

Memorandum

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

From: A. David Pelletier, Chair
Actuarial Standards Board

Date: September 26, 2011

Subject: **Final Standard of Practice for General Standards – Recognizing Events in Work**

Document 211092

INTRODUCTION

The attached final revisions to the Standards of Practice were approved by the Actuarial Standards Board (ASB) on August 23, 2011. The final Standard amends the definition of subsequent event, introduces new subsection 1515, and amends subsection 1520 and subsection 1820.

EFFECTIVE DATE

The revisions to the Standards of Practice are effective October 1, 2011.

EARLY IMPLEMENTATION

Since the changes to the Standards of Practice do not represent substantive changes from the existing Standards of Practice, but rather are a rewriting of them to improve their clarity, early implementation of the final Standards of Practice is permitted.

DUE PROCESS

The ASB's policy on Due Process for the Adoption of Standards of Practice was followed in the development of the final Standard of Practice.

BACKGROUND

A [notice of intent](#) (NOI) was published on April 29, 2009 with respect to changes to subsection 1520 Subsequent Events, with a comment period ending on June 30, 2009. On March 1, 2011, the ASB issued an [exposure draft](#) with a comment period ending on May 31, 2011. As explained in the cover letter to the exposure draft, some practitioners found the prior subsection 1520 to be difficult to interpret. In particular, the table that was previously in paragraph 1520.17 caused confusion and the fact that the table was in subsection 1520, when it purported to be applicable to all events and not merely subsequent events, caused problems. It is expected that the new Standards of Practice will improve the ability of practitioners to determine how to recognize an event in performing work.

A key clarification is that the definition of subsequent event has been amended to make it clear that the determination of whether an event is, or is not, a subsequent event is dependent on the date upon which the actuary first becomes aware of the event, rather than the actual date that the event had occurred.

There are existing educational notes with respect to the treatment of events in both the property and casualty and the pension practices. The ASB expects that these educational notes will be updated following adoption of these revisions to the Standards of Practice.

SUMMARY OF CHANGES SINCE EXPOSURE DRAFT

All of the changes made to the final Standards of Practice relative to the exposure draft were made in response to comments received, or were made to enhance consistency. A description of these changes is provided below. The only change that the Designated Group believes to be significant is the addition of new paragraph 1820.36, which provides examples to assist actuaries in determining the appropriate course of action to be taken when the actuary becomes aware after the report date of an event that makes an entity different.

COMMENTS RECEIVED ON THE EXPOSURE DRAFT

Four individual members of the Institute provided comments on the exposure draft. In addition, the Committee on Property and Casualty Insurance Financial Reporting provided comments. No comments were received from any other stakeholders.

The comments, and the Designated Group's responses, are as presented below.

1. *The definition of subsequent event is awkward, particularly with respect to the location of the preposition "of".*

A minor change has been made to the definition to make it grammatically correct.

2. *The Decision Tree does not contain a branch for what happens if a subsequent event does not make the entity different.*

Wording has been added to paragraph 1515.01 to clarify that the Decision Tree is only applicable if an event makes an entity different.

3. *A branch should be added to the Decision Tree to reflect paragraph 1520.01.*

The Decision Tree has been modified so that there is a branch dealing with the situation described by paragraph 1520.01.

4. *Changing the term "makes the entity a different entity" to "makes the entity different" has unintended consequences. Numerous events can make an entity different but not make the entity a different entity. The revised wording is more expansive, which may not be appropriate. If the revised wording is to be retained, comparable changes to paragraph 1820.33 should be made.*

The Designated Group agrees that the revised wording is more expansive and believes that the revised wording is appropriate. Appropriate changes have been made to paragraph 1820.33.

5. *The examples provided in paragraph 1520.07 are not appropriate and should be deleted. In particular, the publication of an experience study after the calculation date should not necessarily be taken into account in selecting the assumptions.*

The Designated Group believes that the concern expressed relates to when the listed events occur after the report date, rather than whether they are subsequent events. Since paragraph 1520.07 is dealing only with subsequent events, the Designated Group believes that all of the listed events are valid examples of events that should be taken into account in the work.

