

Convergence of Actuarial Standards Task Force  
of the Professionalism Committee of the IAA

Discussion Paper

10 September, 2010



1.	Executive Summary.....	5
2.	Introduction.....	8
	2.1. Task Force Mandate.....	8
	2.2. The IAA’s current stance on standards.....	9
	2.3. Why are standards important?.....	9
	2.4. What standards are dealt with in this paper?.....	10
	2.5. The meaning of the word “convergence”.....	11
	2.6. Principles- or rules-based standards?.....	12
3.	Current practice amongst IAA FMAs.....	14
	3.1. Existence of standards and standard-setters.....	14
	3.2. Nature of standards.....	15
	3.3. The IAA.....	15
	3.4. The Groupe Consultatif.....	16
4.	External challenges and expectations.....	17
	4.1. Globalisation.....	17
	4.2. International Association of Insurance Supervisors.....	18
	4.3. International Accounting Standards Board.....	19
5.	Opportunities and threats to the profession.....	21
6.	Implementation of international standards.....	22
7.	Implications for actuaries working in a territory outside their home designation.....	24
8.	Standard-Setters Round Table.....	26
9.	Analysis of Strategic Objectives and Implementation Options.....	28
	9.1. Alternative Objectives for Convergence.....	28
	9.2. Alternative Strategic Objectives for the IAA.....	29
	9.2.1. Option 2 - Strong Convergence.....	29
	9.2.2. Option 3A- Medium Convergence with Mandatory Application.....	29
	9.2.3. Option 3B - Medium Convergence with Voluntary Application.....	30
	9.2.4. Mandate of the IAA as a Producer of Model Standards.....	30
	9.2.5. Implications for the FMA Actuary.....	31
	9.2.6. Comparing the Different Strategic Objectives.....	32
	9.3. Structure Options for Implementation.....	33
	9.3.1. General Characteristics of Implementation Process.....	33
	9.3.2. The IAA as a Producer of Model Standards.....	33
	9.3.3. A Separate Standards Body.....	34
	9.3.4. Assessment of Alternative Structures.....	35
	9.4. The Potential Scope of Convergent International Actuarial Standards.....	36
	9.4.1. Areas where there are international standards for regulatory or accounting purposes.....	36
	9.4.2. Emerging practice areas.....	37
	9.4.3. Generic actuarial practice standards for traditional actuarial work.....	37
	9.4.4. Conclusion.....	37
10.	Recommendations – Strategic Objectives and Actions.....	39
	10.1. Strategic Objectives and Supporting Recommendations.....	39
	10.2. Interpretation of Proposed Strategic Objective 3.....	40
	10.3. Rationale.....	41
	10.4. Actions for Implementation.....	42
	10.5. Summary of Recommendations.....	43

Appendix 1	Convergence of Actuarial Standards Task Force Terms of Reference	44
Appendix 2	IAA Vision and Mission statements, and Strategic Objectives	46
Appendix 3	Types of Actuarial Standards: Definitions by the Groupe Consultatif	48
Appendix 4	Standard-Setters Round Table – A Short History	50
Appendix 5	Illustration of the Application of International Model Standards	52

## **1. Executive Summary**

1.1 The Task Force was established in March 2010 to develop a discussion paper on IAA strategy with respect to international convergence of technical actuarial standards. The paper will be presented at the IAA Council Meeting on 12 October 2010.

1.2 The actuarial profession is affected by a general trend towards increasing globalisation. International regulatory and other organisations naturally seek an international actuarial body to represent the profession on the international stage. Convergence of international regulation and financial reporting is not without difficulties, as the legal environment of each country needs to be considered and national regulators are understandably reluctant to make changes and compromises in return for the possibly intangible benefits of international harmony.

1.3 The Task Force considered the need for the global actuarial profession to develop actuarial standards of practice to serve the public interest, to support professionalism and to protect actuaries. These objectives are given varying priority in different jurisdictions where there are currently actuarial standards and there needs to be clarity as to the purposes for which global development of standards might be desirable.

1.4 The Task Force identified several definitions of “convergence” in connection with international standards, with respect to the level of consistency and extent of coverage among IAA Full Member Associations (FMAs). The Task Force considers that any standards proposed to advance convergence of international actuarial standards would need to be “principles-based”, since it would be impossible to achieve global convergence on detailed rules.

1.5 Current practice in setting actuarial standards and guidance varies greatly amongst the FMAs. Different categories of standards, where they exist, may be set by the regulator(s), the local actuarial profession, a special entity established and controlled by the actuarial profession, a special entity established and controlled externally or some combination of these.

1.6 The Task Force identified a number of opportunities for the actuarial profession to take the lead in developing international actuarial standards. These standards will serve the public interest, support professionalism and protect actuaries. The profession can influence and shape future change in the standards arena.

1.7 If the IAA wishes to “be recognized worldwide as a major player in the financial services industry” and “to promote the role, reputation and recognition of the actuarial profession in the international domain”, then it must take a leadership position in addressing the issue of actuarial standards.

1.8 Producing model standards at the international level raises difficult issues with regard to the nature of the relationship between the international standards body and individual FMAs, and as well as the implications for members of the FMAs.

1.9 Further consideration will need to be given to the structures for preparing model standards. In order for an international body to draft, review, adopt and revise model standards it is likely that it will need a standards board, appropriately experienced support staff and many

volunteers. This will probably require significant funding which will have to come either from the IAA raising dues or from tapping other sources.

1.10 The Task Force considered various options for seeking global convergence of standards and concluded that the most suitable option is for the IAA or another international body to develop model standards and for FMAs to certify congruence. FMAs would be required either to compare these model standards with their own local standards and ensure that their local standards covered substantially the same scope and content with essentially similar guidance, or adopt the model standard in its entirety, repealing any conflicting local standards.

1.11 The Task Force has considered various actions described as mandatory. It recognises that the accreditation criteria would have to be changed in order to implement such mandatory requirements. This would require a supermajority vote of Council (passed by at least four-fifth of the votes cast) to approve such a change.

1.12 FMAs could certify congruence on either a mandatory or a voluntary basis. The voluntary approach would allow FMAs to decide whether or not to achieve congruence and for the IAA to work by encouragement, persuasion and “peer pressure” to extend convergence of standards to all jurisdictions. The mandatory approach would be accomplished by making congruence with standards an additional requirement for full membership of the IAA.

1.13 The Task Force also concluded that this certification could proceed in a phased approach, starting initially with voluntary certification, so that the IAA can test each step before proceeding to the next.

1.14 Individual actuaries would need to be clear on which standards applied when working in a multi-national situation. Actuaries should be required to state in any report under which standard the professional services have been performed, if the standards of more than one FMA might apply.

### Recommendations

1.15 The Task Force’s principal recommendation is that the IAA Council should adopt an amendment to its Strategic Plan so that the Vision and Mission Statement are supported by a strategic objective to achieve convergence of actuarial standards applicable to all actuaries who are members of FMAs, with the degree of convergence, and the timescale for achieving it, to be decided by Council from time to time in the light of prevailing circumstances. The degree of, and the timescale for, convergence may differ according to the actuarial practice area.

1.16 The Task Force recommends that the IAA should adopt a principles-based, model standards approach which will allow the flexibility needed for implementation. In addition, the Task Force believes that the IAA should promote the principle that all FMAs should have actuarial standards where appropriate, so that individual actuaries in virtually all jurisdictions would be subject to standards.

1.17 The Task Force recommends the creation of a standards board or committee, either within the IAA structure or as a separate body. Further analysis and evaluation of the financial and other implications will be needed. In addition, the IAA should make its structure and due process of developing model standards more efficient and transparent and incorporate the participation of other interested parties.

1.18 The Task Force recommends that the IAA should prioritise its activities in developing model standards and focus its limited resources on the most important and urgent areas at any particular time.

1.19 The Task Force recommends that the Council should request the Executive Committee to prepare a more detailed proposal for implementation, requirements for congruence and the period over which this is to be achieved, in accordance with the strategic direction decided by the Council.

Respectfully submitted

Convergence of Actuarial Standards Task Force

Hillevi Mannonen, Chairperson

David Congram

Chris Daykin

Alfred Gohdes

Godfrey Perrott

Michael Pomery

Masaaki Yoshimura

## 2. Introduction

The IAA's Vision and Mission Statement are as follows:

### ***Vision:***

*The actuarial profession is recognized worldwide as a major player in the decision-making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well-being of society as a whole.*

### ***Mission:***

*The mission of the IAA, as the worldwide organization of actuarial associations, is:*

- *to represent the actuarial profession and promote its role, reputation and recognition in the international domain; and*
- *to promote professionalism, develop education standards and encourage research, with the active involvement of its Member Associations and Sections, in order to address changing needs.*

In order for the IAA to achieve its Vision and to fulfil its Mission to be recognised as a major player on the worldwide stage, the IAA should formulate clear strategic objectives regarding global actuarial standards. As the world of financial services and financial regulation becomes increasingly globally connected, the current system of disparate, and in many places non-existent, national standards may be seen as inadequate or at best falling well short of ideal. The IAA should be prepared to promote global convergence of actuarial standards.

## 2.1 Task Force Mandate

2.1.1 On 6 March 2010 the Council of the IAA approved the Terms of Reference (ToR) of the Convergence of Actuarial Standards Task Force, which reports to the Professionalism Committee (see Appendix 1). The purpose of the Task Force is to develop a discussion paper on IAA strategy with respect to international convergence of technical actuarial standards. The Task Force is expected to provide its recommendations for discussion at the IAA Council meeting in Vienna on 12 October 2010.

2.1.2 More specifically, the Task Force was asked to consider and make recommendations on

- *what the IAA's strategic objectives should be in relation to the convergence of actuarial standards,*
- *how these objectives fit with the proposed aims of the participants in the newly formed Standard-Setters Round Table (SSRT, formerly International Roundtable of Actuarial Standard-Setters which is described further in chapter 8 and Appendix 4), and*
- *how the IAA can best further its objectives through a combination of the SSRT and its own committees and sections.*

At the same time of finalising this report, the SSRT had not met since March, and its proposed aims were still in draft form, so we have not been able to address the issues relating to the SSRT in any depth.

2.1.3 The Task Force has worked to be consistent with, and support, the Vision and Mission Statement and the Strategy of the IAA.



2.1.4 The IAA Strategy contains five strategic objectives, of which two especially relate to the work of the Task Force, namely

***Strategic Objective 1:** Identify, establish, and maintain relationships with key supranational audiences and provide them with actuarial input to improve the soundness of decisions being made on important issues with a global impact.*

***Strategic Objective 3:** Establish, maintain and promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice for use by member associations worldwide.*

The full set of strategic objectives is included in Appendix 2.

2.1.5 The Task Force considers that material should be referred to as a “standard” only if it is either mandatory or recommended practice. Educational material is not included in the term “standard”, for the purposes of this paper.

## **2.2 The IAA’s current stance on standards**

2.2.1 The IAA does not currently require Full Member Associations (FMAs) to adopt standards of practice (other than ethical standards which are covered by the Code of Professional Conduct and qualification standards which are defined by the IAA Core Syllabus and Guidelines). The accreditation process for FMAs simply requires an association to have a proper due process in place before adopting standards within its own sphere of influence. A degree of convergence, although at a basic level, has thus already been achieved in terms of ethical standards, qualification standards and due process for technical standards, but there is currently no convergence on the content of other standards.

2.2.2 The IAA has had in place a due process for issuing standards since 2000. It enhanced the process in 2008 to issue model standards. This is discussed further in section 3.3.3.

## **2.3 Why are standards important?**

2.3.1 An essential part of developing the IAA strategy with respect to the convergence of international actuarial standards is to understand what purposes standards have served up to now for different actuarial associations and standard-setters. International actuarial standards could fulfil a number of purposes. The Task Force identified the following reasons why standards could be regarded as important for the global actuarial profession:

### **1. To serve the public interest**

Users of actuarial services benefit from a high quality of actuarial work, which will promote the credibility of the actuarial profession. Standards

- a. help to enhance the quality of delivery of professional services;
- b. help to ensure that the actuarial work product meets the needs of users of actuarial services;
- c. provide additional protection for beneficiaries;
- d. narrow the range of results of actuarial work;

- e. contribute towards harmonisation and convergence of actuarial practice;
- f. assist regulators and other interested parties; and
- g. provide a framework for the consistent application of a professional body's disciplinary scheme.

