



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

PERMANENT STRUCTURE FOR INTERNATIONAL ACTUARIAL STANDARDS

DISCUSSION PAPER FOR COUNCIL

Prepared by the Task Force on a Permanent Structure for
International Actuarial Standards

16 February 2012

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1. INTRODUCTION

Following the recommendations of the Task Force on Convergence of Actuarial Standards (TFC), which were broadly endorsed by the IAA Council in October 2010, a change in the Strategic Objectives of the IAA were approved by Council so that Strategic Objective 3 now reads as follows:

Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards in the jurisdictions of all Full Member Associations, and the global convergence of actuarial standards.

The Executive Committee initiated three strands of activity to address this revised objective:

1. The establishment of an Interim Actuarial Standards Subcommittee (IASSC) at the start of 2011, reporting to the EC. The IASSC's charge is to prepare proposals for model International Actuarial Standards covering General Actuarial Practice, IFRS 4, IAS 19, Social Security valuations and Enterprise Risk Management work, and potentially to deliver standards in these areas; at the time of writing it has issued an Exposure Draft on General Actuarial Practice and is considering the responses.
2. At the same time, the EC set up a Task Force on Due Process to overhaul the current due process. This group reported its initial ideas to Council in April 2011 and, following a more in-depth discussion by Council in September 2011, a new due process was adopted by electronic vote of the IAA member associations in January 2012.
3. The design of a permanent structure for preparing model International Actuarial Standards, which started after some progress had been made on the first two strands. The EC set up a Task Force on a Permanent Structure for International Actuarial Standards to prepare some ideas for discussion with Council in September 2011, with a view to bringing formal proposals to Council in 2012 for implementation from the beginning of 2013. In the light of views expressed in Council, the target date has subsequently been put back by the Executive Committee to the beginning of 2014.

The Task Force now presents a first discussion paper for consideration by Council and all interested parties and looks forward to receiving comments before developing further proposals.

2. EXECUTIVE SUMMARY

The task force has focused on three aspects in this Discussion Paper in order to seek initial feedback from member associations through a survey¹ before doing more detailed work on the preferred structure.

The three aspects are:

- The Vision for International Standards of Actuarial Practice (ISAPs) and Due Process
- Three broad alternatives for the Structure, namely
 - Current IAA Due Process
 - Suitably Modified IAA
 - Separate Body to set international actuarial standards
- Involvement of both internal and external stakeholders and their role in the structure

The issue of Resources and Funding has been left for further consideration in due course, according to the preferences expressed.

Relevant material has been included as Appendices for ease of reference, notably the Section 9.3.2 of the 2010 Discussion Paper of the Convergence of Actuarial Standards Task Force of the Professionalism Committee (Appendix 3), and the paper on Vision for International Actuarial Standards (Appendix 4), as submitted to Council by the Interim Actuarial Standards Subcommittee.

¹ The survey may be accessed at <http://www.zoomerang.com/Survey/WEB22EQ6UJQ9VC>.

3. BACKGROUND

There is growing pressure for regulatory convergence at the global level as a reaction to the global financial crisis. This pressure is coming from the G-20, through the Financial Stability Board.

Peter Braumuller, Chairman of the Executive Committee of the IAIS, has referred to the linkage between the financial reporting standards issued by the IASB, the Insurance Core Principles issued by the IAIS and the actuarial standards issued by the actuarial profession. In his keynote speech to the Council in October 2010², he called on the IAA to “step up to the challenge of producing international actuarial standards”.

Similar pressures exist at the European level, where the European Insurance and Occupational Pensions Authority (EIOPA) is calling for actuarial standards to support actuarial work in connection with Solvency II and the *Groupe Consultatif* is responding by developing standards.

This is further evidenced by the recent call for global regulatory convergence by the Private Sector Task Force in which the IAA has participated along with 8 other private sector international professional or industry associations, which was formed at the instigation of the G20³. Further background is provided in section 4 of the TFC Discussion Paper⁴.

