that contain terms of revocability and it may not be appropriate to exclude such an annuity contract from the assets and liabilities of the plan, and

the ASB should consider adding wording to the Standards of Practice to require that the value of annuity contracts be disclosed in reports.

##### *Designated Group Response*

No substantive change from the current Standards of Practice was proposed in the revised exposure draft or earlier exposure documents in this regard. Paragraph 3100.02 has been revised in the final Standards to specify that sections 3200–3400 do not apply to a pension plan whose benefits are **all** guaranteed by a life insurer. Any further changes regarding reporting relative to annuity contracts should be considered in future ASB projects regarding pensions.

#### **Consideration of Regulatory Guidance (paragraph 3210.09)**

##### *Comments Received*

Paragraph 3210.09 requires the actuary to be familiar with guidance with respect to the funding of pension plans that has been published by an applicable regulatory authority.

CAPSA and the British Columbia Superintendent of Pensions indicated it would be preferable for the Standards of Practice to require actuaries to take regulatory guidance into account in their work rather than be familiar with the guidance.

*Designated Group Response*

The requirement to be familiar with guidance is consistent with the requirement of the Standards of Practice (paragraph 1220.01) that actuaries be familiar with educational guidance of the Canadian Institute of Actuaries.

**Forecast Actuarial Method (paragraph 3210.15)**

*Comments Received*

Paragraph 3210.15 includes forecast actuarial cost methods with other actuarial cost methods. The preclusion in the current Standards of Practice on using the forecast actuarial cost method for registered pension plans would be eliminated. CAPSA reiterated concerns with this change as indicated in their comments on the prior exposure draft.

*Designated Group Response*

The designated group remains of the view that the forecast actuarial cost method is appropriate in some circumstances and its use should not be precluded with regard to registered plans. Establishing contribution requirements based on a projected funding target, or testing whether contributions otherwise established will meet a projected funding target, are considered rational approaches.

**Asset Valuation Methods (paragraph 3210.17)**

*Comments Received*

One consulting firm indicated that some, but not all, of their actuaries had suggested that more specific requirements as to acceptable asset valuation methods be incorporated in the Standards of Practice. This would reduce the need for legislators/regulators to develop guidance or rules in this area.

*Designated Group Response*

The Designated Group is of the view that, in general, it is preferable for the Standards of Practice to specify only overall principles, with more detailed guidance provided by educational notes, as at present.

**Going Concern Valuations and Margins for Adverse Deviations (paragraph 3230.01)**

*Comments Received*

Paragraph 3230.01 is changed from the current Standards of Practice to provide that the assumptions for a going concern valuation would include margins for adverse deviations to the extent required by law or the terms of an appropriate engagement. CAPSA indicated that "...adequate margins are an essential part of going concern valuations. Therefore, we feel that, compared to the current standards of practice, this change is not in the public interest."

The Government of Alberta supported the CAPSA view and provided some additional commentary including

over recent years minimum funding policies combined with increased anticipation of excess returns on risky assets combined with a lack of sufficient margins have resulted in significantly underfunded pension plans and resulted in benefit reductions,

the revised Standards of Practice now codify that minimum funding, without margins is an appropriate funding policy for a defined benefit plan,

for multi-employer pension plans funded on a “best estimate” basis, future benefit reductions are almost a certainty,

conventional actuarial practice applied to most jointly funded pension plans results in under-reporting of pension liabilities and transfer of risk to future generations,

actuarial standards applicable to insurers providing annuities result in much higher probability of contract fulfillment than standards applicable to the delivery of similar benefits from pension plans, and

the proposed standards relegate the actuary to a role which is little more than a calculation expert (at least from a regulatory perspective).

### *Designated Group Response*

As discussed in the response to comments on the original exposure draft, the Designated Group remains of the view that the basic principle that assumptions would be on a best estimate basis or include margins to the extent required by law or the terms of engagement is appropriate based on the considerations that,

for valuations where security of benefits is not the primary consideration, inclusion of margins may be inappropriate (considering, for example, issues of generational equity or surplus entitlement),

an actuary cannot reasonably establish an appropriate level of provision for adverse deviations in a pension plan valuation without guidance from a plan’s funder (see, for example, the Report of the CIA Task Force on Public Policy Principles of Pension Plan Funding: <http://www.actuaries.ca/members/publications/2004/204064e.pdf>) (November 2004),

the extent of provisions, if any, required for legal minimum funding purposes would be set by legislators in the context of minimum funding requirements of a particular jurisdiction, and

in some cases, it may be appropriate to include provisions by means other than margins in assumptions. For example, recent changes to Québec law include requirements for provisions, as a percentage of solvency liabilities, for certain purposes. A recent announcement regarding revised funding standards for federally-regulated pension plans as well as the recent Alberta/BC and Ontario Expert reports refer to thresholds calculated as a specified percentage of otherwise determined solvency liabilities.