2. To support professionalism

Standards are in the actuarial profession's best interests. Standards provide the actuary with benchmarks and guidance as to how to carry out actuarial work. Standards

- a. promote consistency of professional practice;
- b. provide guidance on good practice (i.e. educate actuaries regarding what is expected and acceptable); and
- c. enhance the accountability of those carrying out actuarial roles.

3. To protect actuaries

Standards provide the actuary with guidance as to what is expected and what is good professional practice. Standards

- a. strengthen the actuary's position vis-à-vis the client or principal;
- b. introduce clarity regarding what is expected or acceptable;
- c. reduce the likelihood of the actuary being sued; and
- d. give the actuary a standard to rely upon in the event of litigation.

2.3.2 The various purposes may sometimes conflict. It is therefore important to understand for which purposes a standard is to be prepared, so that the interests of various stakeholders may be addressed appropriately.

2.3.3 In the light of the purposes listed in 2.3.1 above, the Task Force believes that it is important for the actuarial profession to have standards. It also believes that the IAA should consider adopting an objective that, where appropriate, each FMA should have some basic standards in place beyond the code of conduct and qualification standards. This is far from being the case at present.

## **2.4 What standards are dealt with in this paper?**

2.4.1 The ToR define the scope of the Task Force's work as covering technical actuarial standards, with ethical standards being excluded from the scope. However, these two categories do not fully cover the whole variety of existing or potential standards. For example, the Groupe Consultatif's September 2009 paper adopted a categorisation of actuarial standards which can be paraphrased as follows (a more detailed description is contained in Appendix 3):

1. Public Interest Standards, which include
  - a. Qualification standards, including CPD (Continuing Professional Development);
  - b. Ethical standards i.e. Codes of Professional Conduct;
  - c. Governance standards relating to the actuary and actuarial work; and
  - d. Communication standards.
2. Technical Standards which include
  - a. Interpretative standards; and
  - b. Technical implementation standards.

2.4.2 The Task Force agreed to include within the scope of its terms of reference:

1. Technical standards (both interpretative and implementation);
2. Governance standards; and
3. Communication standards.

*Technical standards* are standards applying to actuarial practice. These cover the content of actuarial work and can deal with issues such as data quality, assumption-setting, and modelling, measurement of liabilities and actuarial practice in relation to IFRS or regulatory requirements.

*Governance standards* relate to the governance of the actuary's role and the actuarial work product. These standards may cover issues such as how the actuary should carry out actuarial work in relation to the client or principal, or other internal or external functions (board, management, auditor, supervisors etc.). These standards do not cover the process of developing and setting standards, the issues relating to the process of monitoring compliance with standards or the discipline process.

*Communication standards* concern the communication and reporting of actuarial work and outcomes to various stakeholders and publics.

2.4.3 The following categories of standards are excluded from the scope of this paper:

1. Qualification (initial and CPD) standards;
2. Ethical standards;
3. Monitoring and compliance standards; and
4. Discipline standards.

## **2.5 The meaning of the word “convergence”**

2.5.1 The ToR of the Task Force state that the profession's ethical standards are already “convergent”, because all FMAs comply with the IAA requirements for a Code of Professional Conduct. In fact the codes in different jurisdictions are not identical but they cover at least the essential elements laid down by the IAA. This is enforced through the initial accreditation process for new FMAs and the annual accreditation reviews. In practice compliance with the IAA's ethical standards is relatively easy to monitor, as associations change their code of conduct only rarely.

2.5.2 This understanding of convergence in relationship to ethical standards could be interpreted as implying that the IAA is aiming for a similar level of convergence with respect to other standards. However, since the focus of this paper is to align with the strategic objectives of the IAA, the Task Force decided to take a broader view and also to analyse other possible definitions or approaches.

2.5.3 The Task Force developed the following definitions of “convergence” in connection with international standards.

1. Identical (full convergence)  
All actuarial associations (and standard-setters) are required to adopt such standards, allowing no local deviation or modification. Associations (or standard-setters) might, however, issue additional standards to address

specific local needs not covered by international standards, provided these standards do not conflict with the international standards.

2. Conforming to international model standards (strong convergence)  
All actuarial associations (and standard-setters) are required to adopt each international model standard, with local modification to fit local conditions. Associations (or standard-setters) might, however, issue additional standards to address specific local needs not covered by international standards, provided these standards do not conflict with the international standards.
3. Same coverage of content – congruent (medium convergence)  
All actuarial associations (and standard-setters) should have local standards which cover the same essential scope and content as the international model standard. The standard-setter in each jurisdiction would either adopt an international model standard (modified as necessary) or make any necessary modifications to their own existing standards in order to be able to report that their standards cover substantially the same scope and content. This might be done on a mandatory basis (required for continued IAA full membership) or a voluntary basis.
4. Standards in place everywhere covering different material, but not conflicting with each other (weak convergence).
5. Standards in place in some jurisdictions covering different material, and occasionally conflicting with each other (no convergence).

2.5.4 Both categories 1 and 2, and the mandatory option under category 3 would require a change to the membership accreditation criteria. This is the only way in which the IAA can make something mandatory for its FMAs; an association that does not meet the membership criteria loses its membership. Changing the criteria for accreditation requires four-fifth of the votes cast in the Council.

2.5.5 At the present stage of the IAA's development, the Task Force considers it unlikely that category 1 (full convergence) would be acceptable to FMAs. The Task Force therefore did not pursue this approach any further. Category 2 (strong convergence) would require the same change, but it remains a possibility, especially if there were a threat from an outside body to impose standards on actuaries.

## **2.6 Principles- or rules-based standards?**

2.6.1 There has been much discussion amongst standard-setters and regulators in different countries and different professions about whether professional standards and regulatory regimes should be "principles-based" or "rules-based". A "principles-based" system involves setting out high level principles and requiring the persons following the standards or regulations to use a degree of judgement in deciding how to apply those principles to each particular piece of work in each particular situation. A "rules-based" system involves laying down detailed rules which the persons involved are then required to follow.

2.6.2 The relative advantages and disadvantages of these two approaches are well known and do not need to be stated here. It is the view of the Task Force that any standards proposed to advance convergence of international actuarial standards would need to be “principles-based”, apart from any other reasons because the differences between countries around the world would make it very difficult, if not impossible, to write detailed rules which were acceptable to all FMAs.

### **3. Current practice amongst IAA FMAs**

#### **3.1 Existence of standards and standard-setters**

3.1.1 Current practice in setting actuarial standards and guidance varies greatly amongst the FMAs. Different categories of standards, where they exist, may be set by:

1. the regulator(s);
2. the local actuarial profession;
3. a special entity established and controlled by the actuarial profession;
4. a special entity established and controlled externally; or
5. some combination of the above.

This diversity of existing practice, including many jurisdictions with few or no standards, poses the first significant difficulty in connection with any desire to achieve convergence.

3.1.2 In many parts of the world regulators set standards to guide actuaries in performing their statutory roles. These usually deal with more detailed or technical actuarial issues than legislation or regulations and can more easily be changed. The relevant actuarial association may well be consulted during the preparation of the standards, but does not necessarily have any right to be consulted or any particularly authoritative voice compared to other stakeholders. The standards may in some cases be addressed to the firm or its actuarial function instead of to the individual actuary.

3.1.3 Even where some standards of an actuarial nature are set by the regulator, i.e. category 1 standards in 3.1.1, it is increasingly common for the relevant actuarial association to issue some standards of practice of its own.

3.1.4 A survey carried out recently by the Groupe Consultatif, as expanded within the context of the SSRT, identified that the actuarial associations in the following countries had issued some technical standards of their own, i.e. category 2 standards as defined in 3.1.1: Belgium, Czech Republic, France, Germany, Ireland, Italy, Japan, Mexico, Netherlands, Norway, Portugal, Slovakia, Switzerland, and UK (in respect of members of the UK association doing work outside the UK). This list is not necessarily comprehensive.

3.1.5 Examples of category 3 standards may be found in the United States, Canada and Australia, where the standard-setting body is established by the profession but retains a certain distance from the governing Board or Council of the profession and may include some non-actuary members.

3.1.6 An example of category 4 standards may be found in the United Kingdom, where the Board for Actuarial Standards (BAS, an entity established with government support) is established under the Financial Reporting Council, as a sister body to the Accounting Standards Board. The BAS is responsible for issuing technical standards in respect of actuarial work in the UK, although the profession itself may also issue standards where this is deemed appropriate, e.g. for practice outside the UK.

## **3.2 Nature of standards**

3.2.1 The Task Force considers that documents should only be referred to as standards if they are either mandatory or recommended practice. Where standards are mandatory, failure to comply is usually prima facie evidence of unprofessional conduct. However, some jurisdictions permit non-compliance in respect of particular aspects if an acceptable justification is made as to why it would have been inappropriate to comply. Actuaries are expected to follow recommended practice, unless they have good reasons for not doing so.

3.2.2 The subject matter for standards varies a good deal. A significant number of standards are directly related to the responsibilities of the actuary under insurance legislation, covering obligations of appointed or responsible actuaries, liability adequacy tests and particular assumptions such as discount rates or mortality tables. Others relate to actuarial calculations for reflecting pension costs in company accounts or regulatory funding requirements for pension plans. Some standards relate to specific statutory roles given to actuaries.

3.2.3 The style and approach of standards differs because of the different purposes which standards fulfil. If the purpose is to supplement, or stand in the place of, legislation, then the style would have some similarities to regulations and may tend to be more prescriptive. If the purpose is principally to protect the actuary from litigation, then the emphasis may be on legitimizing what is seen as good professional practice, and providing actuaries with support for taking a professional stance on key issues, such as data quality and transparency of reporting.

3.2.4 Culture also plays a significant role, as some jurisdictions have a more rules-based tradition and others a tradition of setting high level principles and relying on professional judgement. The nature of standards will naturally depend to a large extent on how the role of the actuary is perceived and the breadth of professional discretion granted to the actuary.

## **3.3 The IAA**

3.3.1 As noted in paragraph 2.2.1, the IAA does not require its FMAs to have standards, other than qualification, ethical and discipline standards. It does, however, lay down some requirements for due process for setting standards and expects FMAs to have such a due process in place before issuing any standards.

3.3.2 Since 2002 the IAA has issued 12 old class 4 IASPs (International Actuarial Standards of Practice), which, however, are educational notes and are not considered as standards in this paper. The IAA has not issued any mandatory or recommended practice standards.

3.3.3 The IAA Council approved a new Due Process in 2008 for the production of model IASPs. The IAA Due Process clearly distinguishes between actuarial standards (IASPs) and educational notes, called International Actuarial Notes (IANs). The Due Process for IASPs envisages three stages for the production of a model IASP:

1. a Statement of Intent, to be approved by Council, which justifies the need for an IASP and sets out its scope;
2. a draft standard, which is exposed for consultation (with the possibility that additional exposure drafts may be needed if significant changes are made to the previous draft); and

3. a final version, which is subject to approval by Council.

3.3.4 Member associations are encouraged to adopt the IASP, with or without modification, for use by actuaries within their jurisdiction. Where an association has not adopted an IASP, an individual actuary can nevertheless choose to follow the IASP for a piece of work (and a client or principal may instruct the actuary to follow the IASP). Work is currently going on to convert an existing (old-style) IASP into the first model IASP, which will deal with actuarial work in connection with financial reporting for insurance companies and pension funds. It is likely to be supported by a number of IANs.

### **3.4 The Groupe Consultatif**

3.4.1 As in the case of the IAA, the Groupe Consultatif does not at present require its full members to issue standards of practice, but it does lay down some requirements for due process for the development of standards in case standards are to be developed.

