

**Subcommittee on Actuarial Standards
Quebec City – June 11 and 13, 2008
Minutes**

Attendees on the 11th or 13th: Gorakh Nath Agarwal (India), Gunn Albertson (Norway), Yutaka Amino (Japan), Felix Arias Bergadà (Spain), Thomas Behar (France), Ralph Blanchard (U.S.), Allan Brender (Canada), Mo Chambers (Canada), Kuei-Hsia Ruth Chu (Chinese Taipei), David Congram (Co-Chair Subcommittee, Canada), Andrew Dalton (U.S.), Alexander Dollhopf (Sweden), Mary Downs (U.S.), Stefan Engeländer (Germany), Dave Finis (Australia), Mark Freedman (U.S.), Sam Gutterman (Chair of Insurance Accounting Committee, U.S.), William Hines (U.S.), William Horbatt (U.S.), Sylie Hulin (France), Stephen Humphreys (Canada), Burt Jay (U.S.), Alan Kaufman (U.S.), Kouichi Kojima (Japan), Ad Kok (The Netherlands), Kurt Lambrechts (Belgium), Chris Lewis (Australia), Greg Martin (Australia), Glenn Meyers (U.S.), Bob Miccolis (U.S.), Jim Milholland (U.S.), Yoshio Nakamura (Japan), Lutz Oehlenberg (Germany), Harry Panjer (Canada), John Parks (U.S.), Denis Plouffe (Canada), Sundeep Raichura (Kenya), James Rech (U.S.), Godfrey Rey (Switzerland), Francis Ruygt (Co-Chair of Subcommittee, The Netherlands), Henry Siegel (U.S.), Jim Stoltzfus (U.S.), Shigeru Taguchi (Japan), Charles Vincensini (France), Peter Withey (South Africa), Makoto Yasunaka (Japan), Hideyuki Yoshida (Japan), Masaaki Yoshimura (Japan), Jesus Zuñiga (Mexico).

June 11

David Congram and Francis Ruygt chaired the meeting and after introductions, the minutes of the Dublin meeting of October 25, 2007 were approved as drafted. The preliminary agenda was accepted as appropriate for the meeting.

Activity Report

The May Subcommittee activity report was discussed as an introduction to the remainder of the meeting. No comments were received, as most of the projects included were on the current meeting's agenda. It was indicated that it was hoped that the current activity report would be posted each month or month and a half.

Stochastic modeling monograph.

David Congram provided an introduction and background to monograph development, along with the status. The funding organizations were mentioned, with thanks given:

- a. The Actuarial Foundation (U.S.)
- b. Canadian Institute of Actuaries
- c. Casualty Actuarial Society
- d. Financial Reporting Section of the Society of Actuaries
- e. Het Actuarieel Genootschap
- f. Institute of Actuaries of Australia.

A summary of the meeting of the oversight group for the project during the prior afternoon was given. The oversight group is made up a representative of each of the funding organizations and the leadership of the Insurance Accounting Committee. The current status and expected deliverables of this project were discussed. Key members of the Milliman team (to whom our RFP was awarded), Jim Stoltzfus and Andrew Dalton, described the approach they are taking and an outline of the proposed monograph. They indicated that about 20 to 30 actuaries and other Milliman professionals were expected to contribute to the preparation of the monograph. They intend to also have a professional editor involved to ensure enhanced consistency and readability of style. The scope of the project includes providing a background and framework for stochastic modeling, e.g., risk neutral versus real world assumptions, modeling techniques, economic scenario generation, evaluation / communication / peer review of results, alternative approaches (sensitivity tests), and limitations. An important component of the monograph will be a series of case studies. It will also cover such topics as auditing (whether such a model will satisfy the reliability auditing concern), possibly a simple illustrative spreadsheet tool to assist monograph readers, scenario generation, aggregation of risks, and policyholder behaviour (where applicable). It will emphasize the role of stochastic modeling in financial reporting and capital assessment.

It is intended to be used by actuaries with basic statistical background, but it is not intended to be an exhaustive treatment. A suggestion raised was to compare it with the Insurance Regulation Committee's Internal Model paper for possible duplication of material. The current hoped-for final text delivery date is December 21, 2008.

It will not include software recommendations, although it is expected to use spreadsheet illustrations in one or more common spreadsheet languages. It was suggested that inclusion of some software might prove useful.

Additional thoughts/suggestions made in the course of the subcommittee discussions included: application to a movement analysis, property & casualty catastrophe modeling, modeling efficiency, how many stochastic runs is enough, make sure that the examples included are not viewed as the only possible approach, asset liability management applications, how to communicate modeling results to management, the role of deflators, emphasis on the data used for distribution development (e.g., for new risks or risk with limited experience data such as geological information for earthquakes), backtesting, treatment of one-time events and discontinuities, how to develop effective internal management information.