² To access Peter Baumuller’s full presentation to Council, please visit:
http://www.actuaries.org/Council/Documents/Vienna_Braumuller_Speech.pdf

³ To access the full task force report, please visit:
http://www.actuaries.org/LIBRARY/Press_Release/Public_Sector_Taskforce_Report.pdf

⁴ To access the full TFC Discussion Paper, please visit:
http://www.actuaries.org/COUNCIL/Documents/Vienna_ItemB16_Convergence_Paper.pdf

4. VISION

VISION FOR ISAPs and Due Process

The IAA's Strategic Objective 3 concerning international standards of actuarial practice (ISAPs) is as follows:

Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards in the jurisdictions of all Full Member Associations, and the global convergence of actuarial standards.

Based on this objective the Task Force recommends the following vision for the ISAPs and the Due Process:

ISAPs

1. ISAPs will be widely adopted by local standard-setters and recognised by the parties who rely on actuarial standards such as audit firms, IASB, IAIS, IOSCO and the local regulators.
2. ISAPs will be clear, logically structured, and unambiguous - in terms of applicability, scope, and requirements. They will be well-suited for understanding by non-actuaries, and for translation into languages other than English.
3. ISAPs will be widely seen as contributing to the public good, by supporting the community's confidence in professional work produced by actuaries.
4. The quality and usefulness of ISAPs will motivate Full Member Associations (FMAs) to ensure that their members are fully aware of ISAPs that are under development or have been adopted.
5. Each ISAP will be drafted so as to apply to clearly defined areas of actuarial work, and it will be clear in what circumstances it applies.

Due Process

6. The due process for ISAPs will have good governance and a high level of transparency.
7. Users and end-users of actuarial services will have confidence that the due process ensures the quality and suitability of ISAPs, and will understand and value the processes by which their views can be made known and will be responded to.
8. FMAs, standard-setters and other interested parties will recognise the value of ISAPs, and will be fully engaged where appropriate in the development process.
9. Actuaries will have confidence that ISAPs have been prepared by competent people who understand actuarial work and the commercial and professional framework in which they will be applied.
10. The ISAP due process will proactively identify the need for new ISAPs (or revision of existing ISAPs) and respond rapidly when the development (or revision) is approved.
11. The ISAP due process will properly balance the benefits of standards with the likely cost impact on users of actuarial services.

5. STRUCTURE

The Task Force Presentation for Council in September 2011 noted that the Convergence Task Force had identified the following broad alternatives:

- Current IAA Due Process
- Suitably Modified IAA
- Separate Body to set international actuarial standards

It was noted that we had already moved a good way towards Suitably Modified IAA, with the formation of the IASSC and the proposed new Due Process, and that the question now was how to build on this to achieve greater user confidence and external recognition and accountability.

The Task Force has analysed the structure of Actuarial Standard Setters for Canada, EU, Germany, Mexico, UK, and USA (a summary chart is attached in Appendix 5), and also given high level consideration to the structure for IASB, IAIS, IOSCO and IAASB (see attached notes in Appendix 5). It considers that the International Auditing and Assurance Standards Board (IAASB) which is part of the International Federation of Accountants (IFAC) is most relevant (see attached summary chart in Appendix 5 and IFAC Policy Position paper in Appendix 6). However, we would emphasize that this information is presented only as a useful and informative example of the kind of thinking and structure that has gone into similar questions by another (much larger) profession. While we have drawn upon this, and also received comments on it from others, the view of the Task Force is that a structure of such complexity would not be beneficial for us.

The structure and due process for setting international actuarial standards will define:

- i. The boards and/or committees which are established to carry out and oversee the work
- ii. Their relationships to each other and to the IAA Council and member associations
- iii. Where decisions are taken
- iv. Which body appoints the members of each board and/or committee
- v. Other related matters

The structure should be designed to support and give effect to the vision. The vision set out above requires:

- i. A high calibre group of people, mainly or wholly comprising experienced actuaries, to draft the standards
- ii. Demonstrable transparency in the process, including extensive consultation
- iii. Recognition of the importance of external stakeholders, including local standard setters, local regulators, relevant supranational bodies, together with users and end-users of actuarial services.