The Designated Group does believe that the comments have some validity in the case where the actuary becomes aware of the listed events after the report date. With respect to considering experience studies completed after the report date, the Designated Group notes that the last sentence of paragraph 1820.34 specifically provides that such information would not normally be considered to affect an already finalized report, but would be reflected in a subsequent report. Also, the addition of paragraph 1820.36 (as discussed below) should assist in alleviating the concerns raised.

6. *Paragraph 1520.08 and paragraph 1520.11 are identical and should be combined and the wording should be amended to be consistent with the definition of subsequent event.*

Paragraphs 1520.08 and 1520.11 were, in fact, identical. This duplication has been eliminated and the wording has been revised to be consistent with the definition of subsequent event.

7. *Paragraph 1520.16 is problematic and should be deleted. The actuary should not be expected to make judgments about whether events that occurred after the calculation date affected the entity as it existed at the calculation date.*

The Designated Group does not share the concerns expressed. Actuaries are expected to reflect events in work to the best of their ability. It is acknowledged that the examples given may be considered to be outside the expertise of the actuary, but that does not absolve the actuary from considering the events in doing the work. We believe that the examples are thought-provoking and provide the actuary with valuable guidance.

8. *Paragraph 1520.17.1 is superfluous and should be deleted. An actuary may always disclose information to the user(s) of a report and to intimate that the actuary may have some requirement to disclose events that are not deemed to be material could pose an unreasonable burden on the actuary.*

The Designated Group agrees and this paragraph has been deleted.

9. *Paragraph 1520.18 should be deleted as the actuary should not be required to report on an alternate basis.*

Upon further review, the wording of paragraph 1520.18 was seen to be unclear. This paragraph is intended to permit the actuary to prepare a report both including and excluding the subsequent event, provided that the actuary provides appropriate disclosure and such alternate reporting is consistent with the terms of engagement. It is not intended that there be any requirement for the actuary to report on an alternate basis. Appropriate changes have been made to the wording of this paragraph to address the concerns raised.

10. *Parts of the Decision Tree and the Standard of Practice require different actions depending upon whether the subsequent event occurs before or after the report date. The report date is often unclear as a report often gets first distributed in draft and then may be distributed to different users at different times. How should one determine the report date?*

Paragraphs 1820.31 and 1820.32 provide assistance in determining the report date. Given the numerous possibilities with respect to delays in finalizing and distributing reports, the Designated Group does not feel that further guidance should be included in the Standard of Practice. Rather, actuaries should use their judgment to determine the appropriate report date. Certain practice areas may have particular concerns with respect to defining the report date. In such cases, the applicable practice committee may wish to issue guidance to assist practitioners.

11. *The Decision Tree uses the phrase “Would event have been reflected in the work if it was a subsequent event” while paragraph 1820.33 uses the phrase “would have affected the report”. These sections should use consistent wording.*

The Designated Group agrees and has made minor edits to paragraph 1820.33 to make the wording more consistent with the Decision Tree.

12. *More guidance should be provided in paragraphs 1820.33 through 1820.35 with respect to whether an event “affects” a report or “invalidates” a report. Examples should be added to assist an actuary in determining whether an event invalidates a report.*

A new paragraph 1820.36 has been added to assist actuaries in determining whether an event, of which the actuary becomes aware after the report date, is worthy of disclosure or is sufficient to invalidate a report.

13. *Actuaries should have no standard-based requirement to adjust work after it has been issued even if it is later found that factors existed at or after the calculation date that impact the results of the work.*

Paragraphs 1820.33 to 1820.35 do not require an actuary to undertake any additional calculations if information comes to the actuary’s attention after the report date. Rather, an actuary’s responsibilities are limited to disclosing the information to the user(s) of the report or withdrawing the report. While amending the report is provided as an option, it is not a requirement and would typically only be done with the approval of the client. The Designated Group believes that no changes are required to these sections.

ADP