The ASB understands the CIA has offered to be engaged with legislators/regulators on appropriate margins or the consequences of alternative approaches. However, ultimately the decision on the extent of any margins to be included for minimum required funding

purposes would be made by legislators or as delegated to pension regulators. More specifically, the CIA has recently appointed a new task force on target benefit pension plans and multi-employer pension plans. The task force is to make recommendations with respect to the funding policy of such plans including appropriate margins. The Designated Group recommends that the ASB consider whether further changes to the Standards of Practice are appropriate after the task force has provided its report.

### **Discount Rate for Going Concern Valuation (paragraph 3230.02)**

#### *Comments Received*

Three consulting firms and HOOPP indicate that the preclusion of assuming benefits from active investment management in excess of related investment expenses is not appropriate and should be deleted. Reasons cited include

there is evidence of positive correlation between governance quality and investment performance,

in the realm of publicly traded investments, some markets are less efficient than others and in those markets managers have demonstrated the ability to outperform,

non-public market investments such as infrastructure, private equity and debt, and real estate are typically actively managed and there is no basis to distinguish the benefits of active vs. passive management,

variability in asset return assumptions used by different actuarial firms is more significant than the extent of active management benefits assumed,

the preclusion has effects beyond the impact of selection of securities vs. an index for a specific asset class. For example, it would appear to preclude any consideration of benefits from diversification and rebalancing of a portfolio,

the preclusion is not appropriate in the context of developing modern portfolio management methodologies such as those referred to as liability-driven investing, and

the preclusion may lead to unjustified increases in funding requirements or lower benefits than could reasonably supported under a multi-employer pension plan.

One consulting firm expressed support for the preclusion.

#### *Designated Group Response*

The ASB is of the view that, in most circumstances, active management benefits, in excess of related investment expenses should not be anticipated. However, this provision has been modified in the final Standards to permit such excess returns to be included to the extent that the actuary has reason to believe, based on relevant supporting data, that such additional returns will be consistently and reliably earned over the long term. The actuary is required to describe the rationale for any such benefits assumed in a valuation.

#### *Comments Received*

One consulting firm suggests paragraph 3230.02 explicitly provide that a discount rate not based on expected plan asset returns such as a discount rate based on a hypothetical fixed income matching portfolio is an alternative appropriate methodology.

### *Designated Group Response*

While the suggested approach was not precluded by the revised exposure draft wording, the Designated Group agrees this would be an appropriate clarification and such language has been included in the final Standards.

### **Designated Plans (paragraphs 3230.04 and 3230.06)**

#### *Comments Received*

Paragraphs 3230.04 and 3230.06 permit the actuary to use assumptions and hypothetical benefit provisions specified in the Income Tax Act regulations when preparing a valuation to establish the maximum funding for a designated plan in accordance with such regulations. CAPSA suggested these provisions be broadened to apply where “one of the purposes of the valuation” is to establish maximum funding requirements under the Income Tax Act.

#### *Designated Group Comments*

The Designated Group is of the view that valuations prepared to establish maximum funding requirements for a designated plan under the Income Tax Act regulations are not normally suitable for any other purpose and therefore this change should not be made.

### **Coincidence of wind-up date, calculation date and settlement date (paragraph 3240.05)**

#### *Comments Received*

Paragraph 3240.05 requires that the actuary assume that the wind-up date, calculation date and settlement date are coincident for purposes of a hypothetical wind-up valuation. One consulting firm indicated that for very large pension plans it may not be possible to settle all obligations at one time and the Standards of Practice should be changed to accommodate an assumption that benefits would be settled over time combined with a further assumption of no gains and losses occurring between the wind-up date and the settlement date(s).