The second and third requirements listed above point to the need to design a structure which achieves user confidence, external recognition and credibility. If the structure achieves these and the standards are well written, then the reputation of the IAA, of the actuarial profession worldwide and of individual actuaries will be greatly strengthened.

The Task Force puts forward three contrasting possible structures for discussion and consideration at this initial stage. The key difference between them is the degree of independence of the standard-setting entity from the IAA and member associations. Greater independence should enhance the credibility of the standards among key stakeholders. However, greater independence also means a greater loss of control on the part of the IAA and member associations.

It is recognized that the issue of independence of decision-makers is fundamentally separate from the issue of independence of input/viewpoints that is reflected.

It is also recognized that questions of independence can be addressed separately with regard to decision-making about:

- i. the broad work areas that are to be covered and their priority;
- ii. the scope and applicability of standards that are to be developed for each work area;
- iii. the actual detailed content of any standard that is developed; and oversight of process.

We set out a brief description of the three contrasting structures, followed by Table 1: Options for the International Actuarial Standards Permanent Structure, which gives more details. We would stress that these proposed structures are for illustration purposes only at this stage. Once the Task Force has obtained a sense of what type of structure is likely to be acceptable to the majority of member associations, then further work will be carried out to produce detailed proposals for a second round of consultation.

OPTION 1 – COMMITTEE and ADVISORY BOARD

Under this option, the current interim structure would undergo only slight change. The Actuarial Standards Committee (ASC), like the IASSC but no longer “*interim*” and no longer a “*sub-committee*”, would remain responsible for drafting standards and consulting on them. The Council would appoint the members of the ASC, in a manner similar to that in which members of the Audit and Finance Committee and Nominations Committee are appointed. IAA Council would continue to determine what standards should be developed (or revised) and would still approve final standards.

An Actuarial Standards Advisory Board (ASAB) would also be established, primarily non-actuaries representing the key external stakeholders. The members would be appointed by the IAA Council. The ASAB would be consulted by the ASC at appropriate stages in the development of each standard and could make comments and suggestions, but the ASAB would have no decision-making powers. In an extreme situation, it could report its concerns to Council.

This option is an evolution from the current structure, with a very minimal external involvement in the standard setting process. It could be a stage on a journey to options 2 or 3, or it could be a final destination.

OPTION 2 – INDEPENDENT BOARD WITHIN IAA STRUCTURE

Under this option, the IAA would establish the International Actuarial Association Board for Actuarial Standards (IAABAS), within the IAA structure. The IAA would continue to determine the due process to be followed and would appoint the members of the IAABAS. The IAABAS would be responsible for determining what standards should be developed (or revised) and for the production of standards in compliance with the due process. Crucially, the IAABAS would be the entity approving the final standard, without needing to go to Council. Member associations would be fully consulted, along with other relevant stakeholders, on the priorities for standard-setting and during the development of each standard.

An Actuarial Standards Oversight Board (ASOB) would be established, similar to the Advisory Board in Option 1, and again consisting primarily of non-actuaries. The ASOB would be consulted on the standard-setting priorities and at appropriate stages during the development of each standard and would also be responsible for ensuring that due process had been followed.

Under this option, the IAA would keep ownership of the due process and the appointment of the members of both the IAABAS and the ASOB, but would give up control for determining what standards are developed, for checking that due process has been followed and for approving the final standard.

This option is a further evolution from the current structure, with increased external involvement in the standard setting process. It could be a stage on a journey to option 3, or it could be a final destination.

OPTION 3 – INDEPENDENT BOARD OUTSIDE IAA STRUCTURE

Under this option, the International Board for Actuarial Standards (IBAS) would be completely independent from the IAA. There would also be an independent Actuarial Standards Oversight Board (ASOB), consisting primarily of non-actuaries, which would appoint the members of the IBAS and would determine the due process to be followed. The IAA would appoint the members of the ASOB but would have no other powers in relation to standard setting. The IAA might provide administration services for both IBAS and the ASOB.

