



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

March 08, 2015

The Actuarial Policy Team
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Via email to: TASReview@frc.org.uk

Dear Sirs,

Re: IAA comments in response to the Financial Reporting Council's consultation on *A new framework for Technical Actuarial Standards*

In response to the FRC's consultation on *A new framework for Technical Actuarial Standards*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments.

These comments have been prepared by the Actuarial Standards Committee of the IAA, in consultation with the IAA's Professionalism Committee. If, upon reading these comments, you identify any points that you wish to discuss or on which you would like further insight, please do not hesitate to contact Alf Gohdes, Chair of our Actuarial Standards Committee, care of the Secretariat.

We hope that our comments provide assistance to the FRC and its staff on this project. The IAA will be pleased to develop the ideas presented in this comment letter further with you.

Yours sincerely,

Fred Rowley
President

Cc Nick Salter, President, Institute and Faculty of Actuaries
David Fairs, Chair, Association of Consulting Actuaries

Attachment: [IAA comments](#)

Comments by the International Actuarial Association on the FRC consultation on *A new framework for Technical Actuarial Standards*

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-seven Full Member actuarial associations, listed in [Appendix A](#) to this statement, represent more than 95% of all actuaries practising around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

We are pleased to be given the opportunity to provide input to the FRC on this consultation on actuarial standards. These comments have been prepared by our Actuarial Standards Committee (ASC), in consultation with our Professionalism Committee (PC). The memberships of those two committees and of the ASC’s Task Force that drafted these comments are shown in [Appendix B](#).

The IAA does not normally comment on matters of relevance to just one jurisdiction where there is an established member association that is involved in professional regulation, in this case the Institute and Faculty of Actuaries (IFoA). However, in this instance, the IFoA has informed us that it welcomes our providing a response to this FRC consultation, given the experience of ASC and PC members in actuarial standard-setting worldwide.

In addition, we were pleased to note several references to the International Standards of Actuarial Practice developed by the IAA, and in particular in Consultation document (CD) 2.14:

“The development of international actuarial standards has the potential to affect actuarial practice in the UK and the framework for actuarial standards that supports that practice. The FRC and the IFoA therefore agreed that they would work closely together to influence the development of these standards.”

We have greatly appreciated the significant input to date on the work of the ASC by both the FRC and the IFoA, and look forward to continuation of that in future.

Introduction

We have provided comments below to several, but not all, of the questions asked in the CD. In some instances, the questions were more of a UK-specific nature where we considered an IAA response would not be appropriate. However, we have commented where the questions posed are more of a generic standards-setting nature, and where experience elsewhere may be of interest to the FRC.

Responses to specific questions

Q3.1 Do you have any comments on the draft Framework for FRC Actuarial Standards (paragraphs 3.5 to 3.8 and Appendix A)?

The framework as laid out in Appendix A looks sound. Specific observations:

- Appendix A 4.12. The last sentence is somewhat unclear. We suggest replacing it with “An IFoA member could delegate the role of signatory to another IFoA member, but this act by itself would not absolve the delegating member of responsibility to make sure the TASs were followed” (if that is, in fact, the intent).
- Appendix A 6.1 and 6.2. We like the approach to style and content.
- Appendix A 7.2: We appreciate the desired intention of the FRC and the IFoA to achieve substantial consistency with ISAP 1¹. However, this response to the consultation should not be interpreted as our opinion on whether or not substantial consistency is achieved.

Q4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree, please explain why.

Yes, essentially for the reasons stated in CD 4.6. However, at times it will be difficult to determine what is actuarial work and what is not (as acknowledged in the CD, and as commented further below).

How would the FRC envisage the TASs being enforced where non-actuaries are completing actuarial work?

Q4.2 Do you agree with the proposed definition of actuarial work? If not please provide reasons and suggest an alternative approach (paragraph 4.11).

Essentially, yes. However, we observe that the words “by implication” could become problematic. Appendix E is helpful in determining what is intended to be included and what is not. However, in case of future dispute or litigation, it could be useful to introduce some additional detail in the TAS itself on the applicability of this TAS to a specific situation, or to ensure that Appendix E has some sort of formal standing, perhaps by appending Appendix E (or a modification of it) to the standard itself as associated guidance.

Q4.3 Do you agree with the analysis of different areas of work in Appendix E?