#### *Designated Group Comments*

This proposed change would be of no practical effect given that we are dealing, by definition, with a hypothetical scenario in any event. Accordingly, this change has not been made.

### **Statement as to limitations on membership data (paragraphs 3260.01 and 3260.11)**

#### *Comments Received*

CAPSA and the British Columbia Superintendent of Pensions indicated that the change to expressly permit the actuary to report limitations on membership data and state reliance on the certification of the plan administrator leads to a possibility that the actuary will take a lesser role in the review of membership data than would apply under the current Standards of Practice and this would not be appropriate.

### *Designated Group Response*

The changes proposed in the revised exposure draft did not change the requirements for the actuary’s review and validation of data as set out in subsection 1530 of the General Standards. Rather, the intent was only to describe more realistically the extent of data

validation. Therefore, no change has been made from the revised exposure draft in this respect.

*Comments Received*

One consulting firm suggested additional changes should be made to reflect the realities of the actuary's limited control over data, specifically by

replacing the word "determine" with "assess" in the fourth bullet of paragraph 3260.01 which says "*describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work,*" and

extending the certification regarding data in paragraph 3260.08 which reads "*In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation*" to add "*based on the information reasonably available to me at the time the valuation was prepared.*"

*Designated Group Response*

The changes proposed here would conflict with General Standards subsection 1530 and have not been reflected in the final Standards. The comments might be considered further in the event of a subsequent review of subsection 1530.

**Extent of Margins for Adverse Deviations and Rationale for Assumptions (paragraph 3260.02)**

*Comments Received*

One consulting firm suggested

the requirement to describe the extent of margins for adverse deviation with respect to each assumption is more in the nature of "best practices" rather than "minimum standards" and should not be included in the Standards of Practice. They note that the requirement does not specify how the "extent" of a margin is to be disclosed: in absolute terms, in relative terms, in terms of the dollar impact on valuation results, or in some other fashion? Given the uncertainty inherent in best estimate assumptions the determination of the extent of margins may be problematic, and

the requirement to provide a rationale for each assumption that is material to the actuary's advice is in the nature of "best practices" rather than "minimum standards" and should not be included in the Standards of Practice.

*Designated Group Response*

The Designated Group remains of the view that the description of the extent of margins for adverse deviations is of significant value to users. It is appropriate to leave the details of the description for the actuary to determine based on the circumstances of the case. In many cases margins may be included in only a single assumption or a small number of assumptions used in a particular valuation which will minimize the extent of this reporting.

The requirement to provide the rationale for assumptions was added to the Standards of Practice in 2007. The Designated Group is not aware of actuaries having difficulty

complying with the requirement and no change in the Standards of Practice should be made in this regard.

**Statement as to No Provision for Adverse Deviations (paragraph 3260.02)**

*Comments Received*

One consulting firm suggested that the requirement to state that there is no provision for adverse deviations where that is the case should be removed as it would not be misleading to do so. Alternatively, the language should be modified to state that the assumptions are on a best estimate basis.

*Designated Group Response*

The Designated Group is of the view that this provision is appropriate as appearing in the revised exposure draft.

**Sensitivity Disclosures (paragraphs 3260.04 and 3260.06)**

*Comments Received*

Two consulting firms indicated that the proposed disclosures of the impact of a 1% reduction in discount rate for a going concern valuation and for a hypothetical-wind-up/solvency valuation may not be appropriate in all cases, for example where assets have been structured to immunize a plan against the effect of changes in interest rates. One of these firms further suggested that reporting this type of sensitivity should be in the nature of best practices (which might be the subject of educational guidance) rather than standards which should be of a minimum requirements nature.

One consulting firm suggested that the information could be misleading—the reader might interpret the information as a “worst case” scenario or be under the impression the sensitivities represent a risk analysis for a plan.

One consulting firm proposed that the sensitivity analysis related to a hypothetical wind-up or solvency valuation (and the requirement to report the incremental cost on a hypothetical wind-up or solvency basis) should not be required for a target benefit plan that is not subject to solvency or wind-up funding requirements.

HOOPP requested that a provision be added that the sensitivities could be prepared by actuarial staff of a plan administrator rather than their external actuary preparing an external user report for the plan.

*Designated Group Response*

The Designated Group remains of the view that the requirement of these standardized sensitivity requirements for substantially all pension plans, as a minimum requirement, is appropriate. The effort and cost required to produce these sensitivities, once the base valuation has been prepared, will be small. The actuary is free to provide explanatory context or limitations appropriate to a particular case.