The accompanying survey⁵ invites comments on these alternate structures.

It should also be noted that in the table below, the dividing line between the three options with respect to each feature should not be interpreted rigidly. The Task Force welcomes comments of a “mix and match” nature, and expects that the final structure recommended will be somewhat of a hybrid of the three structures shown.

⁵ The survey may be accessed at <http://www.zoomerang.com/Survey/WEB22EQ6UJQ9VC>

Table 1: Options for the International Actuarial Standards Permanent Structure

Option	1 Committee and Advisory Board	2 Independent Board within IAA Structure	3 Independent Board outside IAA Structure
Drafting Body	Actuarial Standards Committee (ASC)	International Actuarial Association Board for Actuarial Standards (IAABAS)	International Board for Actuarial Standards (IBAS)
Membership	12	12	12
Actuaries/ Non Actuaries	12/0	10/2	10/2
Appointed by	IAA Council (via Nominations Committee)	IAA Council (via Nominations Committee)	Actuarial Standards Oversight Board (ASOB)
Length of term	3 year term, with one renewal	3 year term, with one renewal	3 year term, with one renewal
Remunerated?	No	Expenses reimbursed	Expenses reimbursed
Paid staff	No, supported by IAA Secretariat	Yes, initially one person	Yes, initially one person
Determination of due process	IAA Council	IAA Council	ASOB
Determination of priorities	IAA Council	IAABAS after consulting ASOB	IBAS after consulting ASOB
Standard approval authority	IAA Council	IAABAS	IBAS
Oversight of compliance with due process	IAA Professionalism Committee	ASOB	ASOB
Enforcement	FMA, as appropriate	FMA, as appropriate	FMA, as appropriate
Relation to profession	Part of IAA committee structure	Part of IAA Committee structure	Independent of IAA (but IAA provides funding, offices and support services)
Funding	IAA	IAA	IAA plus outside stakeholders

Option	1 Committee and Advisory Board	2 Independent Board within IAA Structure	3 Independent Board outside IAA Structure
Oversight Body	Actuarial Standards Advisory Board (ASAB)	Actuarial Standards Oversight Board (ASOB)	Actuarial Standards Oversight Board (ASOB)
Membership	12	10	8
Actuaries/ Non-actuaries	2/10	2/8	2/6
Appointed by	IAA Council (via Nominations Committee)	IAA Council (via Nominations Committee)	IAA Council (via Nominations Committee)
Length of term	3 year term, with one renewal	3 year term, with one renewal	3 year term, with one renewal
Remunerated	Expenses reimbursed	Expenses reimbursed	Expenses reimbursed
Role	Consulted by ASC. No powers to take decisions. In extreme situation, report to IAA Council	Consulted by IAABAS. Provide input to IAABAS's priorities and agenda. Oversee compliance with due process.	Appoint members of IBAS. Provide input to IBAS's priorities and agenda. Determine due process and oversee compliance.

Important note: Under all three structures, the standards produced would be “model” standards and member associations would make their own decisions about whether or not to adopt them. Therefore, none of the structures threaten the “subsidiarity” principle of the IAA.

6. INVOLVEMENT OF STAKEHOLDERS

The Task Force has considered both internal and external stakeholders and their role in the structure as well as legal requirements and relationships, including:

- Involvement of Internal stakeholders (e.g., Member Associations)
- Involvement of existing actuarial standard-setters (in some countries, this is independent of the profession itself)
- Involvement of External stakeholders (e.g., those involved in standard-setting in IASB and IAIS, members of other professional bodies, academics, think-tank institutions, industry groups, consumer groups, OECD, IOPS and ISSA)

The Task Force has considered a number of possible structures in which to involve stakeholders including as Trustees (as in the IASB), Advisory Council (as in the IASB), Supervisory Committee or User Group.

