

November 30, 2009

Mr. Charles McLeod
Chair
Actuarial Standards Board
800-150 Metcalfe Street
Ottawa, Ontario K2P 1P1

Dear Mr. McLeod:

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), I am writing to outline comments and concerns on the Exposure Draft on Changes to the Standards of Practice – Practice-Specific Standards for Pension Plans. As you know, CAPSA represents all Canadian pension regulatory authorities, including the Canada Revenue Agency.

CAPSA met during its semi-annual meeting on September 21st and 22nd 2009 where its members resolved to write to the Actuarial Standards Board to address common issues of concern with respect to this Exposure Draft.

Going Concern Valuations and Margins for Adverse Deviations

We are concerned that the proposed Standards do not include a clear requirement for margins for adverse deviations for going concern valuations, unlike the current Standards. Pension regulators generally expect that all going concern valuations will include a reasonable level of provision for adverse deviations (PfAD), the extent of which would be determined by the sponsor's funding policy or by the plan actuary with due regard to the funding objectives of the plan. In addition, some regulators have published policies on their expectations with respect to going concern margins.

The Exposure Draft section 3230.01 states that the going concern assumptions should incorporate margins for adverse deviations to the extent, if any, required by the circumstances of the work. We are concerned that the meaning of the expression "required by the circumstances of the work" is not sufficiently clear and that actuaries may see a conflict between the Standards and the policies adopted by some regulators.

In order to avoid the situation of plan actuaries filing actuarial reports that do not include going concern margins as required by regulators, we suggest adjusting the wording of the Standards to clarify that the circumstances of the work include guidance issued by pension regulators, where applicable. We believe this solution would have the advantage of accommodating different approaches to this question depending on the jurisdiction.

We also strongly encourage the CIA to develop guidance on appropriate methods of setting going concern funding margins that would be consistent with a plan's funding policy. The usefulness of this guidance would be enhanced if it includes information on the likely impact of different levels of margins on future security of benefits.

Forecast Actuarial Method

While forecasting is a very useful risk management tool for pension plans, we are concerned with the proposed addition in the Exposure Draft of the forecast method as an acceptable going concern method for all pension plans. We note that the current Standards permit the use of the forecast method but specify that it should not be used for a plan that is registered under the *Income Tax Act*. Since the mandate of pension regulators does not normally include plans that are not registered under the *Income Tax Act*, we have no position on standards applicable to such plans.

One concern with this method is the lack of precision in the definition and guidance on the details of its application. Since this is a proposed new method that has not been widely used or fully tested, we believe it is essential that it be accompanied with a rigorous definition and framework before it could be considered as an appropriate going concern valuation method.

We are also concerned that the forecast method may be prone to manipulations because of the inclusion of expected future members, which would be especially of concern in valuations of multi-employer plans, as the financial position of these plans tends to be particularly sensitive to movements in plan membership.

Since the brief description provided in the Exposure Draft mentions the possible use of hypothetical wind-up values as part of the method, we are not convinced that the forecast method is truly a going concern method. Moreover, we understand that this method would not be acceptable as a valuation method under the *Income Tax Act*.

In essence, we are not comfortable with the stipulation of the forecast method as an acceptable actuarial cost method until sufficient study has been performed by the Institute, and reviewed by the stakeholders, to support its use as a funding method for registered pension plans. We therefore suggest that you remove the forecast method from the Standards, or restrict its use to unregistered plans, as is the case under current Standards.

Gain and Loss Reconciliation

The Exposure Draft proposes that the actuary should include one gain and loss reconciliation, either on a going concern or solvency basis, and leaves it to the discretion of the actuary to determine which is most useful for the plan.

In our view, gain and loss reconciliations on a going concern basis and on a solvency basis serve different purposes. In a going concern valuation, the actuary makes a number of assumptions with respect to long-term future contingencies and the gain and loss analysis allows the actuary and the regulator to monitor some of these assumptions against actual experience. On the other hand, the solvency valuation assumptions are largely prescribed and relate to a one-time event (i.e. the termination of the plan), so this consideration is not applicable to a solvency valuation.

Gain and loss reconciliations also help readers of the report understand the reasons for the change in funding position in the period since the previous valuation. A simplified analysis of the solvency position would be useful, in particular, in highlighting the gain or loss attributable to the difference between the contributions made for accrued benefits (the current service cost) and the increase in solvency liability associated with these benefits as well as the impact on the plan's solvency position due to changes in solvency interest rates.

We believe that the gain and loss reconciliation on a going concern basis is the most important reconciliation and that it should continue to be mandatory. We also believe that a simplified solvency reconciliation is of sufficient value for it to be part of actuarial standards.

Designated Plans

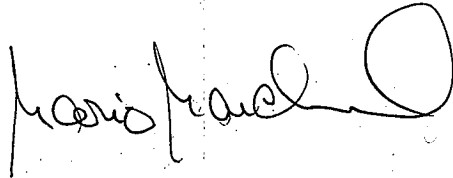
While designated plans are not registered in all jurisdictions or supervised to the same extent, some regulators find it inappropriate to select the assumptions prescribed under the *Income Tax Act* for the purposes of determining the going concern liabilities or current service cost for a designated plan.

We believe that the Standards should be clarified so that the actuary would use assumptions stipulated by law for the purpose of determining the maximum funding permitted, but that going concern assumptions complying with the Standards are required for the purpose of determining the minimum funding required by law, where applicable, or for the purpose of complying with the *Income Tax Act*.

CAPSA believes that appropriate actuarial standards are of critical importance in the protection of member benefits promised under pension plans and appreciates the need to keep these standards up to date. Many of the changes proposed in the Exposure Draft will enhance the relevance of pension plan actuarial reports, but we believe that the ASB should make sure that the Standards are also acceptable to pension regulators, who have mandates to protect members' interests in these plans. Therefore, we urge you to seriously consider the adjustments requested in this letter prior to finalizing the Standards.

If you wish to discuss the contents of this letter, you may contact me or Jean-Claude Primeau at (613) 990-8136 or jean-claude.primeau@osfi-bsif.gc.ca, who is the Chair of the CAPSA Actuarial Standards Committee.

Yours truly,



Mario Marchand
Chair,
The Canadian Association of Pension Supervisory Authorities (CAPSA)