Reporting on the wind-up funded status of plans is generally appropriate regardless of whether plans are exempted from funding on a solvency basis. Where regulatory exemptions from solvency funding have been provided, requirements for reporting a plan’s funded status on a solvency basis have been maintained.

The actuary preparing an external user report on funding is not precluded from using calculations prepared by plan administrator staff, subject to the oversight of the actuary preparing the external user report.

### **Reporting on Contributions (paragraph 3260.07)**

#### *Comments Received*

One consulting firm indicated that paragraph 3260.07 should be modified

to exclude from the requirement to describe the determination of contributions or range of contributions, plans with fixed contributions which are covered by the subsequent requirements,

so that the reference to plans where contributions are fixed by the terms of the plan be clarified to reflect that contribution rates may be specified in collective bargaining agreements or other documentation rather than in the terms of the plan, and

so that the fixed contribution provision not be limited to registered plans which might be relevant to the Canadian component of a US qualified plan.

#### *Designated Group Response*

It is appropriate to describe the determination of contributions (as specified by plan terms) for a plan with fixed contributions and no change has been made in this regard. The final Standards have been revised to reference documentation, other than the terms of the plan, and remove the limitation that this paragraph apply only to registered plans.

### **Sufficiency of Detail (paragraphs 3260.09, 3330.04 and 3420.03)**

#### *Comments Received*

These paragraphs require that external user reports be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation. One consulting firm suggested this should be modified to refer to “a qualified pension actuary”, i.e., an actuary with relevant pension experience.

#### *Designated Group Response*

Rule 2 of the CIA’s Rules of Professional Conduct states that “A member shall perform *professional services* only when the member is qualified to do so and meets applicable qualification standards.” Accordingly, no change has been made to the Standards of Practice in this regard.

### **Significant Terms of Appropriate Engagement (paragraph 3260.13)**

#### *Comments Received*

CAPSA suggested that, in the list of examples of significant terms of an appropriate engagement, the exclusion of benefits should be expressly limited to exclusions permitted by law.

#### *Designated Group Response*

The Designated Group agrees with this comment. This clarification has been included in the final Standards.

## **Reporting Gains and Losses (paragraph 3260.14)**

### *Comments Received*

One consulting firm indicated that the effects of changes in assumptions, methods or benefits, although they should be reported, should not be considered as “gains and losses”. “Gains and losses” would reflect only the effect of variations of actual experience from assumed.

### *Designated Group Response*

The Designated Group is of the view that no change from the revised exposure draft is required. The requirements of paragraph 3260.14 do not preclude the actuary from describing the required gain and loss elements in a manner which distinguishes different types of those elements.

## **Hypothetical Wind-up Maximum Cost Scenario (paragraph 3260.19)**

### *Comments Received*

CAPSA indicated that the language added to paragraph 3260.19 to permit the disregard of plan member earnings after the calculation date, when reporting funded status under the scenario which maximizes wind-up liabilities, may result in a solvency valuation prepared under a scenario of continued employment which does not properly reflect the plan terms, and that this is inappropriate.

### *Designated Group Response*

The Designated Group is of the view that the hypothetical wind-up scenario of most relevance to plan members would not reflect continued employment or expectations of member earnings beyond the calculation date. The requirement to report on a “maximum cost” scenario which may exclude consideration of future salary increases is consistent with this view. The Standards of Practice also require the reporting of any solvency valuation, as required by law, and permit hypothetical valuations to be prepared under any other scenario as to the circumstances resulting in wind-up. The provisions of the revised exposure draft have not been changed in this regard.

## **Effect of Actuarial Cost Method on Security of Benefits**

### *Comments Received*

CAPSA indicated that the deletion of paragraph 3260.18 of the original exposure draft (part of paragraph 3600.14 of the current Standards) which provides for the actuary to describe the effect of the cost method on the security of benefits and the pattern of future contributions is not appropriate. CAPSA indicated that the disclosure is of value to assist report users to better understand the characteristics of the actuarial cost method.

### *Designated Group Response*

The Designated Group is of the view that this disclosure is of limited value as it represents only one factor of many which may affect the security of benefits and the future pattern of contributions. In many cases, other factors may be more significant.