We have also noted that there is a distinction between stakeholders being (a) informed, (b) involved, (c) required to provide approval.

High quality standards of practice for the Actuarial Profession address the needs of many stakeholders, including:

I. External Stakeholders:

- i. Serving the Public Interest – The public derives significant benefit when financial mechanisms are designed properly and maintained effectively by qualified actuaries who follow a reliable system of appropriate standards. This is especially true when the end users of financial programs cannot easily protect their own interests (e.g., policyholders or pension plan participants).
- ii. Assisting Regulators and External Standard-Setting Bodies - Ultimate protection cannot be guaranteed merely with the existence of actuarial standards. Official oversight will always be required by regulators and other financial supervisors. However, an effective set of standards can provide invaluable assistance to the regulatory community as it monitors and regulates financial mechanisms.
- iii. Enhancing Public Confidence in the Actuarial Profession - The existence of a credible set of standards, in conjunction with an effective discipline process, gives the public a much higher degree of confidence in the professionalism of actuaries by highlighting their accountability.
- iv. Users of Actuarial Work Products – The management and boards of financial institutions are able to rely with confidence on actuarial work products that are developed under the guidance of a sound set of standards.

II. Internal Stakeholders-

- i. The Profession – The existence of a set of effective standards around the world will significantly improve the quality of the actuarial work product, resulting in a considerable enhancement of the credibility and trust afforded the actuarial community.
- ii. Actuarial Associations – ISAPs provide standard setting bodies throughout the world the opportunity to incorporate state of the art techniques in describing appropriate actuarial practice. ISAPs are model standards which member associations and other actuarial standard setters can adopt or modify as they wish. If the IAA model standards are of sufficiently high quality they may be adopted more than modified, especially by smaller member associations who do not develop their own standards.
- iii. Individual Actuaries – A robust set of standards will provide actuaries with expert guidance in order to apply appropriate practice within a common professional framework throughout the world. This aspect of education is often overlooked when standards are mistakenly perceived to be merely minimum requirements of practice.

Our Terms of Reference require us to identify both internal and external stakeholders and their role in the structure. It is obvious that the role of the various stakeholders will be highly dependent on the structure established. The earlier Section on “Structure” lays out three possible alternatives. An analysis of the roles of the various stakeholders under each option follows, in Table 2: Role of Stakeholders in the Proposed International Actuarial Standards Permanent Structures.

Table 2: Role of Stakeholders in the Proposed International Actuarial Standards Permanent Structures

Structure Option	Internal Stakeholders	External Stakeholders
Committee and Advisory Board within the IAA Structure	<ul style="list-style-type: none"> a. Council, via the Nominations Committee, would appoint twelve members (<u>all actuaries</u>) to the ASC, drawing them from experienced standard-setters within the profession. b. The ASC would be part of the IAA Committee structure. c. Council would determine due process, determine what standards should be developed (or revised) and would have final approval authority for all standards. d. The ASC (and its Task Forces) would be responsible for drafting standards and exposing them before submission to the Council for approval. e. The IAA Professionalism Committee would be responsible for the oversight of compliance with due process. f. The FMAs would be consulted during the development of standards. g. Council, via the Nominations Committee, would appoint experienced representatives to the ASAB, comprised of <u>two actuaries</u> and ten non-actuaries. The ASAB would be consulted by the ASC at appropriate stages in the development of each standard. This Board could make comments and suggestions but would have no decision-making powers regarding the development or content of standards. 	<ul style="list-style-type: none"> a. Council, via the Nominations Committee, would appoint <u>ten non-actuaries</u> (in addition to two actuaries) as external representatives to the Actuarial Standards Advisory Board (ASAB), which would serve primarily a consultative role. b. There would be minimal external involvement in the formal standard setting process other than providing advice. c. Standard-setters from outside the profession, users of actuarial work and regulators would be relied upon as resources/consultants.