3.4.2 The Groupe Consultatif has in the past issued some high level model guidelines to assist member associations in developing their own standards or guidelines. However, there is at present no formal due process within the Groupe for setting standards, as this has not up to now been on the agenda and would raise issues in relation to the subsidiarity traditions of the Groupe. For the future there is a strong possibility that the Groupe may decide to put in place a standard-setting structure and due process, initially at least restricted to matters concerning Solvency II, where overarching EU legislation is seen as driving a need for more uniform actuarial standards throughout the countries of the EU. The EU legislation envisages that there will be technical standards in regard to the actuarial function. CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors, which is expected to be reformed in 2011 as the European Insurance and Occupational Pensions Authority, EIOPA) has indicated that it would expect to take the lead on the development and issuance of such standards but the final arrangements for standard-setting are still to be confirmed by the European Commission.

3.4.3 The Groupe has yet to take a formal decision on its stance, but it is understood that the Actuarial Standards Task Force will be recommending to the Groupe's Annual Meeting on 1 October 2010 that the Groupe should establish a standard-setting process, with a view to issuing standards for the actuarial function which will supplement any CEIOPS standards and also standards in relation to other actuarial roles under Solvency II.



## **4. External challenges and expectations**

### **4.1 Globalization**

4.1.1 One of the strongest trends during the late 20<sup>th</sup> century and into the 21<sup>st</sup> century has been the increasing “globalisation” of business and commerce. This more inter-related world has been characterised by the expansion of trade, which has been encouraged by the development of trading groups, such as the creation of a single market in the EU and the reduced tariffs and other barriers in NAFTA, AFTA, ASEAN and other free trade areas.

4.1.2 However, the perspective of different countries or industries tends to vary by their relative size and position in the world markets. Not all see the expansion of trade as positive, as is illustrated by the slow progress of negotiations to expand the World Trade agreements. There is a natural tension between expanding trade and erecting barriers to protect local trade and industry. This creates a need to balance the interests of those who expect to benefit and those who fear they might be harmed.

4.1.3 A prime facilitator of international trade in the financial sector is the International Organization of Securities Commissioners (IOSCO), which saw that a “common” financial reporting standard was needed which would facilitate the trading of shares on all stock exchanges. For a common financial reporting standard to be accepted by all stock exchanges, an independent international standard-setting body was seen as necessary. “The objective would be to develop, in the public interest, a single set of high quality, understandable, enforceable and “globally accepted financial reporting standards based upon clearly articulated principles.”<sup>1</sup> This body has subsequently become known as the International Accounting Standards Board (IASB).

4.1.4 International solvency requirements for banks were created by the Basel Accord. The International Association of Insurance Supervisors (IAIS) was established in 1994. Since then the IAIS has published several solvency and other standards and guidelines. However, these are not mandatory and have not yet commonly been implemented. These requirements have moved forward more quickly within the EU following the adoption of the Solvency II Directive by the EU parliament to take effect in 2012.

4.1.5 The financial services sector has shared in this move towards increasing “globalisation”. The financial crisis which started in 2007 has illustrated the interconnectivity of the financial world and resulted in a dramatic increase in the pressure for convergence in regulation of the financial sector. This has led to the G20 countries accepting the need for concerted international action on strengthening regulation, particularly in the banking sector.

4.1.6 The actuarial profession is also inevitably affected by the trend towards increasing “globalisation”. International regulatory organisations will naturally seek an international actuarial body to represent the profession on the international stage. This has been recognised by the IAA, which has set as its primary strategic objective the attainment of close working relations with key international bodies. The IAA has a close relationship with the IASB and IAIS, while in Europe the Groupe Consultatif is in regular dialogue with the European Commission and CEIOPS.

---

<sup>1</sup> Abbreviated quotation from the IFRS Foundation objectives dated March 2010.

4.1.7 Although many individual actuaries work for local employers operating in a single country, the largest employers of actuaries are the big international insurance companies and the large international consulting firms, including the "big four" accounting firms. Multinational insurance companies are likely to want actuarial work for their subsidiaries in different countries to be produced to a common standard. Multinational consulting firms boast of their ability to provide consistently high quality actuarial services across a wide range of different countries. It is possible that these multinational employers, working as they do in an environment of increasingly convergent international regulation and financial reporting standards, could become frustrated by the existence of different national actuarial standards and could exert pressure for international convergence.

4.1.8 Increasing convergence of international regulation and financial reporting is not without difficulties:

1. the legal environment of each country, or even for each part of a country, needs to be considered in relation to the language used for an international standard;
2. governments have a legitimate desire to protect what they consider to be important national interests;
3. national regulators, who have built up over many years an effective regulatory regime, may be understandably reluctant to make changes and compromises in return for the possibly intangible benefits of international harmony; and
4. the potential cost of implementing change may also be a deterrent in some cases.

## **4.2 International Association of Insurance Supervisors**

4.2.1 The medium and longer term strategic direction for standard-setting and implementation activities of the IAIS was established by the Executive Committee and is described in the "IAIS Strategic Plan and Financial Outlook, 2011-2015". The IAIS have a strategic objective to improve supervisory and general purpose financial reporting by insurers by influencing relevant international actuarial and accounting standards. They expect to do this by interacting with the International Accounting Standards Board and the IAA, which are ranked amongst the key external bodies with which they interact. As a consequence of the financial crisis in 2008, the latest strategic plan includes an important new element compared with the work plan 2008-2012: to address the application of insurance supervisory standards in coordination with G20 and other initiatives in response to financial stability issues.

4.2.2 The priorities for the next two years will focus on: (1) IAIS standard-setting response to financial stability issues, and (2) a review of the insurance core principles (ICPs) and supervisory papers. The IAIS standard-setting response to financial stability issues includes actions being taken to reinforce insurance regulation and improve the resilience of the global insurance sector against threats to financial stability. The purpose of the review of ICPs and supervisory papers is to ensure that there is a clear link between ICPs, standards and guidance papers. In June 2010 the Executive Committee approved a measure to consolidate the standard-setting, standard-implementation and financial stability roadmaps.

4.2.3 In general, through the Financial Stability Task Force, the Joint Forum (of the IAIS, the Basel Committee and the IOSCO) and other independent means, IAIS standard-setting working parties follow the developments in other international standard-setting bodies. This is a crucial

activity, especially with the current pace of change in the international regulatory environment. For example, the Basel Committee on Banking Supervision is working on improving both the quality and level of capital for banks. The Solvency and Actuarial Issues Subcommittee of the IAIS will follow this work and consider the implications for insurance regulation.

4.2.4 The insurance core principles apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets. It is recognized that supervisory measures should be appropriate to the supervisory objectives and should not go beyond what is necessary to achieve those objectives. As a result, supervisors may need to tailor certain supervisory and regulatory requirements in accordance with the nature, scale and complexity of individual insurers. Where appropriate, this flexibility will be provided in the requirements set out in standards. As part of the ICP review, working parties will determine the appropriateness of applying the proportionality principle to each of the requirements in a standard.

4.2.5 IAIS is developing International Solvency Requirements consisting of standards and guidance papers on Capital Adequacy, ERM, Internal Models, Investment and Valuation of Assets and Liabilities in the review process of ICPs. Appropriate convergence towards a globally-accepted, improved standard of supervisory practice is a long-term goal for the IAIS. Related actuarial practice areas common to FMAs may be potential areas for international actuarial standards of the IAA.

### **4.3 International Accounting Standards Board**

4.3.1 The goal of the IASC Foundation and the IASB is to develop, in the public interest, a single set of high-quality global accounting standards. In pursuit of this goal, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards.

4.3.2 Since 2001 more than 100 countries have required or permitted the use of International Financial Reporting Standards (IFRS), while the remaining major economies have established timelines for convergence with, or adoption of, IFRS.

4.3.3 In 2006, the IASB and the US Financial Accounting Standards Board (FASB) agreed a Memorandum of Understanding (MoU) that described a program to achieve improvements in accounting standards, and substantial convergence between IFRS and US generally accepted accounting principles (GAAP). The MoU was updated in 2008, and in November 2009 the two boards issued a further statement outlining steps for completing their convergence work by 2011.

4.3.4 In August 2007, the IASB and the Accounting Standards Board of Japan (ASBJ) published a MoU, known as the Tokyo Agreement, which described work to achieve substantial convergence between IFRS and Japanese GAAP by June 2011. In 2009 the Japanese Business Accounting Council (BAC), a key advisory body to the Commissioner of the Japanese Financial Services Agency (FSA), approved a roadmap for the adoption of IFRS in Japan.

4.3.5 Most recently, at their September 2009 meeting in Pittsburgh, US, the Group of 20 Leaders (G20) reaffirmed their commitment to global convergence in accounting standards, calling on “international accounting bodies to redouble their efforts to achieve a single set of

high-quality, global accounting standards within the context of their independent standard-setting process, and complete their convergence project by June 2011.” The IASB and FASB reconfirmed their commitment in their issue statement on 2 June 2010.

4.3.6 Of the various activities of the IASB, the most relevant to actuaries is convergence of actuarial standards in relation to IFRS 4 Insurance Contracts. In addition, for example IAS39 on financial instruments and IAS19 on pensions and employee benefits are important to actuarial work.

## **5. Opportunities and threats to the profession**

5.1 The Task Force identified a number of opportunities for the profession from convergence to international standards:

1. The international profession could take the lead in developing international actuarial standards that will
  - a. serve the public interest;
  - b. support professionalism; and
  - c. protect actuaries.
2. The profession could influence and shape future actuarial standards;
3. The profession could bring to the table some strong resources that could develop high quality standards quickly and the actuarial associations could play their part in fair enforcement;
4. The profession has the opportunity to maintain a measure of control over the process in general and content in particular.
5. In the longer term, it might be possible to attain a higher degree of efficiency and effectiveness in setting standards, by setting them at the international level.
6. It will strengthen the position of the actuarial profession and the IAA as a credible counterparty to other international bodies.

5.2 The Task Force identified a number of threats that might discourage convergence to international standards:

1. Jurisdictions with developed standards have spent considerable efforts developing those standards, have carefully tailored them to the local customs and legal environment, understand their own standards and are comfortable with them. It will be very difficult to convince them to replace local standards with international standards.
2. Many actuaries only practice in their local market and will resent the effort needed to comply with new standards driven by international considerations.
3. The total cost of establishing international standards at the global level may be more than the cost of the current system.
4. The additional cost of implementing international standards at the local level may be significant (and potentially unacceptable) to the member organizations as they review for congruence and/or conflicts.
5. There may be some national associations or governments that do not wish to participate for other reasons.
6. International model standards may not allow FMAs sufficient freedom to adapt the model to the local environment.

## 6. Implementation of international standards

6.1 When thinking about whether and, if so how, to go down the route of international convergence of actuarial standards, it is necessary to recognise that there are many implementation issues that would have to be addressed. This chapter analyses these implementation issues in the context of how an international body setting model standards might operate. It does not constitute a recommendation to take that direction.

6.2 International actuarial standards must be acceptable to our publics. Using the experience of the accounting profession as a guide, we will need to be able to demonstrate that the process

1. is seen to be independent and objective;
2. has an acceptable due process; and
3. has the support of a large enough number of countries to be enforceable.

These requirements may be achievable through

1. local standard-setters;
2. the IAA;
3. an independent body; or
4. some combination of these.

6.3 Standard-setting can in principle be carried out at the level of individual associations (and that is largely the position at the moment). However, there may be good reasons why certain types of standards, relating to an environment which has common international elements (such as IFRS), could be more efficiently produced at the international level. For this to be appropriate, FMAs (or the appropriate standard-setting bodies) need to acknowledge the desirability of the international entity performing this function and agree to a process for the adoption or application at the national level of model standards prepared at the international level.

6.4 If the IAA were the producer of model standards, there would be a number of possible ways of structuring the relationship between the IAA and the FMAs as implementers of international standards. For example, within a pre-determined period of time:

1. each FMA would be required to identify the extent to which the guidance in the international standard was not already covered by existing local standards, and how it intended to address any such gaps; or
2. each FMA would be required to adopt the standard, or a suitable modification of it, in accordance with their own due process for adopting standards; or
3. the standard would have direct application to actuaries who are members of each FMA.

