

**Subcommittee on Actuarial Standards
Tallinn – May 27 and 29, 2009
Minutes**

Attendees on the 27th or 29th:

MEMBERS – David Congram (Co-chair Subcommittee, Canada), Gunn Albertson (Norway), Thomas Behar (France), Félix Arias Bergada (Spain), Ralph Blanchard (U.S.), Amy Bouska (U.S.), Allan Brender (Canada), Guy Castagnoli (Switzerland), Morris Chambers (Canada), Antonella Chiricosta (Italy), Jim Doherty (Canada), Alexander Dollhopf (Sweden), Stefan Engländer (Germany), David Finnis (Australia), Mark Freedman (U.S.) Jacqueline Friedland (Canada), Tina Getachew (U.S.), Sam Gutterman (Chair, Insurance Accounting Committee, U.S.), William Hines (U.S.), Burton Jay (U.S.), Ad Kok (The Netherlands), Kurt Lambrechts (Belgium), Robert Miccolis (U.S.), James Milholland (U.S.), John Poole (India), Arseny Timakov (Russia), Derek Wright (U.K.), Jesús Zúñiga (Mexico).

INVITED GUESTS ON THE 29th – Mark Shapland (Milliman, Inc.), Jim Stoltzfus (Milliman, Inc.)

OBSERVERS – Emil Boeke (South Africa), Kuei-Hsia Ruth Chu (Chinese Taipei), Mary Downs (U.S.), Anu Hoop (Estonia), Kati Hoop (Estonia), Curtis Huntington (U.S.), Kouichi Kojima (Japan), Chris Lewis (Australia), Glenn Meyers (U.S.), W.H. Odell (U.S.), Lutz Oehlenberg (Germany), John Parks (U.S.), David Pelletier (Canada), Godfrey Perrott (U.S.), Rick Shaw (Bermuda Monetary Authority), Henry Siegel (U.S.), Doug Van Dam (U.S.), Airi Viiart (Estonia), Hideyuki Yoshida (Japan).

May 27 Session

David Congram chaired the meeting. Introductions of attendees were made. It was noted that on the 29th the Stochastic Modeling book would be addressed; reference was made to the May 15th e-mail from Katy Martin with the URL for the current status of the Stochastic Modeling material.

[Minutes of previous meeting in Limassol](#). Appreciation was expressed for the minute takers. They were accepted.

Activity report. The subcommittee's activity chart was discussed. It was noted that there are currently no IAN or IASPs currently moving through the system. We are currently waiting for further progress on the IASB's Insurance Contracts project and until the operational aspects of the IAA due process has been decided upon (the latter was discussed later in the meeting and with the Professional Committee).

Translation

- French – Documents have been translated and been sent to IAA office. We will check to ensure that they have been up on web site
- Spanish – Most are available on the Mexican actuarial web site but recent IANs have not yet been completed.

- Japanese – These have been translated and are available on the IAJ website. They are not generally available
- All translated versions should be on the website or a link provided on the website.

Internal models. Regarding the current draft version of this paper being prepared by the Solvency Subcommittee, it was noted that their current goal is to deliver their next version in three weeks. If anyone has comments on it, please get them to Sam Gutterman. The changes from the previous version were substantive, mostly related to practical issues. It was noted that there was a need to include more non-life material, and a sub-group of the Solvency Subcommittee has been set up to develop more non-life input.

Discussion about IASP management

Had a discussion of the responses to the questions asked on the survey:

- Should ISAP 2 become a (new) IAA IASP or an IAA Actuarial Note (i.e. educational only)?* From the survey, 10 respondents thought it should be a (new) IASP and 6 thought it should be an IAN.
- Should the other current IASPs (3-12) be IASPs or IAN?* From the survey, most thought these current IASPs should be kept as is and not converted to IAN language, but in any event would not be a (new) IASP.
- Should the subcommittee start preparing IASPs or IANs for Phase 2?* From the survey, 9 believed that work should begin now and 9 were for delaying until Phase 2 was further along.

Had a discussion of the actuarial standards sub-committee participation with the Professionalism Committee in developing a template for IASPs and IANs. We reviewed the minutes of the Professionalism Committee from the Limassol meeting. The model templates would include: an introduction, how it should be used, and acceptable language for the body of the IASP. They have identified some of the formal aspects of the drafting of the IASP, but are currently still in the analysis stage, considering some of the suggestions that have been presented to them. IANs will be discussed at a later time. The Professionalism Committee is aware that this task needs to be completed quickly in order for progress on revisions of the current IASPs to be made. Discussion had been held regarding the merits of using “must”, “should”, and “may” in IASPs. Significant discussion about the use of the word “may” was held, with no conclusion reached.

The subcommittee reviewed current IASP 2 as an example of one possible version of standard formal language. Discussed how an IASP could be adopted for use in different countries and how it would be applied when an actuary in one country performed work in another country. Questions and issues discussed included:

- Should the IAA require countries that adopts an IASP with a modification be precluded from calling their standard an IASP?
- Does the IAA have the authority to make this imposition? Sam pointed out that the IASB was currently struggling with this problem with respect to IFRSs.

- The IAA needs to be conscious of cultural and country-specific practices and how IASPs and IANs would be understood, interpreted, etc., by different national actuarial bodies.