Yes. Three points:

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http://www.actuaries.org/CTTEES_ASC/Documents/ReformattedISAP1FINALOCTOBER_correctedJan2014.pdf

- The split between E.21 and E.22 of the types of review of actuarial work does not seem useful to us. E.21 states that an “internal review” is not actuarial work. It would seem to us that a badly done internal review could have as harmful results as any other badly done actuarial work and should bear the same consequences. Just because it is not “discrete” should not disqualify it as actuarial work.
- In E.24, we suggest that it would be useful to insert “using such actuarial techniques” following the word “work” in the first line. Otherwise it could be taken to imply that any work of any sort done by an actuary that requires judgement, even if not actuarial, would be actuarial work.
- Appendix E distinguishes between simple and complex calculations. It is by no means always clear what is simple and what is complex, and judgement will have to be applied. What is simple to one person may be complex to another. We suggest that it would be worthwhile to make this point in a paragraph near paragraphs E.3 through E.7.

Q5.1 Do you agree with the proposed high-level principles (paragraph 5.3)?

Essentially, yes. However, we have observations on the specific wording of five of them:

- Paragraph 2 of the draft TAS states:

“Data used in actuarial work shall be sufficient and reliable for the purpose of that work and subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information.”

The use of the word “shall” here presumes that data can always be adjusted so that it would become “sufficient and reliable”, or it would not be used. However, at times preparers of actuarial analyses have no choice but to use data that is incomplete or of questionable reliability. Paragraphs 2.2, 2.4 and 2.5 do discuss the need for data adjustments and uncertainties that may exist “from the use of insufficient or unreliable data” but the wording of the principle itself needs broadening to recognize this reality. To express this observation in another way, paragraph 2 which insists on the use of “sufficient and reliable data” is inconsistent with paragraph 2.5, which specifically provides for the “use of insufficient or unreliable data”.

- Similarly, paragraph 3 of the draft TAS states that assumptions shall be appropriate, but then 3.6 deals with situations when they may not be.
- In paragraph 4 of the draft TAS, we propose the FRC use “methodology” in place of “models” as it is a wider term and appropriate for this guidance.
- Paragraph 5 of the draft TAS dealing with communications and the various other references to communications put communications in the plural. It is important that all intended users of an actuarial communication see any limitations applicable to the work. A possible interpretation of the TAS would be that any such limitations to be communicated in accordance with the standards could be placed in communications separate from the basic

communication with the results. This could be problematic if the basic communication reached some users but the other communications did not. Clarification or rephrasing to eliminate this misinterpretation would be useful.

- Paragraph 6 of the draft TAS states:

“Documentation shall contain enough detail for a technically competent person with no previous knowledge of the actuarial work to understand the matters involved and assess the judgements made.”

The concern here is the definition of “technically competent”. For example, an actuary with no previous experience with asbestos liabilities might not be able to assess judgements made in an analysis of asbestos liabilities. Would such an actuary be considered “technically competent” based solely on his or her actuarial credential, even if he or she had no experience with asbestos liabilities? If so, then would the documentation need to be written for someone generally competent but not an expert in the particular subject matter? This would appear to be overkill, and an expression narrower than “technically competent person” would seem preferable. A possible approach would be to use the expression “person with relevant technical competence”.

Q5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

Yes. However, as noted above, the wording of the data principle itself in paragraph 2 needs modification to be consistent with 2.5. Further, we suggest that it would be preferable to insert the word “material” in 2.4 prior to “uncertainty” and in 2.5 prior to “limitations”.

Q5.3 Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?

Essentially yes, but as noted above with respect to data, the wording of the assumption principle itself needs modification. We have three further observations:

- 3.2 says that assumptions shall be consistent with each other. Some assumptions have no relation to each other, in which case this guidance has no meaning. We suggest that it would be preferable to state “assumptions shall be consistent with each other where they are related”.
- 3.4 includes the following:

“Communications shall include a comparison of the assumptions with those used in any relevant previous actuarial work, with an explanation of any differences, and a description of any change in the rationale underlying the assumptions used.”

We suggest that it would be preferable to also allow for the possibility that access to the previous work or to full explanations of the differences in assumptions may not always be available or possible. Reasons may include

the inability to talk to the previous actuary (e.g., due to their passing), or that the previous work was based on a different methodology that the current actuary is not familiar with or an expert in, or that the data set used in the previous work is no longer available. Two of the standards promulgated by the US Actuarial Standards Board (ASOP 36 at paragraph 4.2a and ASOP 43 at paragraph 4.2b) make allowance for this; that wording may prove useful for the FRC.

- Paragraph 3.6 deals with assumptions set by a third party or by regulation, but the second sentence is limited to the third party situation. Situations can arise where assumptions set by regulation make the actuarial work inappropriate for other purposes, and providing for communication of that in the TAS would be useful as well. The FRC might find a provision similar to ISAP 1 paragraph 2.9 useful for this purpose.

Q5.4 Do you agree with the proposed provisions in TAS 100 on modelling (Appendix B)?