These examples might need to be modified for those countries where the actuarial standard-setter is independent, or partially independent, of the FMA.

6.5 Producing model standards at the international level raises difficult issues with regard to the nature of the relationship between the international entity and the FMAs. It also raises additional issues where the FMA is not the standard-setting body. This is an area where the Standard-Setters Round Table (SSRT) could play an important role.

6.6 Although a due process for producing model standards is already in place in the IAA, the Task Force considers it to be cumbersome. It was designed under the premise that there is no compulsion on FMAs to adopt the model standards (with or without modification). It does not make provision for the involvement of non-actuaries in the standards process, or for broad

consultation with stakeholders, although in practice extensive consultation has taken place in the past. A more formal obligation in the due process to consult widely inside and outside the profession might be considered necessary or desirable if the model standards were to have more force amongst FMAs.

6.7 Whether the model standards are produced by the IAA or an independent body, further consideration needs to be given to the structures for producing standards. In order for an international body to draft, review, adopt, and revise model standards, it is likely that it will need a standards board, many volunteers for drafting, and an appropriately experienced support staff to oversee consistency, editing, dealing with ad hoc interpretation issues and process.

6.8 International standards may only involve a limited number of countries and limited types of standards at first, so as to achieve the objective of bringing international actuarial standards forward in a sufficiently timely manner to be useful. This is similar to how IFRS have been developed, with countries joining the process when they see it in their best interest.

6.9 Once standards have been developed and put in place, there will also need to be a process for reviewing them regularly, seeking input from actuaries and from users of actuarial advice subject to the standards in order to test whether they are fit for purpose.

6.10 A further important question relates to monitoring compliance with the standards. Many FMAs do not have the capacity to carry out active compliance monitoring. The public and our profession need a recognised and publicised process in all jurisdictions for users of actuarial advice to lodge complaints about poor actuarial work, or to request the profession to investigate whether there has been non-compliance by an actuary with actuarial standards. This in turn implies that there should be a readiness on the part of each FMA to support investigation of such complaints thoroughly, and adjudication where there is prima facie evidence of failure to comply with a standard. The investigation and adjudication may need to be supported by the IAA if the local FMA does not have adequate resources of its own to carry out these tasks. Each FMA must apply appropriate sanctions where failure to comply has been confirmed. Whilst sanctions are for each FMA to determine, work might be carried out to develop common international approaches to the appropriate level of sanctions.

6.11 The issue of timing is important in several respects. If the actuarial profession cannot address how those international actuarial standards are to be developed, there is a risk that the profession will lose control of the initiative. Once the strategic decision to address the issue has been taken by the Council, the period of time taken to develop and approve a model standard and the period of time taken from approval to implementation by each FMA remain important factors too.

## **7. Implications for actuaries working in a territory outside their home designation**

7.1 In this section we consider the position of the members of actuarial associations in regard to work outside what they consider the geographic jurisdiction of their FMA(s) (referred to as their home country in the discussion that follows) and work in one or more other territories (referred to as the host country).

7.2 An actuary may be a member of one or more of the actuarial associations which are FMAs of the IAA (FMA actuary). Other actuaries may be members of an Associate Member Association of the IAA. There may be actuaries performing international actuarial work who have no connection with the IAA. There may be non-actuaries carrying out the actuarial function. IAA requirements would not apply to any of these latter categories unless self imposed or required by another authority. In the following, we have only considered the position of FMAs.

7.3 As outlined in 2.5.1, because all FMAs comply with the IAA requirements for a Code of Professional Conduct, the FMA actuary would be subject to ethical standards. The Code of Professional Conduct would apply to a member performing professional services irrespective of jurisdiction, home or host. Where the FMA actuary holds membership in a number of FMAs there is potential for a conflict, because the IAA requirement is a minimum Code and the actual Codes are not identical. The Task Force, while acknowledging the issue, does not consider the application of different Codes to be a practical concern regarding the application of actuarial standards at this time.

7.4 As outlined in 3.1, more than half the current FMAs do not have technical, governance or communication standards. Actuaries operating in some of these countries hold one of the more widely held actuarial qualifications and may be members of more than one FMA. In regard to local standards that might apply to an FMA actuary, the practice has depended on the professional body involved. The most common approach is that FMAs will make their standards directly applicable only to their own home jurisdiction. When an FMA actuary works outside the home jurisdiction, home country standards may recommend application of local actuarial standards where they exist in the host country. Where FMA actuaries work outside the home jurisdiction and there are no local standards in the host jurisdiction, consideration of the home FMA standards with modification for local circumstances is often recommended..

7.5 For example, the mutual recognition treaty between Canada and the USA uses the concept of where the work has been deemed to be performed (i.e. if the work is a US regulatory requirement then US standards apply, even if completed in Canada) to distinguish work within and outside their jurisdiction. Similarly, a UK qualified Fellow can opt to be partially regulated by the Institute & Faculty of Actuaries and fully regulated by the FMA in the country where they are practising as an actuary. These considerations can also affect which FMA would be responsible for investigation and/or discipline, with some reciprocal agreements being in place.

7.6 Where FMA actuaries, who are subject to different home jurisdictions, work in the same host jurisdiction which has no local standards, they may use different, potentially conflicting, standards for host work. When an FMA actuary is a member of more than one FMA and there are no local standards in the host jurisdiction, the actuary must determine which country standards to use. We would expect most actuaries will overcome these potential conflicts by disclosing in their report which standards and code of professional conduct have been applied.



7.7. As mentioned in 4.1.7 with multinational companies working in an environment of increasingly convergent international regulation and financial reporting requirements the IAA's adoption of model standards with FMAs encouraged to adopt the IASP with or without modification place the actuary for the multinational in the situation of having to select which country standard to apply to its multinational operations.

7.8 The analysis in this chapter, and the illustration in Appendix 5, of the difficulties experienced by actuaries working across national borders points strongly towards the need for greater convergence in actuarial standards. While it is acknowledged that many actuaries are only employed doing domestic actuarial work, the trend of increasing globalisation in the world of finance makes it likely that over time greater and greater numbers of actuaries will be doing at least some work which crosses national borders, so the importance to the worldwide profession of converging actuarial standards can be expected to continue to grow.

## 8. Standard-Setters Round Table

8.1 The Standard-Setters Round Table (SSRT) started life in June 2009 as an informal discussion forum for the actuarial standard-setting bodies from four countries (UK, US, Canada and Australia) and an IAA representative. It has now evolved to the point where:

1. there are nine participating countries (Australia, Canada, France, Germany, Japan, Mexico, Netherlands, UK, US), plus the IAA and the Groupe Consultatif (and agreement to invite Switzerland to future meetings);
2. meetings are being held coincident with IAA committee meetings, while recognising that the SSRT is not an IAA committee, but an independent group;
3. the IAA secretariat has taken over secretarial support for the SSRT meetings;
4. constitutional rules are being developed, e.g. terms of reference, appointment of chairman; and
5. a mission statement and set of objectives are close to agreement.

8.2 The draft mission of the SSRT is to achieve globally accepted actuarial standards over an appropriately long timescale. Globally accepted actuarial standards encompasses both national standard-setters reporting substantial congruence with model standards (presumably, but not necessarily, published by the IAA) and national standard-setters adopting the model standards. Globally accepted actuarial standards do not require all national standard-setters to adopt the model standards.

8.3 The draft terms of reference list a series of roles for the SSRT:

1. *To identify the purpose of actuarial standards, both core values acceptable to all members, and other values espoused by only some members.*
2. *To identify common principles and practice in existing national standards and seek ways to reflect the appropriate ones in all national standards.*
3. *To identify gaps which could be filled by common standards, for example in relation to the planned revision of IFRS4.*
4. *To encourage the IAA, following full consultation and discussion with existing standard-setters, to develop and adopt one or more model standards suitable for adoption in all major jurisdictions. For the avoidance of doubt full consultation means sharing drafts, and possibly meeting, before the first exposure draft is published to achieve a draft that standard setters in some or all major jurisdictions can consider adopting.*
5. *In case the IAA is unable to achieve adequate consensus on the timely development of a standard, to provide a forum within which some or all of the member standard-setters could agree to discuss the development of common or model standards.*
6. *To encourage those organizations issuing standards to seriously consider achieving congruence with model standards by adopting changes (if necessary) to their existing standards or adopting the model standards, with minimal modification.*

8.4 It is clear from the draft mission and roles set out above that the members of the SSRT envisage an important role for the IAA in the future. The Task Force recommends that the IAA should decide quickly on how it will respond. At the very least the IAA should respond as to whether it accepts the roles suggested in the draft objectives or wishes to have them amended. More importantly, there is an opportunity for the IAA to decide collectively to seize the initiative

and give a clear lead to the movement towards global convergence of actuarial standards. Such a decision could, however, have significant implications for the IAA, which need to be examined carefully.

8.5 A fuller description of the development of the SSRT is set out in Appendix 4.

## **9. Analysis of Strategic Objectives and Implementation Options**

9.0.1 The Task Force was set up to consider what strategic objectives the IAA should have in relation to the development and possible global convergence of actuarial standards. In this chapter the Task Force first analyses the possible options that the IAA might consider. In proposing and discussing these options, the Task Force considered them from the point of view of the international actuarial profession. Thereafter, implementation issues are considered.

9.0.2 Standards are set in some countries by the local FMA, and in other countries by a standard-setter that (to an extent varying by country) is independent of the local FMA(s). In some countries standards may be set by the regulator. The Task Force recognises that the IAA would need to have discussions with these standard-setters in order to clarify relationships and responsibilities if the IAA were to become more actively involved in producing model standards and in expecting FMAs to respond.

### **9.1 Alternative Objectives for Convergence**

9.1.1 As a starting point the Task Force considered possible options to seek convergence in accordance with the various definitions of convergence in section 2.5.3 of this paper:

1. Identical (full convergence)
2. Conforming to international model standards (strong convergence)
3. Same coverage of content – congruent (medium convergence)
4. Standards in place everywhere covering different material, but not conflicting with each other (weak convergence).
5. Standards in place in some jurisdictions covering different material, and occasionally conflicting with each other (no convergence). This represents the current situation.

9.1.2 The Task Force concluded that the first option – “Full Convergence” – is unrealistic for the IAA at this time. If the IAA were to adopt a strategic objective to achieve binding international standards, it would mean that all FMAs would have to agree to accept that international standards would override and replace national standards. The Task Force does not believe that such agreement could be achieved in the foreseeable future. The second option – “Strong Convergence” - presents a similar problem, but is considered further below.

9.1.3 The Task Force concluded that the fourth and fifth options – “Weak Convergence” and “No Convergence” – do not form an appropriate basis for the profession and therefore they would not be acceptable options for the IAA. They would also conflict with the Vision (“*The actuarial profession is recognized worldwide as a major player...*”) and Mission Statement (“*to represent the actuarial profession and promote its role, reputation and recognition in the international domain*”) recently adopted by the IAA Council. Adopting one of these options would be to ignore current developments in international coordination by the IASB, the IAIS and more recently the G20. It could potentially harm the reputation of the international actuarial profession and ultimately could diminish the global influence of actuaries.

Consequently, the Task Force decided to concentrate on exploring options 2 and 3, both of which involve the production of model international standards and convergence of all FMAs towards them.

## **9.2 Alternative Strategic Objectives for the IAA**

In this section the Task Force considers a range of possible strategic objectives for the IAA. The following options look at the way in which the international model standards could be transformed into locally applicable standards. Each of the options, based on options 2 and 3 in 9.1, is capable of being modified in several ways to make them stronger or weaker.

### **9.2.1 Option 2 - Strong convergence**

9.2.1.1 Under this option, the IAA would encourage the development of model standards with a strong requirement for international convergence. An international body would produce model actuarial standards and all FMAs would be required to adopt these standards for application to their members. This requirement would apply not only to those FMAs which have existing standards, but also to those FMAs which do not yet have any.