It was pointed out that it would be important to pilot test the material to several audiences, including students, as it is being developed. It was thought that the key value of the monograph would be in the practical applications and case studies presented, including understanding risks and questioning the data, as stochastic processes and related theory is well taught already in universities.

June 13

Second exposure drafts of IASPs on Business Combinations and Disclosure were presented. The process followed in their development was discussed, beginning with their original exposure. Both reflected comments made during the re-exposure period. The key drafters of the re-exposure changes, Jim Milholland and Kim Yeoh, were thanked for their efforts. The Subcommittee approved the final versions by a vote of 10-0-1 and 14-0-0, respectively (subsequently, the Accounting Committee and IAA Council also approved them, and the Professionalism Committee expressed their opinion that the Subcommittee had followed the current IAA due process). The desire to see if specific examples of good disclosure could be developed and published was raised – if practical – the Subcommittee will pursue this idea.

The Professionalism Committee is in the process of revising the IAA due process for developing IASPs. They are likely to propose a revision at the Cyprus meeting later in 2008. Several issues and the draft version of the proposal involved were discussed. There was general agreement that it was worthwhile to separate IASPs from Actuarial Notes, the latter of which are meant to serve as educational material. Although there appeared to be general consensus that an IASP should serve as a model for associations to adopt or modify, it was pointed out that an IASP might also be adopted by some associations as being mandatory or claimed by an individual actuary in a report that they were followed.

It was felt that member associations should become better aware of their options and take appropriate actions. It was pointed out that some associations did not have the authority of promulgating standards, e.g., Denmark, whose only option is to refer an IASP to their members for their consideration and possible use. Some concern was raised was that the process in the current draft may take too long (subsequent drafts of the due process have attempted to decrease this time requirement). In addition, the lack of availability of language translation may prove to be a problem in getting more associations to adopt them. It was suggested that the addition of a flowchart may enhance the understanding of the due process.

A question was raised regarding the treatment of translations in the due process. Further discussion was deferred until a later meeting for further discussion of this issue.

It was pointed out that there was no provision to appeal either the need for an International Actuarial Note (IAN), nor oversight of the overall process. It was felt that a reference to a subcommittee, such as this one, that should be provided authorization to develop an IAN, possibly overseen by the parent committee. It should require coordination with one or more other IAA committees or include a peer review process.

Those present had favourable reactions to the current portion of the IAA website devoted to IASPs, but the addition of a “suggestion box” was suggested.

Sam indicated that it was the parent committee's intention to expand the drafting team list serve to also include all Committee members as well. Current members of the drafting team were asked to indicate to Sam their desire to stay involved in the list serve and drafting efforts.

Translations:

1. French. Charles indicated that all current IASPs have been translated by French association volunteers. They have yet to be posted on the IAA website. We hope to have them uploaded onto the website soon.
2. Spanish. Jesus indicated that Spanish translations of IASP 4, 5 and the Glossary have been approved by the Mexican association, while 1, 2, 6 and 10 are in the review process.
3. Japanese. Yoshio indicated that the Japanese version of IASPs 2-8 were on the IAJ public website.
4. German. Stefan reported that the DAV did not plan to translate IASPs into German.
5. It was pointed out that either the documents or links to the translated versions should be on the IAA standards website.

It was noted that the Board of the Dutch association (Het Actuarieel Genootschap) had adopted the English version of IASP 2 and 6 as required by its members.

It was noted that a revised version of IASP 2 was currently in the exposure process. The changes made were limited to an expanded scope to cover actuarial practice with respect to IAS 19, Pensions. This had been a joint effort of the IAA Pensions and Employee Benefits Committee and the leadership of this Subcommittee. Depending on the comments received, it may be approved in Cyprus.

Once the revised due process has been approved, the Subcommittee will review the current IASPs to see whether they should be redrafted as new IASPs or IANs. A planning document will be prepared prior to the Cyprus meeting. It would include a plan to obtain feedback on current IASPs from users.

Limited discussion was held regarding the need for one or more IASPs relating to the results of Phase 2 of the IASB's Insurance Contracts project.

Suggestions were made to develop the material from the ad hoc Risk Margins Working Group paper into an IASP or IAN, and to include regulatory accounting into one or more IASPs. It was anticipated that the Subcommittee would hold extensive discussions at Cyprus on these topics.

The next meeting of the Subcommittee will be held in Cyprus in November.

Respectfully submitted,

Sam Gutterman