Structure Option	Internal Stakeholders	External Stakeholders
Independent Board within the IAA Structure	<ul style="list-style-type: none"> a. Council, via the Nominations Committee, would appoint <u>ten actuaries</u> and two non-actuaries as members of the IAABAS, an independent standard setting body within the IAA structure. b. Council would continue to determine the due process to be followed. c. The IAABAS would be responsible for determining what standards should be developed (or revised) and would have complete authority regarding the approval of final standards. d. The FMAs would be consulted during the development of standards. e. Council, via the Nominations Committee, would appoint experienced representatives to the ASOB, comprised of <u>two actuaries</u> and eight non-actuaries. f. The IAABAS would consult with the ASOB at appropriate stages in the development of each standard and ASOB would have the responsibility of ensuring that due process had been followed. g. The ASOB could make comments and suggestions but would have no decision-making powers regarding the development or content of standards. 	<ul style="list-style-type: none"> a. Council, via the Nominations Committee, would appoint ten actuaries and <u>two non-actuaries</u> as members of the IAABAS. b. The Council, via the Nominations Committee, would appoint eight <u>non-actuaries</u> (in addition to two actuaries) as external representatives to the ASOB. c. The ASOB would serve as the oversight body for the IAABAS, providing advice to the IAABAS on setting priorities and overseeing compliance with due process. d. Through the ASOB's role in overseeing priority setting and compliance, and given the presence of two non-actuaries on the IAABAS, Other than providing advice to the IAABAS, there would be greater external involvement in the formal standard setting process than currently. e. Standard-setters from outside the profession, users of actuarial work and regulators are relied upon as resources/consultants.
Independent Board Outside the IAA	<ul style="list-style-type: none"> a. Council, via the Nominations Committee, would appoint eight representatives to the ASOB, comprised of <u>two</u> 	<ul style="list-style-type: none"> a. There would be significant external involvement in the formal standard setting

Structure Option	Internal Stakeholders	External Stakeholders
Structure	<p><u>actuaries</u> and six non-actuaries.</p> <p>b. The ASOB would appoint twelve members (<u>ten actuaries</u> and two non-actuaries) to serve on the IBAS.</p> <p>c. The IBAS would be independent from the IAA (with the IAA possibly providing administrative services).</p> <p>d. The IBAS would be responsible for determining what standards should be developed (or revised), after consulting with the ASOB, and would have complete authority regarding the approval of final standards.</p> <p>e. The ASOB would have the responsibilities of determining and overseeing compliance with due process.</p> <p>f. The ASOB would provide input to the IBAS regarding priorities and agendas.</p>	<p>process.</p> <p>b. Council, via the Nominations Committee, would appoint eight representatives to the ASOB, comprised of two actuaries and <u>six non-actuaries</u>.</p> <p>c. The ASOB would appoint twelve members (<u>ten actuaries and two non-actuaries</u>) to serve on the IBAS.</p> <p>d. Standard setters from outside the profession, users of actuarial work and regulators/supervisors would be drawn upon to fill external positions.</p>

7. RESOURCES AND FUNDING

The Task Force will in due course identify the resource requirements to establish and maintain a permanent structure, as well as possible sources of funding.

Our Terms of Reference require us to address:

- **Resource requirements:** Identify the resource requirements of a permanent structure.
- **Funding:** Investigate possible sources of funding.

The Standards-Setters Round Table has already done work in this area, as shown in Appendix 6, which will be considered.

We plan to investigate how other international standards-setting bodies are funded, which should provide valuable information.

At this stage we would note that the underlying costs may be the same whatever the structure, but will be subject to the impact of a higher or lower volunteer/staff ratio.

APPENDIX 1 - TERMS OF REFERENCE OF THE TASK FORCE

Terms of Reference for the Task Force on a Permanent Structure for International Actuarial Standards

Background

The 10 September 2010 report of the Convergence of Actuarial Standards Task Force noted in paragraph 1.9 of the Executive Summary that

“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.”

The current structure for developing model International Actuarial Standards by the Interim Actuarial Standards Sub Committee was described in the Executive Committee’s Report to Council of 18 December 2010 as a transitional structure which was to be reviewed by 31 December 2012.