9.2.1.2 The FMA would be permitted to make local modifications to the model standard to meet local circumstances, provided that these modifications did not produce materially different results from the model standard. Where the FMA already has a standard in place covering the same material as the international model standard, then the FMA would have to replace the existing local standard with the model standard. The FMAs would remove from all of their local standards any provisions that are inconsistent with any model international standards.

9.2.1.3 FMAs would, however, be free to issue additional standards to address specific local needs not covered by international standards, provided that these standards are consistent with the international standards.

### **9.2.2 Option 3A –Medium Convergence with Mandatory Application**

9.2.2.1 Under this option, the IAA would encourage the development of model standards with a requirement on FMAs to achieve international convergence through certification of “congruence”. An international body would produce model actuarial standards and FMAs would be required either to compare these model standards with their own local standards and ensure that their local standards covered substantially the same scope with essentially similar guidance (“congruence”), or adopt the model standard in its entirety, repealing any conflicting local standards.

9.2.2.2 The FMA in each jurisdiction would either make any necessary modifications to their own existing standards or adopt an international model standard (modified as necessary) in order to be able to report that their standards cover substantially the same scope and content as the model standard. It would be necessary to agree whether the IAA would rely on self-certification by each FMA through the accreditation renewal process, or whether a system of independent checks would be established.

9.2.2.3 The FMAs would remove from all of their local standards any provisions that are inconsistent with any model international standards and that they would not issue any new standard that is inconsistent with any international model standard.

### **9.2.3 Option 3B – Medium Convergence with Voluntary Application**

9.2.3.1 Under this option, the IAA would develop model standards with the aim of achieving international convergence voluntarily. An international body (almost certainly the IAA) would produce model actuarial standards and each FMA would decide individually how to respond to each standard on a case by case basis. The coverage of FMAs under this approach would extend only to those which voluntarily decide to achieve congruence.

9.2.3.2 The IAA would encourage FMAs, actuarial standard-setters and, where appropriate, regulators and Governments, to report congruence of their existing standards to these model standards, or to adopt these standards, with or without justifiable modifications to meet local conditions.

9.2.3.3 The IAA would seek to achieve its aim of ultimate congruence by encouragement, persuasion and “peer pressure” to work towards convergence of standards in all jurisdictions. The IAA would need to agree what form the “encouragement, persuasion and peer pressure” would take.

9.2.3.4 Currently, the IAA Due Process states, on the topic of “Implementation of an IASP” (section 6.1): *“Once adopted, an IASP should be posted on the IAA website and also promulgated to Member Associations and to interested international parties. Member Associations are expected to inform their own individual members and other interested national parties. Member Associations should be asked to advise the IAA of the actions that they (or standard-setting bodies that adopt standards of practice applicable to the Association’s members) have taken with respect to each IASP. Actions such as those described in paragraph 1.2 [adopt, endorse or modify] should be encouraged unless there is a specific reason why a Member Association believes that local conditions do not warrant such a step.”* The Due Process requests each FMA to notify the IAA of its action with respect to the IASP.

9.2.3.5 Under option 3A (medium convergence with mandatory application), the strategic objective would be for all FMAs to be covered. To achieve 3A the Council might decide to start by inviting FMAs to participate on a voluntary basis under Option 3B, and then later extending the coverage to all FMAs. Alternatively, a group of FMAs might voluntarily decide to come together and mutually agree to develop and adopt congruent standards, in which case the IAA would want to support such an initiative. This would be similar to the arrangement which is currently in place with the treaty between associations who will offer the CERA designation.

### **9.2.4 Mandate of the IAA as a Producer of Model Standards**

9.2.4.1 The Task Force recognises that, while the IAA (or another new international body) could produce model actuarial standards and the Council could decide to set an objective for either voluntary or mandatory convergence, each FMA would still retain the authority to decide which standards apply to its members and in what circumstances those standards apply. If the Council wished to move in the direction of mandatory convergence of standards, it would require a change to the accreditation criteria, approval of which would require at least four-fifth of the votes cast in the Council, but no other changes to the Statutes are needed. However, one member of the Task Force believes that options 1 and 2 breach the subsidiarity principle (modification of the subsidiarity principle would require another four-fifth majority).

9.2.4.2 However, in those countries where the FMA is not the standard-setter, the FMA may not be able to guarantee that convergence can be fully achieved and this would have to be recognised in any changes to the accreditation criteria. The FMA may be able to obtain the agreement of the standard-setter in their country to the adoption by the standard-setter of the model standard, with or without local modification. Alternatively, the FMA may be able to issue its own standard, in addition to the local standards, but provided only that there is no conflict between the model standard, with or without local modification, and the existing local standards in that country.

9.2.4.3 Each FMA also has the duty under the accreditation criteria to seek to achieve compliance by its members with its standards. The IAA has no jurisdiction over individual actuaries, as such jurisdiction rests with the FMA to which each actuary belongs. The IAA plays no direct role in monitoring compliance of standards by individual actuaries but would monitor how FMAs were achieving congruence by means of the annual accreditation renewal report.

9.2.4.4 The two international bodies with which the IAA works most closely, the IASB and the IAIS, both operate by means of local adoption of their standards or regulatory practices in each separate country, in the similar way as the IAA does.

## **9.2.5 Implications for the FMA Actuary**

9.2.5.1 Considering the potential options outlined in 9.1, the following implications have been identified for the FMA actuary when considering which standards apply to a multinational situation. In developing these conclusions, consideration has been taken of an illustration, which is included as Appendix 5.

1. Identical (full convergence)

As all jurisdictions will have adopted the identical standard, no conflict would arise for the FMA actuary in a particular jurisdiction.

2. Conforming to international model standards (strong convergence)

While an FMA actuary would have to determine which country standard applied in a specific situation, the results would not be expected to be materially different. As such it would not be expected that any additional disclosures would be required.

3. The rest of the options included in 9.1

The FMA actuary would have to determine in the specific situation which country standards apply or on what basis the work is to be performed, e.g. the client may have designated the basis. Where results are materially different, the FMA actuary would have to consider appropriate disclosure.

9.2.5.2 Whatever model international actuarial standard is developed, it will have to be designed to be applicable in the context of a specific international financial reporting or regulatory standard or other standard in question. The consideration of an FMA modifying the model standard will not only have to have regard to the particular actuarial differences in their jurisdiction but also the applicability of the primary international situation as it applies in their jurisdiction.

9.2.5.3 The FMA actuary will have to assess the position of the FMA of which he is a member, his role when performing the actuarial services, any directives of the entity for which he is

performing the actuarial services, keep in mind the considerations outlined in 3.2.1 and ensure appropriate disclosure.

## **9.2.6 Comparing the Different Strategic Objectives**

9.2.6.1 Option 2 would produce strong convergence of actuarial standards, as model international standards would have precedence over local national standards, although some local modifications would be permitted. A change in the current accreditation criteria of the IAA would be needed. The Task Force does not believe that such agreement can be achieved in the foreseeable future, one member of the Task Force believes that it can never be achieved. However, the international actuarial profession may need to consider this option if faced with a significant external pressure, such as the threatened imposition of standards by a non-actuarial body.

9.2.6.2 Option 3A (medium convergence with mandatory application) is in many ways similar to the existing procedure within the IAA for Codes of Professional Conduct. The IAA accreditation criteria lay down a list of minimum contents which must be covered in a Code of Professional Conduct, but FMAs are free to cover this material in any format and to add to it in any way they like, provided that the additions are not in conflict with the core requirements. The Accreditation Committee examines the code of each association to check that it covers all the contents listed in the IAA accreditation criteria.

9.2.6.3 While this option would lead to less exact convergence of standards than Option 2, it would nevertheless go a long way towards meeting the IAA's Vision and Mission Statement and should raise the IAA's credibility in the international arena and enhance the standing of the actuarial profession. However, if it only applied to some FMAs, under the variations in 9.2.3.5, its effectiveness would be limited. As this option would be similar to the existing procedure for Codes of Professional Conduct (if the option applied to all FMAs), it should be achievable in a reasonable period of time if the IAA wished to adopt this objective. As noted, this option would require a change to the IAA accreditation criteria.

9.2.6.4 Option 3B (medium convergence with voluntary application), includes the current IAA Due Process for model IASPs. It would not impact the current accreditation criteria of the IAA, as the adoption of a model international standard by an FMA would remain voluntary. However, it might not be possible to achieve significant convergence, even among those FMAs who have existing standards. In addition there would be no requirement on FMAs without existing standards to implement a model standard. The Task Force regards these characteristics as a significant weakness of Option 3B, compared to Options 2 or 3A, although it could probably be achieved more quickly than either.

9.2.6.5 The following sections of this chapter discuss the implementation actions which would need to be considered if the IAA were to adopt a strategy to increase convergence of actuarial standards, and the potential scope of international actuarial standards.



## **9.3 Structure Options for Implementation**

### **9.3.1 General Characteristics of Implementation Process**

9.3.1.1 If the agreed strategy is to develop model standards for the international actuarial profession, careful consideration will need to be given to the appropriate structures and due process, in order to prepare and promulgate high quality standards which will command the confidence of both actuaries and users of actuarial services.

9.3.1.2 International standards should serve the public interest and address the needs of users of actuarial services, as well as having value for individual actuaries. Standards should not be perceived by users as having been prepared by the actuarial profession purely to serve its own interests and those of its members, but by an open and transparent process which involves consultation with key stakeholders and ensures that the needs of users are addressed appropriately.

9.3.1.3 The suitability of any proposed structure and due process should be considered in relation to the following desirable characteristics:

1. Users of actuarial services should have confidence in the quality and suitability of the resulting standards and the process by which their views have been taken into account.
2. Actuaries should have confidence that the standards have been prepared by competent persons who understand actuarial work and the commercial and professional framework in which the standards will need to be applied.
3. The process should have good governance and a high level of transparency.
4. The persons who prepare the standards should be accountable to actuaries, actuarial associations, users and regulators.
5. The standard-setting process should respond without undue delay when a need for a new standard (or revision of an existing standard) is identified, and it should not take too long thereafter to prepare and promulgate a standard.
6. As all FMAs are responsible for the conduct of their members, they should be fully aware of and engaged in the development of the standards.
7. All FMAs should accept responsibility for ensuring that their members are aware of international standards.

International model standards could be prepared by the IAA or by another body. In the former case the IAA could 1) use existing structures and processes or 2) develop a new structure which would better address the desired characteristics of a process for producing standards.

### **9.3.2 The IAA as a Producer of Model Standards**

9.3.2.1 The current Due Process has evolved to meet the present needs of the IAA. However, in order for the IAA itself to become a more effective producer of model standards in the future environment, the Task Force believes that the following aspects in the current structure would need to be strengthened:

1. the shortage of adequate dedicated resources for drafting standards;
2. the cumbersome and slow governance structure for getting a standard approved;

3. the lack of any formal involvement of non-actuaries; and
4. the absence of a formal process for consulting users

9.3.2.2 Addressing these issues would not be easy, as it would require fundamental changes to the way in which the IAA operates. The Task Force has considered what modifications could be proposed to the IAA structure which might help the IAA to become an effective producer of standards. These might involve consideration of one or more of the following:

1. Establishment of a standards board or committee which has authority to issue standards without approval by Council and which consists of appointed members with identified standard-setting skills rather than representatives appointed by each FMA.
2. Making sure that the members of such a board or committee are recruited from appropriately diverse geographies, academic and professional backgrounds, including some non-actuaries.
3. Giving such a board or committee control of the drafting process rather than leaving it up to the committee which originally proposed the standard.
4. Recruitment of actuaries and legal advisers to the staff of the IAA with a remit to draft standards.
5. Recruitment of additional administrative support staff to handle the consultation process and oversee the transparency of reporting on the process.
6. A timely due process for the approval of standards, based on high standards of governance, including open and transparent consultation with actuaries, actuarial associations, users and stakeholders.
7. The adoption of international model standards (or certification that congruent standards are in place) to be made a requirement for continued accreditation of an association as an FMA, in a similar way to the current arrangements for the code of conduct and the core educational syllabus.

