



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
Stephen Haist, Chair
Designated Group

Date: February 7, 2013

Subject: Final Standards – Introduction of Standards Relating to Appointed Actuary Opinions with Respect to Use of Internal Models to Determine Required Capital for Segregated Fund Guarantees

Document 213005

INTRODUCTION

After receiving approval from the regulator, life insurers may use internal models to determine required capital for segregated fund guarantees subject to certain ongoing requirements. One of these requirements is for the Appointed Actuary to sign an opinion that the models are compliant in all material respects with requirements of the regulator. This opinion may be required for:

- A new model application;
- A model modification; and
- Annual compliance.

The Actuarial Standards Board (ASB) considers that standard wording for this opinion and supporting guidance is appropriate, similar to the guidance concerning required capital filing certification provided in the existing subsection 2480 of the Standards of Practice – Practice-Specific Standards for Insurers. It should be noted that some minor wording changes to ensure greater consistency have been applied to the heading and portions of subsection 2480 which relate to the appropriateness of capital requirement calculations.

BACKGROUND

The ASB created a designated group which is responsible for the amendment of this standard of practice. It consists of Stephen Haist (Chair), Ty Faulds, and Lesley Thomson.

A [notice of intent](#) on this topic was issued on June 25, 2012. An [exposure draft](#) was issued on November 21, 2012.

COMMENTS RECEIVED

Three comments were received in response to the exposure draft.

One commenter questioned the use of the term “regulatory capital”, and felt that it should be more appropriately described as “required capital under a regulatory capital regime” or some similar wording. We agree, and have attempted to revise the wording, including the heading, to reflect this sentiment.

A second commenter expressed a preference for a lead-in to the standard opinion language other than “Here is the standard opinion language” and noted a minor punctuation error. The ASB desires to retain the proposed lead-in in the interests of consistency with other areas of the Standards of Practice.

A third commenter felt there should be separate opinion wording (or additional square brackets) relating to the annual compliance certification in order to reflect the fact that the model has previously been approved and the use is “ongoing”. The ASB feels that the proposed wording (omitting the bracketed “[proposed]”) applies sufficiently to ongoing use, and that the use of further bracketed terms may confuse rather than enhance understanding. This commenter also noted that some minor wording changes were being made to existing areas of subsection 2480, and requested that we alert Appointed Actuaries who may not be concerned with segregated fund internal models to this fact. We have attempted to do so here and in the introductory paragraph.

DUE PROCESS AND IMPLEMENTATION

The Actuarial Standards Board’s Policy on Due Process for the Adoption of Standards of Practice was followed in the development of these revisions to the Standards of Practice.

The revisions were approved by the Actuarial Standards Board on January 31, 2013, and are effective immediately upon publication. Early implementation is permitted.

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