Essentially yes (but see also our response to Q5.1 regarding use of “methodology” rather than “models”). We recommend the FRC consider the guidance in section 3 (particularly but not only paragraph 3.1) of the US ASOP 38² (*Using Models Outside the Actuary’s Area of Expertise*) to expand TAS 100 paragraph 4.1 to address how an actuary determines fitness for purpose of such models.

Q5.7 Do you agree that a compliance statement should be required (paragraph 5.30)?

Given that “all actuarial work” is within the scope of the TAS, and the very broad definition of “communication”, such a compliance statement would arguably be required under the terms of the TAS far more frequently than is desirable. The FRC might find a provision similar to ISAP 1 paragraph 1.4.4 useful for this purpose.

Q5.10 Do you consider the definitions of the terms in the glossary are clear (paragraph 5.35)?

We have six observations:

- The definition “entity” is defined as the “...body that is the subject of the work being performed”, with three examples. Some actuarial work addresses only segments of a legal entity’s, business division’s or even a contract’s liabilities. The term “entity” in some jurisdictions is used predominately when discussing a legal construct, not an operating construct or a segment of a liability or contract. To help make the TAS’s use of “entity” more clear, it could be useful to expand the list of examples. The ISAPs glossary³, for example, defines “entity” as “The subject, in whole or in part, of the actuarial services, including an enterprise, an insurer, a pensions or benefits plan, a

² http://www.actuarialstandardsboard.org/pdf/asops/asop038_155.pdf

³ http://www.actuaries.org/CTTEES_ASC/isaps/pdf/glossary.pdf

social security scheme, an individual, a government department or agency, a group, etc.”

- The definitions of “measure” and “method” are remarkably similar, one being an “approach” and the other being a “mechanism”. Particularly in the case of “measure”, we believe additional elaboration on what is intended would be useful, as it is unclear. Or perhaps another term could be used in place of “measure”, for which the description as “approach” appears awkward. One possible approach would be to use wording similar to that included in an IASB definition of measurement: “The process of determining monetary amounts for assets or liabilities”.
- The definition of “specification” is perhaps superfluous. It appears to be used only in the Glossary itself, in the definition of “model”, and the definition of “specification” is partially duplicated in the definition of model. Unless there is an intent to use “specification” in other TASs, it may be preferable to slightly expand the definition of “model”.
- Given that the words “implementation” and “implemented” are bolded, it appears that the intent was to provide a definition of those terms. However, none is provided.
- The definitions of “model”, “realisation”, and “specification” seem cumbersome. However, we realize that defining “model” for this purpose is tricky, and other jurisdictions have had difficulty with this as well. As we are beginning work on this ourselves, we do not have a specific definition to offer at this point.
- The term “actuarial information” as commonly understood could also apply to input, not merely output. An alternate expression such as “actuarial results” or “actuarial findings” could be preferable.

Q5.11 Do you have any other comments on the exposure draft of TAS 100?

We have three other suggestions:

- From a formatting perspective, it would be preferable to indent (or even double-indent) the side header “Provisions” each time it occurs. The current non-indented format creates a false first impression that, for example, paragraph 3 is more associated with the provisions 2.1 to 2.5 than with provisions 3.1 to 3.6.
- Under Commencement Date, it would be slightly clearer to add the words “still in effect” after the words “Generic TASs”.
- The messages in paragraphs 4.9 and 4.11 of Appendix A of the CD (ED of the Framework for FRC Actuarial Standards) could be usefully brought out in the TAS itself in the Compliance section.

Two additional observations

These two observations arise from the CD rather than from the TAS or the framework, and are provided only in case there is an intent to republish something like the CD as a further background document.

- There are various references to specific sections of ISAP 1. Those references refer to the former version of ISAP 1, before the definitions were

moved into a Glossary. Thus, for example, section 3.5.3. has become section 2.5.3.

- Appendix F section F.4 includes the wording as used in the current ISAP 1. However, this language is being updated. The current wording in proposed ISAP 3⁴, which is up for IAA Council vote in April, is:
 - Adopting this ISAP as a standard with only the modifications in the Drafting Notes;
 - Customizing this ISAP by revising the text of the ISAP to the extent deemed appropriate by the standard-setting body while ensuring that the resulting standard or set of standards is substantially consistent with this ISAP;
 - Endorsing this ISAP by declaring that this ISAP is appropriate for use in certain clearly defined circumstances;
 - Modifying existing standards to obtain substantial consistency with this ISAP; or
 - Confirming that existing standards are already substantially consistent with this ISAP.

Q6.3 Do you agree with the proposed structure of the TASs (paragraphs 6.9 to 6.12)?

Yes. For the reasons stated in CD 6.12, the IAA has utilized a structure similar to that proposed in CD 6.11. Some other jurisdictions have used that structure as well, and it appears to function well.