The Task Force is not at this stage recommending any of these modifications for decision by Council. However, if Council does decide that it wishes to adopt a more proactive policy on the development of global actuarial standards, the Task Force believes that these modifications will need to be considered as part of the process.

### **9.3.3 A Separate Standards Body**

9.3.3.1 Consideration could also be given to possible alternatives to the IAA being itself responsible for producing model standards. Even with reforms such as those proposed above, standards developed and promulgated by the IAA itself might not be seen to be sufficiently independent or authoritative and would be open to the criticism of serving the needs of actuaries rather than users. However, the level of participation of actuaries across the world in the IAA gives additional credibility from the perspective of the actuarial profession. In addition, the IAA is the association of those organisations that are required to monitor compliance and to address any issues of non-compliance in their jurisdictions.

9.3.3.2 Some alternative structures which might be considered would include the following:

1. Establishment of an International Board for Actuarial Standards (IBAS), either sponsored by the IAA or independently established (e.g. with support from the IASB, the IAIS, IOSCO, international insurers, international consulting firms);
2. The Standard-Setters Round Table (SSRT) might evolve into a formal consortium of national standard-setters with a remit to develop international actuarial model standards; or
3. A subset of the SSRT might agree to work together to develop international standards for their respective jurisdictions, which could also be made available to the IAA and its member associations for a wider process of adoption or certification of congruence.

### 9.3.4 Assessment of Alternative Structures

9.3.4.1 Each of the above possibilities has advantages and disadvantages, but regard would have to be paid to the practicality of any particular approach, given the interests and the limited jurisdiction of the various players.

9.3.4.2 The IBAS approach has some attractions, resulting in a body which could be seen as a natural counterparty to the corresponding accounting body (IASB), but it is not obvious that any of the supranational bodies would be interested in sponsoring the formation of an IBAS, in order to give it the necessary standing and authority. There would be significant practical issues in regard to funding and governance if it did not have an appropriate sponsoring body.

9.3.4.3 The table below looks at the seven desirable characteristics listed in 9.3.1 above and compares the current IAA due process with the potential attributes of a suitably modified IAA due process, covering all the points mentioned at 9.3.2 above, or a separate body to produce standards, such as an IBAS. In relation to the second and third columns of the table, it has been assumed that these new bodies are successful in meeting expectations but, of course, their actual performance could be different.

Desired characteristic	Current IAA Due Process	Suitably Modified IAA	Separate body to set standards
1. User confidence	Low	Medium	High
2. Confidence of actuaries	High	High	Medium/High
3. Governance	High internally but low externally	High internally but medium externally	High
4. Accountability	High internally but low externally	High internally but medium externally	High
5. Timeliness	Low	High	High
6. Engagement of FMAs	Low	High	Medium
7. Implementation by FMAs	Low	High	High

9.3.4.4 The SSRT (or a subset of it) could see the formation of a process for producing international model standards as an adjunct to their existing national standard-setting responsibilities. However, they might not be seen as fully representative of all different types of jurisdiction and legal and actuarial environment, particularly if only a few members of the SSRT were involved in forming the subset.

9.3.4.5 It is premature to give consideration to the details of the structures which might be developed, until a preferred direction of travel is agreed. However, issues which would need to be resolved would include:

1. number of members of the standards body and how they would be appointed and replaced;
2. staff support, including technical, actuarial, legal and administrative;
3. funding mechanisms;
4. accountability and governance;
5. relationship with IAA and with individual actuarial associations;
6. due process for the development of standards;
7. how completed standards would be promulgated;
8. monitoring of compliance and enforcement of standards;
9. status of standards promulgated;
10. the relationship with other supranational bodies, such as IASB, IAIS, IOSCO, IMF, etc.

## **9.4 The Potential Scope of Convergent International Actuarial Standards**

The role and expectations of international actuarial standards will vary according to the practice area, the type of standard and the strategic approach that the IAA decides to take. The Task Force identified the following potential areas where international standards could be developed:

1. Areas where there are international standards for regulatory or accounting purposes;
2. Emerging practice areas; and
3. Generic actuarial practice standards for traditional actuarial work for FMAs without such standards, and to achieve congruence among FMAs which already have such standards.

### **9.4.1 Areas where there are international standards for regulatory or accounting purposes**

9.4.1.1 Expectations that the actuarial profession should have international standards will be highest in areas where international accounting or regulatory standards have been or will be developed and which substantially control or affect actuarial work. The most important players in this respect are the IAIS and the IASB.

9.4.1.2 The IAIS activities of special interest to actuaries are those that relate to global financial stability issues and issues important to international financial groups. Of those issues at least the following should be mentioned: valuation of assets and liabilities, solvency, regulatory reporting, reinsurance and other forms of risk transfer, internal models and the role of actuaries. IAIS began the development of the Common Framework for the Supervision of Internationally Active Insurance groups on 1 July 2010. It is expected to take three years to develop. This activity might lead to future demand for international actuarial standards.

9.4.1.3 An IASB activity of most recent interest to actuaries is Phase II of IFRS 4 Insurance Contracts, in respect of which an exposure draft was published on 30 July 2010. There are also other IFRS related issues which affect actuarial practice, including:

1. The measurement of financial products is currently addressed in IAS 39 Financial Instruments and will be addressed in IFRS 9; many insurance companies offer financial products;
2. The measurement of service products is addressed in IAS 18; many insurance companies offer service products;
3. Accounting for employee benefits is addressed in IAS 19 and related standards; these are of relevance to employers;
4. Contingent liabilities are addressed in IAS37; this affects self-insured entities as well as insurance companies.

## **9.4.2 Emerging practice areas**

9.4.2.1 Another area where international actuarial standards could be jointly developed is in emerging areas of practice where no standards yet exist or where they only exist in a few countries. The most obvious current example of this would be enterprise risk management (ERM). The Task Force noted that the IAA Committee on Enterprise and Financial Risks has already started a project to “monitor the development of professional standards in ERM in various jurisdictions with an objective of ensuring that the standards are as consistent as possible between jurisdictions”.

## **9.4.3 Generic actuarial practice standards for traditional actuarial work**

9.4.3.1 The traditional areas of actuarial standard-setting are well known and cover issues discussed in chapter 2.4. This might be an area in which it would be possible to start developing model standards, in order to assist those FMAs who do not have the resources to develop standards of their own and in order to achieve greater consistency amongst those FMAs which already have standards. However, the current practices for issuing standards, and the local legal environments, differ greatly between jurisdictions (Chapter 3). Changing existing standards would therefore be challenging and probably not the highest priority for the IAA. The IAA could start to make some progress in this direction by collecting information on existing standards and looking for areas where some convergence could be achieved (this task has in fact already been tentatively started by the SSRT, and by the Actuarial Standards Subcommittee of the IAA Insurance Accounting Committee).

## **9.4.4 Conclusion**

9.4.4.1 The Task Force believes that the first area identified in 9.4, relating to international standards for regulatory or accounting purposes, will be seen by many actuaries, and by interested parties outside the profession, as an important and urgent area where it would be in the public interest to promote convergence, particularly with a view to expanding the coverage of actuarial standards to all FMAs. However, drafting standards for such purposes will be challenging because of the potential overlap between the specific requirements and more generic aspects of the standards, which fall into the third category, where a number of the larger FMAs already have well-developed standards.

9.4.4.2 The second category of emerging practice areas might offer opportunities for the IAA to take a lead with model standards, particularly where there are few established standards currently in place.

9.4.4.3 In the third area, that of developing generic model standards, for example in relation to data quality, assumption-setting and communication, it would be very challenging to introduce a comprehensive set of model standards, because of the number of larger FMAs with existing standards in place covering these topics and the consequent difficulty of achieving convergence. However, for FMAs which do not have standards at present, such generic standards might be seen as the highest priority.

9.4.4.4 These three potential areas for the development of standards are not mutually exclusive. It has been argued that the first category “overlaps” with the third category, an example of which relates to the proposed model standard for actuarial work in connection with IFRS4 Phase II, which would be a replacement of existing IASP2. For this model standard, on which preparatory drafting is currently being undertaken, it is argued that there has to be some coverage of general topics.

9.4.4.5 This is seen by some as an advantage, as it would mean that actuaries belonging to each FMA which adopted the model standard would then be subject to actuarial standards for IFRS work, even where their FMA had no existing standards in place. This would help to enhance the credibility of the actuarial profession in those countries. The Task Force considers that achieving the spread of actuarial standards to all FMAs should be a high priority and that IFRS Phase II provides an opportunity for this.

9.4.4.6 However, from the point of view of FMAs with long-established actuarial standards covering general topics, it would be preferable for a model international standard to be restricted to matters specific to IFRS4 in order to avoid conflict with the existing standards. The search for a practical solution to this specific issue is still ongoing and the Task Force believes that achieving an acceptable solution is an important priority for the IAA.

9.4.4.7 It is not the role of the Task Force to take a view of what kinds of standard, if any, are needed in this particular case or any other case. However, the Task Force believes that it is important to identify the practice areas where model actuarial standards may be needed and maintain a priority list for implementation.

## 10. Recommendations – Strategic Objectives and Actions

In order to support the IAA Vision and Mission Statement, the Task Force recommends the following revised content for Strategic Objective 3 and suggests some implementation actions. The current IAA Strategic Plan is attached at Appendix 2.

### 10.1 Strategic Objectives and Supporting Recommendations

1. Strategic Objective 3, which is currently:

#### **Existing Strategic Objective 3**

*“Establish, maintain and promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice for use by member associations worldwide.”*

should be amended to:

#### **Proposed Strategic Objective 3**

*“Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards by all FMAs in their jurisdictions and the global convergence of actuarial standards.”*

The interpretation of Strategic Objective 3 (set out in 10.2) is part of this recommendation.

2. Subject to further analysis and resolution of the financial and other implications, the IAA should create a standards board or committee, either within the IAA structure or as a separate body.
3. In addition, the IAA should put in place an efficient internal structure and due process which will complement and support the development and adoption of high quality model standards and which will command the confidence of both actuaries and users of actuarial services.
4. The Proposed Strategic Objective 3 is consistent with the draft objectives of the SSRT (at the time preparing this report the SSRT had not adopted its final set of objectives). The IAA should continue to cooperate proactively with the SSRT.
5. The IAA should continue to cooperate in standard-setting with other interested parties, such as the IAIS and the IASB, and in particular with any international actuarial standard-setting body if created, in order to achieve international model standards with maximum credibility and acceptability to users. This implies a requirement to negotiate with these parties on the scope and content of the model standards, their application by geographic area and compliance with those standards.

## 10.2 Interpretation of Proposed Strategic Objective 3

This section describes in more detail the implications of the proposed amendment to Strategic Objective 3 and these details form an integral part of the recommendation.

1. Every FMA should be encouraged to have actuarial standards in place applicable to its members, taking into account the special circumstances of its jurisdiction.
2. The IAA should affirm the model standard approach, which it has already adopted in principle, aiming towards achieving a position of medium convergence (congruence) by all FMAs on a mandatory basis in the longer term.
3. Model standards should be principles-based in order to create a firm foundation for achieving congruence.
4. In the medium term, priority should be given to developing model standards in the most urgent areas. The way in which the model standards approach should be implemented will vary:
  - a. In areas where there is a recognised need for actuarial standards specifically related to international standards for financial reporting or regulatory purposes, the IAA should have an objective of achieving medium convergence by all FMAs on a mandatory basis. This means that in time all FMAs should either have in place their own standards which they can certify as being congruent with the model standards, or adopt all relevant model standards. Modification of model standards to suit the local situation should be such that the results of the work are not materially different by jurisdiction.
  - b. In emerging practice areas where actuarial standards do not yet widely exist, the IAA should develop international model actuarial standards, aiming towards medium convergence on a mandatory basis.
  - c. There is a need for generic actuarial standards for use by those FMAs who do not yet have any standards in place. The IAA should develop model standards of this type and pursue medium convergence on a voluntary basis among such FMAs. A secondary objective would be to pursue medium convergence on a voluntary basis for generic standards amongst FMAs which already have standards.
  - d. In addition, there are areas where the IAA will continue to issue educational notes (IANs).
5. Implications for the international work of an actuary
  - a. Each FMA or local standard-setter should ensure that their local standards identify the jurisdiction to which the standards apply. It would be preferable for all FMAs or local standard-setters to agree on a similar approach to identifying the jurisdiction.
  - b. All FMAs should require their actuaries to state in any report under which standard the professional services have been performed, if the standards of more than one FMA might apply.
  - c. The actuary performing professional services should disclose under which FMA Code(s) of Professional Conduct the services are provided, if more than one



Code of Professional Conduct might apply. If there is a complaint regarding an actuary's work, it would be the responsibility of that FMA to take action.