The Executive has appointed the Task Force on a Permanent Structure to consider these matters with a view to proposing a permanent structure that could be implemented from 1 January 2013.

Specific steps will be:

- Review the ideas in the Report of the Convergence of Actuarial Standards Task Force
- Seek input from other organisations as considered helpful, such as the IASB and IAIS
- Prepare papers for discussion by the EC and Council in accordance with the schedule below, setting out alternatives
- Prepare a final proposal for approval by Council at the appropriate time

The expected timeline will be:

- September 2011 (Zagreb) – preliminary discussion with Council
- October 2011 – possible Zoomerang survey to narrow down proposals
- May 2012 (Los Angeles) – full proposal for discussion with Council
- June 2012 – Zoomerang survey to finalise proposals
- July 2012 – Electronic vote on proposed structure
- November 2012 (Nassau) – final details of implementation for voting

The Task Force should therefore aim to provide an initial report to the EC for its meeting on 30 August 2011.

Issues to be considered are:

Discussion Paper:
Permanent Structure for International Actuarial Standards

- **Overall Vision for International Actuarial Standards**
 - Identify needs and expectations of internal and external stakeholders
 - Building on the current work of the IASSC, confirm the purposes and objectives of IAS
 - Identify the goals of the permanent structure for International Actuarial Standards
- **Structure**
 - Review how other similar entities such as IASB, IAASB, IAIS, IOPS, and IOSCO are structured
 - Identify and evaluate the options for the IAA
- **Governance**
 - Involvement of Internal stakeholders (i.e., Member Associations)
 - Involvement of existing actuarial standard-setters (in some countries, this is independent of the profession itself)
 - Involvement of External stakeholders (e.g., those involved in standard setting in IASB and IAIS, members of other professional bodies, academics, think-tank institutions, industry groups, consumer groups, OECD, IOPS and ISSA)
- **Resource requirements**
 - Identify the resource requirements of a permanent structure. (The Standard Setters Roundtable has already compiled some data.)
- **Funding**
 - Investigate possible sources of funding.

05.07.2011

APPENDIX 2 - MEMBERSHIP OF THE TASK FORCE

Paul Thornton, Chairperson

Al Beer

Cecil Bykerk

Hillevi Mannonen

Jean-Louis Massé (resigned November 2011)

Dave Pelletier

Michael Pomery

Fred Rowley

Kurt Wolfsdorf

Nicole Séguin

Desmond Smith, ex officio

APPENDIX 3 - SECTION 9.3.2 OF THE DISCUSSION PAPER OF THE CONVERGENCE OF ACTUARIAL STANDARDS TASK FORCE OF THE PROFESSIONALISM COMMITTEE

The [full report of the TFC is attached](#).

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.

APPENDIX 4 – OBJECTIVES OF INTERNATIONAL ACTUARIAL STANDARDS, AS PREPARED BY THE INTERIM ACTUARIAL STANDARDS SUBCOMMITTEE

The Discussion Paper on [Objectives of IAA Standards – attached](#) was submitted to Council on 16 December 2011.

APPENDIX 5 - STRUCTURE AND GOVERNANCE EXAMPLES

This appendix includes background research on how other similar organizations are structured in order to identify alternatives to propose for the international actuarial standards structure.

At this stage we have examined the structure and governance of Actuarial Standard-Setters and of IASB, IAASB, IAIS and IOSCO. The results are attached below:

- I. [Structures and Roles of Actuarial Standards-Setters](#)
- II. [Structures and Roles of Non-Actuarial Standards-Setters](#)

NOTES ON EXTERNAL STAKEHOLDERS

IASB

The bodies are Trustees, who appoint the IASB and the IFRS interpretations committee, an IFRS Advisory Council, a Monitoring Board of Public Authorities who approve the appointment of the Trustees and a Due Process Oversight Committee.