As noted in the revised exposure draft release memorandum, the ASB intends to consider, in a future project, possible requirements for broader disclosures regarding factors or events that may affect future benefit security or future contribution requirements.

## **Gain and Loss Reconciliation**

### *Comments Received*

CAPSA suggested reporting of a simplified gains and loss analysis for solvency valuations should be required in external user reports.

### *Designated Group Response*

The Designated Group is of the view that although such an analysis may provide useful information in some cases, there is insufficient benefit to justify establishing this as a required standard for all plans given that, based on comments received on the original exposure draft, the requirement to provide a gain/loss analysis on a going concern basis was reconfirmed. The information provided by a solvency reconciliation is historical in nature and typically will not affect the current or future funded status or contribution requirements for a plan.

## **Substantive Commitments (paragraphs 3410.05 and 3420.01)**

### *Comments Received*

The staff of the Accounting Standards Board observed that the term “substantive commitment” is not defined in the actuarial standards of practice or in the CICA Handbook – Accounting. Further, International Accounting Standard IAS 19 uses the term “constructive obligation” in a similar but not necessarily identical context.

### *Designated Group Response*

In view of this comment, the final Standards have been revised to include more generic language as to commitments for benefits beyond the terms of the plan.

## **Opinion on Assumptions (paragraph 3420.02)**

### *Comments Received*

One consulting firm questioned the advisability of allowing the actuary to express no opinion on assumptions selected by the preparer of financial statements. Users of a report are entitled to know the actuary’s views on the acceptability of assumptions. There is a possibility of breaching the Rules of Professional Conduct.

### *Designated Group Response*

No changes were proposed in the revised exposure draft or earlier exposure documents. No comments have previously been received on this issue. The Designated Group is of the view that no change is required. An actuary would not accept an engagement which required the use of assumptions that were unreasonable to the extent that the work would not be in accordance with the Rules of Professional Conduct.

## **General Comments**

### *Comments Received*

One consulting firm indicated that

the revised exposure draft establishes significantly higher standards,  
some of the new requirements will be of little or no value to some users and will increase the price of actuarial services without adding value,

the cost of software changes required to comply with the new standards may affect small actuarial firms disproportionately to large firms with anti-competitive implications,

the transmittal letter accompanying the final version of the new Standards should clearly identify changes which conflict with the current Standards,

the ASB should consider General Standards paragraph 1110.02 which states that accepted actuarial practice represents “the consensus of the actuarial profession” in balancing the needs of stakeholders.

#### *Designated Group Response*

The final Standards are the result of extensive consultations with the profession and other stakeholders over many years. The Designated Group believes the additional required disclosures are of significant value to users and the additional cost of preparing actuarial reports for pension plans will be small. No standard will appear perfect to all actuaries or other stakeholders. In the view of the Designated Group, the extent of dissenting comments received is very modest given the substantial scope of changes to the Standards of Practice.

Other than the one submission referred to here, there were no comments received from small firms or independent practitioners on the revised exposure draft objecting on the basis of cost. Very few comments of this type were received in earlier consultation stages.

Appendix A of this memorandum includes a summary of the more substantive changes from the current Standards of Practice. The changes are extensive and actuaries practicing in the pension area will need to undertake a detailed review of the revised Standards of Practice.

#### *Comments Received*

One consulting firm suggested that

use of the word “determine” or variants at several points in the Standards of Practice is inappropriate as it implies that the actuary has latitude to set the amounts being measured,

use of the word “calculate” or variants at several points in the Standards of Practice is inappropriate as it carries an unfortunate implication of mechanical accuracy without judgment,

the above-described references might be changed to “measure” or “assess” depending on the context, and

use of the word “describe” carries an unfortunate implication of completeness and in some circumstances is inappropriate, in these cases use of the word “summarize” may be appropriate.

#### *Designated Group Response*

The suggested references have been reviewed and in some cases the final Standards have been revised to incorporate the suggested changes. Requirements to “describe” have

generally been retained considering the requirements of General Standards subsection 1820 regarding description and disclosure.

*Comments Received*

One consulting firm suggested several requirements in the revised exposure draft which, in their view, should be qualified to be required only pursuant to the terms of an appropriate engagement.

*Designated Group Response*

These references have been reviewed and in some cases the final Standards have been revised to incorporate the suggested changes.