### **10.3 Rationale**

10.3.1 The Task Force's principal recommendation is that the IAA Council should adopt an amendment to its Strategic Plan so that the Vision and Mission Statement are supported by a strategic objective to achieve convergence of actuarial standards applicable to all actuaries who are members of FMAs, with the degree of convergence, and the timescale for achieving it, to be decided by Council from time to time in the light of prevailing circumstances. The degree of, and the timescale for, convergence may differ according to the actuarial practice area.

10.3.2 The reasoning behind this recommendation is that, if the IAA wishes to "be recognized worldwide as a major player in the financial services industry" and "to promote the role, reputation and recognition of the actuarial profession in the international domain", then it must move towards greater international cooperation within the profession on many fronts.

10.3.3 The IAA has already achieved significant convergence in the areas of educational qualifications and codes of conduct. The Task Force believes that the time is ripe for the IAA to take a leadership position in addressing the issue of actuarial standards.

10.3.4 The Task Force recommends that the IAA should adopt a principles-based, model standards approach which will allow the flexibility needed for implementation. In addition, the Task Force believes that the IAA should promote the principle that all FMAs should have actuarial standards, so that individual actuaries in virtually all jurisdictions would be subject to standards.

10.3.5 In order to influence the future regulatory environment, including financial reporting, the IAA should continue to fully cooperate with other international organisations, the most important of which are the IAIS and the IASB. The Task Force understands that the SSRT shares the objective of working towards convergence in respect to actuarial practice standards. In its draft terms of reference the SSRT also proposes a significant role for the IAA. The Task Force believes that the IAA should respond to this offer and cooperate proactively with the SSRT on issues of mutual interest. At the same time the IAA should continue to represent the interests of other FMAs which are not represented in the SSRT.

10.3.6 The Task Force believes that, in order to achieve the revised strategic objective, the IAA should make its structure and due process of standard-setting more efficient and transparent and incorporate the participation of other interested parties. The Task Force recommends the creation of a standards board or committee, either within the IAA structure or as a separate body. In this report the Task Force has addressed the key elements of the implementation structure and the due process for setting model standards. However, further analysis and evaluation of the financial and other implications will be needed before establishing such a board or committee, bearing in mind the ultimate goal of the IAA with respect to the global acceptance of the model standards. In addition, the IAA should prioritise its activities in developing model standards and focus its limited resources on the most important and urgent areas at any particular time.

## 10.4 Actions for Implementation

10.4.1 The Task Force understands that achieving the strategic objective as described will be a large and challenging task. However, it is important to make strategic decisions soon, thus allowing implementation to start as quickly as possible. The Task Force believes that the IAA should aim to meet the long-term objective by a series of gradual steps, reviewing the ultimate objective along the way as needed in the changing environment.

10.4.2 The Task Force therefore recommends that the Council should request the Executive Committee to prepare a more detailed proposal for implementation, requirements for congruence and the period over which this is to be achieved, in accordance with the strategic direction decided by the Council. Progress should be reported to Council at each meeting.

10.4.3 The Priorities/Actions under the existing Strategic Objective 3 states “Develop model standards of practice”. This should be replaced by the actions listed in 10.4.4.

10.4.4 The Task Force recommends that the Executive Committee should take the lead in the following actions, liaising with other IAA Committees as needed:

1. Define the requirements for achieving different degrees of convergence in relation to international actuarial standards and draft appropriate internal regulations.
2. Define, in cooperation with other IAA Committees such as the Insurance Regulation Committee, the Insurance Accounting Committee, the Pensions and Employee Benefits Committee and the Enterprise and Financial Risk Committee, a priority list of the areas of actuarial work where convergent international actuarial standards are needed or might be expected.
3. Prepare a proposal for a new structure and a due process for setting model standards with regard to the following aspects:
  - a. Detailed considerations of the roles and mandates of the IAA, the FMAs, the individual actuary who is a member of an FMA and other stakeholders, in the light of the analysis of chapters 1-9 and item 5 of section 10.2;
  - b. Creation of a standards board or committee, either within the IAA structure by adopting some of the proposals in paragraph 9.3.2, or as a separate body fulfilling the characteristics in paragraph 9.3.1 to the extent appropriate, including consideration of how such a process should be funded;
  - c. Review of the IAA Committee structure and due process for adopting model standards, in the light of the approach decided under b), aiming for a more efficient and user-oriented process; and
  - d. Develop ways of cooperating with IAIS, IASB, SSRT and other interested parties in the standard-setting process and agree a work plan for actions to be taken in conjunction with SSRT.
4. In order to exploit the pool of existing standards among FMAs, perform a congruence analysis on those standards in the areas of assumption-setting, communications and data quality, in cooperation with the SSRT and other standard-setters.

## 10.5 Summary of Recommendations

In summary, the Task Force recommends that Council:

1. Adopts an amendment to its Strategic Objective 3 so that it becomes:  
  
*“Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards by FMAs in all jurisdictions and the global convergence of actuarial standards.”*
2. Adopts an appropriate interpretation of this amendment in accordance with items 1 to 5 in paragraph 10.2 above.
3. Requests the Executive Committee to carry out an analysis and make recommendation as to whether the standards board or committee should be independent of the IAA or part of the IAA, including consideration of the financial implications and how they can be addressed.
4. In the light of the analysis at 3 requests the Executive Committee to make a proposal including
  - a. The most appropriate structure, and governance and financial arrangements, for a standards board or committee;
  - b. The complementary reforms in the IAA internal structure and due processes;
  - c. Requirements for achieving different degrees of convergence;
  - d. A priority list of areas of actuarial work for which the aim should be global convergence of standards;
  - e. Ways of cooperating with the IAIS, IASB, SSRT and other interested parties in the standards setting process;
  - f. The period over which global convergence is to be achieved; and
  - g. Implementation measures.
5. Requests the Executive Committee to report regularly to Council on progress until the work is complete.

## **Appendix 1**

### **Convergence of Actuarial Standards Task Force**

#### **Terms of Reference**

**Approved – 6 March 2010**

#### **1. Membership**

Membership is closed. The IAA Council appoints the chairperson and the Professionalism Committee appoints the members.

#### **2. Purpose**

In order to support the development and implementation of the Strategy of the IAA, the Task Force should develop a discussion paper on the IAA strategy in respect to the international convergence of technical actuarial standards. Note that ethical standards are already convergent because all IAA member associations follow the IAA requirements for Codes of Conduct.

#### **3. Role**

The Task Force should consider and make its recommendations on

- what the IAA's strategic objectives should be in relation to the convergence of actuarial standards,
- how these objectives fit with the proposed aims of the participants in the newly formed Roundtable of Actuarial Standard Setters, and
- how the IAA can best further its objectives through a combination of the Roundtable and its own committees and sections.

The Task Force should seek to learn whatever lessons are available from the recent experience of the Groupe Consultatif (without hindering the urgent work being carried out by the GC in relation to Solvency II).

The Task Force should produce an interim report for discussion at IAA Council Meeting in Cape Town in March 2010 and a final report for approval by IAA Council in Vienna in October 2010.

#### **4. Decision-making authority**

The Task Force operates within the IAA Statutes and internal regulations and works under the general direction of the Professionalism Committee, that will subsequently make recommendations to Council as appropriate.

#### **5. Operational Matters**

##### **Frequency of Meetings:**

The Committee meets by teleconference or electronic link up as required or at face-to-face meetings, if practical. Decisions may be taken by e-mails.

##### **Agendas and papers:**

Meeting documents will be distributed electronically and are also available from the on the IAA web-site as practical.

**Minutes:**

Formal Minutes are not required.

**Reporting on Committee Activities:**

- The Task Force should prepare a report to the Professionalism Committee and the Council for their meetings in Cape Town in March 2010
- and a final discussion paper for their meetings in Vienna in October 2010.

**IAA Liaison:**

- With the Committees on Professionalism, Insurance Accounting , Insurance Regulations and Pensions and Employee Benefits in relation to the expectations and demands of accounting standards and supervisory requirements for actuaries
- With other IAA Committees as required to undertake its role and activities. This will include especially those Committees who also have a close relationship with the work of the IAIS.

**External Liaison:**

None

**Other operational matters:**

None

**6. Subcommittees, Working Groups and Taskforces Reporting to the Committee**

None

## **Appendix 2**

### **IAA Vision and Mission Statement, and Strategic Objectives**

#### **Vision Statement**

The actuarial profession is recognized worldwide as a major player in the decision-making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well-being of society as a whole.

#### **Mission Statement**

The mission of the IAA, as the worldwide organization of actuarial associations, is:  
to represent the actuarial profession and promote its role, reputation and recognition in the international domain; and

to promote professionalism, develop education standards and encourage research, with the active involvement of its Member Associations and Sections, in order to address changing needs.

#### **Values Statement**

The IAA adheres to the values of integrity, accountability, transparency, and objectivity when dealing with Member Associations, other stakeholders and the public.

Strategic Objectives and Priorities/Action Plans

#### **Strategic Objective 1**

Identify, establish, and maintain relationships with key supranational audiences and provide them with actuarial input to improve the soundness of decisions being made on important issues with a global impact.

*Priorities/Action Plans*

1. Identify and prioritize relevant supranational organizations with whom to establish and maintain key relationships.
2. Bring key relationship bodies into contact with the relevant actuarial groups.
3. Build and maintain key relationships.

#### **Strategic Objective 2**

Facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession, including beyond the traditional areas of actuarial practice, to help enhance the scope, availability, and quality of actuarial services offered by individual members of its member associations.

*Priorities/Action Plans*

1. Identify and prioritize fields of practice and develop a program to support each area.
2. Create strong links with non-actuarial international organizations in “wider fields”. (links to Strategic Objective 1)
3. Promote the development of actuarial practice in Enterprise Risk Management, including the development of a global designation/credential.

### **Strategic Objective 3**

Establish, maintain and promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice for use by member associations worldwide.

#### *Priorities/Action Plans*

1. Periodically review basic education standards to ensure they remain up to date.
2. Develop a recommended set of voluntary CPD guidelines.
3. Achieve a common understanding of the principles of professionalism, including code of conduct and disciplinary procedures.
4. Develop model standards of practice.

### **Strategic Objective 4**

Support the development, organization and promotion of the actuarial profession in areas of the world in which it is not present or is not fully developed.

#### *Priorities/Action Plans*

1. Help emerging and existing actuarial associations to develop.
2. Examine the feasibility of constructing and managing an International Actuarial Education Program.
3. Facilitate the access to information and experiences from other countries, especially for countries with a developing actuarial profession.

### **Strategic Objective 5**

Provide a forum for discussion among actuaries and actuarial associations throughout the world.

#### *Priorities/Action Plans*

1. Encourage forums for actuaries to discuss global actuarial issues.
2. Encourage discussions between association Presidents.
3. Encourage not only worldwide, but also regional contact and cooperation among member associations.

## Appendix 3

### Types of Actuarial Standards: Definitions by the Groupe Consultatif<sup>2</sup>

#### 3. Public interest standards

##### 3.1 Qualification standards

3.1.1 We consider that the qualifications necessary for carrying out the actuarial function should include education, specific knowledge of the technical aspects of the work of the actuarial function appropriate for the company for which an individual is to carry out the function, experience requirements and standards for continuing education.