The web_site description is as follows:

The IASB (International Accounting Standards Board)

The IASB is the independent standard-setting body of the IFRS Foundation. Its members (currently 15 full-time members) are responsible for the development and publication of IFRSs, including the IFRS for SMEs and for approving Interpretations of IFRSs as developed by the IFRS Interpretations Committee (formerly called the IFRIC). All meetings of the IASB are held in public and webcast. In fulfilling its standard-setting duties the IASB follows a thorough, open and transparent due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component. The IASB engages closely with stakeholders around the world, including investors, analysts, regulators, business leaders, accounting standard-setters and the accountancy profession.

IAASB

According to the website, the International Auditing and Assurance Standards Board (IAASB) serves the public interest by setting, independently and under its own authority, high-quality International Standards on Auditing (ISAs) and assurance standards, and facilitating the convergence of national and international auditing and assurance standards. It is part of IFAC, the International Federation of Accountants, whose members are professional accountancy bodies and which is ultimately governed by the IFAC Council, comprising one representative from each member. There is a Consultative Advisory Group comprising other interested bodies

(including the IAA), which “provides advice”. The IAASB is “overseen” by a Public Interest Oversight Board comprised of senior figures with professional or regulatory backgrounds.

Appendix 6 contains the IFAC Policy Position on International Standard Setting in the Public Interest. We understand that this is a very elaborate and costly structure, as may be appropriate for a profession which is 50 times the size of the actuarial profession, but is not necessarily suitable for the IAA.

IAIS

The key bodies are the Members (i.e., Insurance Regulators/Supervisors), Observers (of which there are 120, including other associations, consultants and academics), and the Executive Committee.

Reporting to the Executive Committee are the Technical Committee (which establishes global insurance regulatory and supervisory standards with its subcommittees), and the Implementation Committee, (which has a Standards Observance Subcommittee).

According to the website, the Executive Committee convenes and conducts the IAIS General Meeting during the Annual Conference to seek main IAIS directions. Oversight thus appears to be provided by the Annual Conference, to which Members and Observers are invited.

IOSCO

The key bodies are the Members, which are bodies responsible for or interested in securities regulation, and who are represented on the Presidents Committee.

There is a Multilateral Memorandum of Understanding (MMoU) regarding cross-border cooperation, to which all full and associate members must adhere.

IOSCO does not itself issue standards. Rather, according to the website, its members seek to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;

APPENDIX 6 – IFAC POLICY POSITION 3- INTERNATIONAL STANDARD SETTING IN THE PUBLIC INTEREST

[The International Federation of Accountants \(IFAC\) Policy Position 3 – International Standard Setting in the Public Interest is attached.](#)

**APPENDIX 7 – SUMMARY OF COSTS OF VARIOUS ACTUARIAL
STANDARD-SETTING BODIES PREPARED BY THE STANDARD-
SETTERS ROUND TABLE**

[The table Resources Used by Standards-Setters prepared by the Standard-Setters Round Table is attached.](#)

APPENDIX 8 – GLOSSARY

- ASAB – Actuarial Standards Advisory Board (proposed Option 1)
- ASC – Actuarial Standards Committee (proposed Option 1)
- ASOB – Actuarial Standards Oversight Board (proposed Options 2 and 3)
- EC – Executive Committee
- FMA – Full Member Association
- IAABAS – International Actuarial Association Board for Actuarial Standards (proposed Option 2)
- IAASB – International Auditing and Assurance Standards Board
- IASSC – Interim Actuarial Standards Subcommittee
- IBAS – International Board for Actuarial Standards (proposed Option 3)
- IAS – International Accounting Standards
- ISAP – International Standard of Actuarial Practice (the new name for an IASP)
- IAIS - International Association of Insurance Supervisors
- IASB – International Accounting Standards Board
- IASP – International Actuarial Standards of Practice
- IASSC – Interim Actuarial Standards Sub Committee (of the Executive Committee)
- IFRS – International Financial Reporting Standards
- IOPS – International Organisation of Pension Supervisors
- IOSCO – International Organisation of Securities Commissions
- TFC – Task Force on Convergence of Actuarial Standards