Some of the comments raised during the discussion about whether the current IASP 2 should be converted to be an IASP or an IAN in the future included:

- i. Much of IASP 2 currently reads more like a general practice standard than strictly an accounting related actuarial standard. Why does the Insurance Accounting Committee (together with the Accounting Standards Subcommittee of the Pensions & Employee Benefits Committee) have a mandate over IASP 2? The answer – because IAA Council has delegated this task to the Insurance Accounting Committee.
- ii. Should we be drafting IASP 2 as a general practice standard or as an insurance accounting specific standard? Answer – we will have to see what we come up with and determine which is more appropriate, or possibly it might be split into two parts.
- iii. We, as a subcommittee, have to decide if we need to craft the current IASP 2 into the new template being developed by the Professionalism Committee. There was a suggestion to develop an advantages/disadvantages list to help the subcommittee decide what recommendation to make in response to this question. Some suggested that there does seem to be strong demand by IAA member associations to do this. Others felt that we should forge ahead with this effort. A comment was made that there should be a Drafting Team available to do this work when the scope of this work was determined.
- iv. The IAA has developed significant credibility with the IASB with its ability to develop international standards of practice.
- v. Sam asked for a non-binding straw vote regarding whether or not to proceed. A majority of those present was in favour of starting the process with a recommendation to Council that there was a need for such action.
- vi. Asked for volunteers to work on the next step: Stefan, Jacque, Jim D, Jesús, Dave F, and Jim M volunteered.

Had a discussion about: “What should be done about the current IASP 3-12?”. It was observed that the first priority of the subcommittee should be to address IASP 2 and Insurance Contracts Phase 2 issues. The options for the current IASP 3-12 appear to include:

- leave these IASPs as is;
- keep their content the same, but include a new cover page describing that they are IANs; and/or
- put a description of their nature on the website.

Comments made during discussion indicated this was a question for the Professionalism Committee to decide and not our subcommittee. Nevertheless, the Professionalism Committee

has asked the subcommittee what is our position on this question. After discussion, we agreed that the website be updated to clarify that current IASPs 2-12 are educational notes and that changes to the cover page be made once the Professionalism Committee provides direction as to what should be included.

May 29 Session

David Congram chaired the meeting and held introductions of attendees.

The status of the stochastic modeling book (formerly referred to as a monograph, but it has outgrown that label) was discussed at some length. This educational monograph is being funded by the Actuarial Foundation (U.S), Australian Institute of Actuaries, Canadian Institute of Actuaries, Casualty Actuarial Society, Het Actuarieel Genootschap (The Netherlands), and the Society of Actuaries. The latest draft of the book was provided via an email download link to those who signed up for the Tallinn subcommittee meeting. Representatives from Milliman, Inc., Mark Shapland and Jim Stoltzfus, presented an update on the current status and summarized the main sections of the over 600-page document.

Several groups had been asked to review the text. These included actuarial students, practicing actuaries, members of the ad hoc Project Oversight Group (APOG), and members of the Actuarial Standards Subcommittee. The reviewers commented that the monograph was not too academic or theoretical, and it was very practical in many respects. The intended audience for the monograph is practicing actuaries and actuarial students with some background in statistics and stochastic methods.

The remaining schedule of the project tasks was discussed. There are still some reviews to be completed. The authors will produce a final version based on additional input received at or shortly after this meeting. A June 21 deadline was set for any further comments from subcommittee members (or others from the Insurance Accounting Committee or interested observers). The final APOG review is scheduled for June 30, and Milliman expects to make their edits and complete the final version by July 21.

There was an in-depth discussion about how this book should be published. Possibilities discussed included: being downloadable for free, the IAA printing the monograph, being able to order a printed copy for a charge. How translations could be made into languages other than English could be accomplished was discussed. There was a preference by those in attendance for a free online downloadable version, in book style typeset, if possible.

The accompanying spreadsheet models and a technical section will be made available for download by June 3. Various means to lock the spreadsheets, while keep them functional as examples only, including the ability of viewing formulas used. It would disclaim any responsibility for use of the tools other than for educational purposes.

There was a discussion about need for an IAA publication policy that will be pursued within the IAA by Sam Gutterman.

Six case studies will be included in the book, with possibly one additional one that may be added in the near future. Additional ideas regarding where educational materials on technical topics, such as copulas, extreme events, tail correlation, and diversification, should be placed were discussed, e.g., in the body of the text, in an Appendix or on the IAA website. Effective communication regarding risk sensitivity (including interest rate sensitivities) in financial reporting was suggested as an additional topic of interest that would be useful for less technical audiences, such as a Risk Balance Sheet or key disclosures. There was also a suggestion to set up a Wiki dedicated to this book and related topics that people could add material to, including additional case studies.

Phase 2 of the Insurance Contracts project:

The subcommittee discussed the creation of a drafting task force to be ready to work on educational materials as the IASB Phase 2 ED on insurance contracts project is issued. Topics for IANs are needed that focus on issues for actuarial practitioners, e.g. how to adjust the discount rate for liquidity.

Volunteers were sought to serve on the drafting team for phase 2. Jacque Friedland, Jim Milholland, Jim Doherty and Stefan Engeländer volunteered.

Respectfully submitted,

Jim Doherty and Bob Miccolis