##### 3.2 Ethical standards

3.2.1 We believe that the ethical standards could be based on the Groupe Consultatif's Code of Professional Conduct. This is already in place in the actuarial profession throughout the EU, since Full Member Associations of the Groupe are required to have a code of conduct which complies with the Groupe's code as a minimum. Some aspects of the Groupe's Code may not be directly relevant to the role of carrying out the actuarial function and some we are suggesting would be covered under other headings, such as qualification standards and governance standards. We suggest that the following would be an appropriate minimum set of ethical standards for the individuals carrying out the actuarial function:

##### 3.3 Governance standards

3.3.1 Governance standards concern relationships of the actuarial function with the Board and senior management of the company and with other functions such as risk management and audit. They include some elements which might be considered to be akin to ethical standards and some which will facilitate the ability of the persons carrying out the actuarial function to do the job effectively. Some will need to be made an obligation on insurance undertakings as well as individuals carrying out the actuarial function and there may need to be safeguards in legislation to protect those who speak out (see items 5 and 6 below). We recommend that they might include the following:

1. A person carrying out the actuarial function shall have direct access to the Board of the company, as well as to the senior management, and to any higher level Boards (for example at the group level) which exercise significant influence on the company.
2. A person carrying out the actuarial function shall work closely together with the risk management function of the company and with other relevant internal functions.
3. A person carrying out the actuarial function shall liaise and co-operate with auditors and regulators.
4. The work of the actuarial function shall be subject to adequate checking and quality control.
5. In the event of a person carrying out the actuarial function having serious concerns about the financial soundness of the company, or about the fair treatment of policyholders, and having exhausted appropriate channels within the company for

---

<sup>2</sup> Extract from the paper Professional Standards for the Actuarial Function under Solvency II, submitted to CEIOPS on 29 September 2009.



registering these concerns, such as to the Supervisory Board where there is one, he or she shall report the concerns to the relevant regulator.

6. A person carrying out the actuarial function shall have legal and regulatory protection for reporting under 5 above, should that become necessary.

### **3.4 Communication standards**

3.4.1 The Groupe Consultatif believes that good communication will be vital to the effective exercise of the actuarial function. Both style and content of any communication should be appropriate to the particular audience. This will apply to any actuarial report and in particular to reports accompanying the calculation of the technical provisions and risk modeling and also to the statements of opinion required of the actuarial function in respect of the overall underwriting policy and the adequacy of reinsurance arrangements. We recommend that an appropriate set of communication standards should cover matters such as:

- explanation of the scope and purpose of any report
- comprehensibility
- completeness
- transparency
- independence
- accountability

## **4 Technical standards**

### **4.1 Interpretative standards**

4.1.1 One role for technical standards could be to provide more detailed interpretation of legislation, regulations and implementing measures or to deal with additional matters which are not covered by the implementing measures. The Groupe Consultatif believes that such interpretation may prove necessary, but that in general it should be the role of the supervisors, either at the national level or at the EU level, to provide this sort of interpretation. Technical standards developed by the actuarial profession should not impose additional legal requirements. However, there may be a need for some form of interpretative facility to be provided by the Groupe Consultatif, such as access to discussion groups, frequently asked questions, etc. and possibly a standing committee to moderate and guide such discussions.

### **4.2 Technical implementation standards**

4.2.1 We believe that it is important to be clear on what is understood by ‘*technical implementation standards*’ as there are many different perspectives on how far-reaching these should be and whether they should simply set out some broad principles or provide detailed guidance on different aspects, for example to cover each of the nine areas of responsibility of the actuarial function, as set out in Article 48(1).

## Appendix 4

### Standard Setters' Round Table – A Short History

The first meeting of the Roundtable took place in June 2009. The idea for a Roundtable had come from Paul Seymour, the first chairman of the Board for Actuarial Standards (BAS) in the UK. BAS had been established following the Morris Review as a body which would set technical actuarial standards for UK actuarial work and was independent of the UK actuarial profession.

For the first meeting, Paul invited representatives from the actuarial standard setting bodies in USA, Canada and Australia, together with a representative of the IAA. The Roundtable was, and still is, a discussion forum, with none of those attending having the power to make commitments on behalf of the bodies they represent. The initial meetings involved exchanges of information on how the various standard setting organizations operated and exchanges of views on current issues.

At the second meeting in October 2009, Jim Sutcliffe had replaced Paul Seymour as the chairman of BAS and an invitation to attend had been extended to the Groupe Consultatif, since they had become involved in proposals for setting standards in connection with Solvency II in Europe. At the end of this meeting, it was agreed that there was no point in continuing to meet just to talk and the group needed a specific purpose in order to make it worthwhile continuing. A set of draft objectives was produced, focusing on trying to achieve gradual convergence of actuarial standards (particularly in relation to revised IFRS in the short term), with a long term aspiration of trying to achieve common, or congruent, actuarial standards internationally.

For the IAA meetings in Hyderabad in November 2009, a paper was prepared by Michael Pomery, chair of the IAA Professionalism Committee who had attended the first two Roundtable meetings as representative of the IAA, for consideration by the Professionalism and Executive Committees. This led to a set of recommendations from the Professionalism Committee to the Executive Committee, which in turn led to the EC taking the following decisions:

- a. To invite the Roundtable to hold its meetings in future at the same time as IAA committee meetings, starting in Cape Town, while recognising that the Roundtable is not an IAA Committee, but an independent group.
- b. To offer the services of the IAA secretariat to provide full secretarial support for the Roundtable.
- c. To set up the Taskforce on Convergence of Actuarial Standards to consider the IAA's strategic objectives and future role in relation to this important topic and to consider the IAA's role in relation to the Roundtable
- d. To request that the Roundtable extend the number of countries invited to attend its meetings

The Roundtable held a third meeting in January 2010 at which its own objectives were discussed and it began to collect information on the standard setting processes in different countries. It was decided to explore the problems in trying to achieve convergence by looking in detail at one small area of standard setting and for this purpose it chose the specific topic of setting mortality assumptions for life insurance reserving.

The Roundtable accepted the offers in a), b) above and the request in d) above and duly held its fourth meeting in Cape Town alongside the IAA committee meetings. Representatives attended from France, Germany, Holland, Mexico and Japan (and it was agreed to invite representatives to the next meeting from Switzerland and the UK Actuarial Profession, which continues to have a standard setting role for areas not covered by BAS). The results of the survey on setting mortality assumptions were considered and work is proceeding to see what lessons can be learned in the context of trying to achieve convergence. A second similar project has been initiated on another small area, claims reserving for motor insurance. A separate project has begun on identifying different purposes for setting standards.

The Roundtable has also begun to develop some more formal “rules of engagement”. Draft terms of reference are being drawn up and it has been agreed that the chairman should rotate annually, the first chair being Dave Pelletier from Canada. After considerable debate, the following objectives are close to being adopted:

#### Mission and Purpose

The mission of the SSRT is to achieve globally accepted actuarial standards over an appropriately long timescale. Globally accepted actuarial standards encompass both national standard-setters reporting substantial congruence with the model standards (presumably, but not necessarily, published by the IAA) and national standard-setters adopting the model standards. Globally accepted actuarial standards do not require all national standard-setters to adopt the model standards.

The purpose of the SSRT is to provide a forum for leading national standard-setters that will facilitate achieving this mission.

#### Role

The roles of the SSRT encompass the following:

- To identify the purpose of actuarial standards, both core values acceptable to all members, and other values espoused by only some members.
- To identify common principles and practice in existing national standards and seek ways to reflect the appropriate ones in all national standards.
- To identify gaps which could be filled by common standards, for example in relation to the planned revision of IFRS 4.
- To encourage the IAA, following full consultation and discussion with existing standard-setters, to develop and adopt one or more model standards suitable for adoption in all major jurisdictions. For the avoidance of doubt full consultation means sharing drafts, and possibly meeting, before the first exposure draft is published to achieve a draft that standard-setters in some or all major jurisdictions can consider adopting.
- In case the IAA is unable to achieve adequate consensus on the timely development of a standard, to provide a forum within which some or all of the member standard-setters could agree to discuss the development of common or model standards.
- To encourage those organizations issuing standards to seriously consider achieving congruence with such model standards by adopting changes (if necessary) to their existing standards or adopting such model standards, with minimal modification.

## Appendix 5

### Illustration of the Application of International Model Standards

This is an illustration of the application of international standards to aid in considering the implications of the introduction of standards that would apply to multinational situations.

The illustration we have used in this document is where an FMA actuary is asked to perform professional services in the preparation of an insurer's financial statements. These may relate either to the regulatory basis for disclosure and/or on an IFRS basis. Similar situations would apply in regard to other types of international work in which an FMA actuary may become involved.

In the first illustration, the reporting entity, the insurer, is incorporated within a specific jurisdiction. The reporting entity has no business outside that jurisdiction but wishes to raise capital outside the jurisdiction. The insurer's accounting policy states that it is reporting on IFRS without amendment. The FMA in that jurisdiction has issued its own standard based on the IAA model standard but with modifications, and the FMA actuary is only a member of that FMA. The status of the FMA actuary may be an employee, preparer, reviewer, officer, director, or an external adviser, including an auditor. The FMA actuary would be clearly performing work in that jurisdiction for regulatory purpose disclosures and would be expected to complete the work in accordance with the Code(s) of Professional Conduct and/or other rule(s) or standards that apply in that jurisdiction. The FMA actuary may or may not be performing the work "in that jurisdiction" for accounting purposes. The FMA actuary would be exposed to discipline by the FMA in both cases. The entity wants the accounting work completed in accordance with the IAA model without modifications.

The alternatives for the FMA actuary would appear to be

1. To perform the professional services using the IAA model standard and so disclose.
2. To perform the professional services using the FMA local actuarial standard and so disclose.
3. To perform the professional services using the FMA local actuarial standard as being in accordance with local actuarial practice and then to determine on the basis of the IAA model standard and disclose the difference.

Option one would appear appropriate if the work is considered under the FMA standards to be outside the jurisdiction. Option two would be appropriate if the FMA standard considers it to be work within the jurisdiction and restricts the FMA actuary regarding what is accepted actuarial practice. Option three, if allowed under the FMA standards, would appear to provide the information for both parties but the client may not be prepared to pay for the additional work.

In the second illustration let us make the reporting entity a multinational which has a number of subsidiaries in a number of countries. The multinational accounting policy states that it is reporting on IFRS without amendment. The subsidiaries also state in their accounting policy they are reporting on IFRS without amendment. Let us further assume

1. The multinational is domiciled in country A, and the FMA in country A (FMA-A) has issued its own standard based on the IAA model standard but with modifications, and the FMA actuary is only a member of that FMA.
2. The multinational provides a directive to the international actuarial staff they will apply the standard adopted by FMA-A.
3. A subsidiary is domiciled in country B and FMA-B has issued its own standard based on the IAA model standard but with different modifications.
4. The subsidiary is required by the FMA-B standard to use that standard for domestic reporting.

So, assuming there is a material difference, the FMA actuary in country B may be signing one set of numbers for IFRS locally and providing a different set of numbers for the consolidated version for the FMA actuary in country A to sign off, but all under the same accounting policy. How the FMA standards based on the IAA model standard interacts in terms of what is local and what is outside will be an issue. At a minimum there will be a need to reconcile the two numbers. When considering enforcement the two members may be subject to different disciplinary systems. It would of course be preferable if such situations do not arise.

It is noted that, in the illustration used, because IFRS allows the use of many aspects of national accounting standards for insurance contracts under Phase 1, this implies there are currently no conflicts with local actuarial standards at this time. The matter will become more of an issue when a new international IFRS standard replaces IFRS 4, if the IAA issues a model standard and if FMAs adopt it with different modifications.

The interaction of rules of professional conduct, local actuarial standards and the organization that promulgates model international actuarial standards must be considered by the FMA actuary in regard to the professional services they intend to perform.