⁴ http://www.actuaries.org/COUNCIL/Documents/Zurich_ItemB11b_FinalISAP3.pdf

Appendix A

Full Member Organizations - 67

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuairens en Belgique (Belgique)
Aktuarsko Društvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuairens (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Asociación Colombiana de Actuarios (Colombia)
Institut des Actuairens de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Društvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuairens (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuaru Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuairens (Morocco)
Het Koninklijk Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)

Instituto dos Actuários Portugueses (Portugal)
Asociatia Romana de Actuariat (Romania)
Russian Guild of Actuaries (Russia)
Udruzenje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Institute of Actuaries of Korea (South Korea)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Association of Consulting Actuaries (United Kingdom)
Institute and Faculty of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)

Appendix B

Members of the IAA Actuarial Standards Committee (ASC)

| | |
|--------------------|----------------------|
| Alfred E. Gohdes | Chairperson |
| Thomas Karp | Co-Vice-Chairperson |
| Godfrey Perrott | Co-Vice-Chairpersons |
| Albert J Beer | |
| Peter Braumüller | |
| Andrew Chamberlain | |
| Kuei-Hsia Ruth Chu | |
| Marius Du Toit | |
| Gábor Hanák | |
| Esko Kivisaari | |
| David Pelletier | |

Members of the IAA Professionalism Committee

| | |
|----------------------------|--|
| David Bernard Martin | Chairperson |
| Ralph Sumner Blanchard III | Co-Vice-Chairperson |
| Yvonne Anne Lynch | Co-Vice-Chairperson |
| Gintaras Bakstys | Lietuvos Aktuaru Draugija |
| Avi Bar-Or | Israel Association of Actuaries |
| Andris Barlots | Latvijas Aktuaru Asociacija |
| Luciana Bastos | Instituto Brasileiro de Atuária (IBA) |
| Thomas Béhar | Institut des Actuaire |
| Petr Bohumský | Ceská Společnost Aktuárů |
| Cecil D. Bykerk | American Academy of Actuaries |
| Malcolm Campbell | Svenska Aktuarieföreningen |
| Kuei-Hsia Ruth Chu | Actuarial Institute of Chinese Taipei |
| Jane Elizabeth Mary Curtis | Institute and Faculty of Actuaries |
| Sergio Desantis | Istituto Italiano degli Attuari |
| Nikolay Gorbachev | Russian Guild of Actuaries |
| Morten Harbitz | Den Norske Aktuarforening |
| Norbert Heinen | Deutsche Aktuarvereinigung e. V. (DAV) |
| Bozenna Hinton | Actuaries Institute Australia |
| Pierre Joyet | Association Suisse des Actuaire |
| Birgit Kaiser | Deutsche Aktuarvereinigung e. V. (DAV) |
| Jelica Klucovska | Slovenska Spoločnost Aktuarov |
| Dragutin Kocovic | Udruzenje aktuaru Srbije |
| Tarmo Koll | Eesti Aktuaaride Liit |
| Armand Kplé | Institut des Actuaire de Côte d'Ivoire |
| Gordana Letica | Hrvatsko Aktuarsko Drustvo |
| Wilbur Wai Keung Lo | China Association of Actuaries |
| José Luis Lobera | Colegio Nacional de Actuarios A. C. |

IAA comments on the FRC consultation on A new framework for Technical Actuarial Standards

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|----------------------------------|---|
| Hillevi Mannonen | Suomen Aktuaariyhdistys |
| Robert J McKay | Canadian Institute of Actuaries |
| James B Milholland | Society of Actuaries |
| Joseph A Nichols | American Society of Pension Professionals & Actuaries |
| Xavier Plana | Col.legi d'Actuaris de Catalunya |
| Frederick Rowley | Actuaries Institute Australia |
| Luis Maria Sáez de Jáuregui Sanz | Instituto de Actuarios Españoles |
| Jaime M Santiago | Actuarial Society of the Philippines |
| Carol Ruth Sears | Conference of Consulting Actuaries |
| Peter John Temple | Actuarial Society of South Africa |
| Marjon Tjia | Het Koninklijk Actuarieel Genootschap |
| Masaaki Yoshimura | Institute of Actuaries of Japan |

Members of the ASC Task Force on the FRC Consultation on *A new framework for Technical Actuarial Standards*

| | |
|-------------------|-----------------------------------|
| Alfred Gohdes | Chairperson, ASC |
| A David Pelletier | Chairperson of the ASC Task Force |
| Ralph Blanchard | |
| Marius Du Toit | |
| Yvonne Lynch | |
| Jim Milholland | |
| Godfrey Perrott | |
| Francis Ruygt | |