

EXAM 6 – CANADA, SPRING 2014

34. (1 point)

According to the Canadian Institute of Actuaries publication “Report: Materiality”:

a. (0.25 point)

Identify the main factor underlying the selection of a materiality level in an actuary’s work.

b. (0.25 point)

Briefly describe when an omission, understatement or overstatement is considered material.

c. (0.5 point)

Describe the difference between the materiality level for Dynamic Capital Adequacy Testing work and the materiality level for valuation work.

END OF EXAMINATION

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 34	
TOTAL POINT VALUE: 1	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS	
Part a: 0.25 point(s)	
<i>Is the user perspective of the work</i>	
Part b: 0.25 point(s)	
<i>Is considered material if the actuary thinks it will materially impact the decision making of the user or the reasonable expectation of the user.</i>	
Part c: 0.5 point(s)	
<p><i>The level for DCAT is less rigorous than the one for the valuation work.</i></p> <p><i>Materiality for valuation is to see the material impact on net income, earning</i></p> <p><i>Materiality level for DCAT is for the surplus used in the scenario testing, but no need to be as rigorous.</i></p> <p><u>Additional Accepted Answer</u></p> <p><i>For DCAT, the materiality level is related to adverse scenarios; for valuation, the materiality level is related to financial statement, policy liability or profit level.</i></p>	
EXAMINER'S REPORT	
Part a	
<ul style="list-style-type: none"> • Candidates are expected to know the main factor for materiality level selection • Candidates generally did well on this part 	
Part b	
<ul style="list-style-type: none"> • Candidates are expected to know when a materiality change will need to be reported. • Candidates generally scored well on this part 	
Part c	
<ul style="list-style-type: none"> • Candidates are expected to know the differences between DCAT and valuation in terms of materiality level. • Most candidates failed to describe what determines the materiality levels for DCAT and valuation work, and they simply stated that DCAT materiality level is less rigorous than valuation. 	