



Deadline: 31 October 2017

Please use this template to comment on the [Exposure Draft of ISAP 1 on General Actuarial Practice](#), and the proposed revisions to the [Glossary](#). The IAA invites comments on this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Comment on the questions as stated;
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of ISAP 1.

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	
Name of organization		Financial Reporting Council
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as "Introduction 3rd paragraph 2nd bullet" or "2.6.1.b.ii" ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to</p> <p>ISAPI.comments@actuaries.org</p>	



	Specific Questions asked by the ASC	Response
Q1.	Is the time right to merge ISAP 1A into ISAP 1? If not why, and when (if ever) do you recommend that be done?	<p>We recognize the need to have a regular review of model standards. However, for a number of standard setters, such as the FRC/IFoA some material changes were necessary to our standards to enable us to support the IAA and to state substantial consistency with ISAP1.</p> <p>The FRC/IFoA has only just completed the publication of the standards required to enable us to state substantial consistency with the current ISAP1 and we would need to make significant changes to our generic standard to retain substantial consistency with ISAP1 as proposed. Having just implemented the revised standards we do not intend to change our standards again for a reasonable period of time.</p> <p>Therefore, we suggest that it is too early to merge ISAP1A into ISAP1.</p> <p>We have two specific concerns in this regard:</p> <ul style="list-style-type: none"> a) Some of the requirements are more onerous for work falling within the scope of our generic standard and which we have included in our specific standards. We are unlikely to strengthen our generic standard which applies to all technical actuarial work unless there was evidence that it was necessary to ensure the quality of actuarial work in general. Equally, we are not certain that it is helpful that we include the Specific TASs within a statement of substantial consistency. b) We would not wish to change our generic technical standard again for some time – we typically have a four to five year cycle to our standard setting process <p>In general, we would suggest that the key requirements are set out clearly and that any supporting guidance is clearly identified as such.</p> <p>In the event that the merger goes ahead, we would suggest that a version control be introduced so that we can be clear to which version we have stated substantial consistency allowing us to consider the revised ISAP1 at the time of our next standard review.</p>



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Q2.	Is the time right to make the other updates to ISAP 1? If not why, and when (if ever) do you recommend that be done?	<p>In general the other changes are to “tidy up” the wording of ISAP1 without changing the substance of the standard, other than the change to 1.7 set out below.</p> <p>Therefore, we consider that there is no significant risk to leaving ISAP1 unchanged at this time and in deferring these changes to a later date.</p>
Q3	<p>We typically ask the following questions about new ISAPs (rather than revisions). However, we repeat them here as they may be relevant.</p> <p>a. Is the guidance clear and unambiguous? If not, how should it be changed?</p>	<p>The requirements for model governance appear unduly onerous in relation to simple models and we consider that different actuaries may interpret proportionality differently with respect to simple models that could lead to inconsistent practices.</p> <p>In all other respects, yes.</p>
	b. Is the guidance sufficient and appropriate? If not, how should it be changed?	Yes
	c. Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?	Yes
	d. Are there other matters that should be included in this standard? Are there some included here that should not be?	No

	General Comments on the ISAP 1 Exposure Draft
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In general most of the changes do not change the meaning or the intention of the standard so there is no urgency in implementing them. However there are a number of changes which we consider are material. These are:

a) Integration of ISAP1A into ISAP1

The original layout of ISAP1A which indicated that using a model is different to building a new model provided a helpful indication of the application of proportionality and we considered that helpful. This indication of proportionality has been lost through the manner of incorporation. For example, ISAP1A sets different requirements on documentation for the different activities related to models. Another example is that ISAP1A sets out the most important activities for each activity related to models with documentation being most important activity for development of a new model and understanding the model most important for using the model.

In this light, there are a number of requirements in ISAP1A that we consider overly onerous for the scope of our generic standard, which applies to all technical actuarial work. We have included some of these requirements in our specific TAS for more material areas of work. These are:

- (i) Putting in place an appropriate model risk management framework in 2.10.1 may be overly onerous for low impact exercises.
- (ii) The model validation is prescribed in 2.10.2, and in particular, the requirements for testing around the mean and a requirement for reproducibility.
- (iii) Consideration of conditions and limitations of the model in 2.10.3 implies all conditions and limitations rather than those relevant to the intended use.
- (iv) The level of documentation specified in 2.10.4, particularly lack of clarity on where such documentation is not appropriate.
- (v) The requirement for a change control process in 2.10.5.

b) Strengthening of the wording of the 1.7 Cross-referencing from a “should” to a “must”

The requirement here appears to have been strengthened with the replacement of a “should” with a “must” and a requirement to revisit the whole ISAP, rather than simply consider the modification. It would be helpful to understand the rationale for these changes. We do not consider that there is a need to make these changes.



Comments on specific paragraphs of the ISAP 1 Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
2.10.1	<p>Change from:</p> <p>“Be satisfied that there is in place an appropriate model risk management framework that addresses identification of model risks, assessment of these risks, and appropriate actions to mitigate these risks such as adequate model validation, documentation, and process controls.”</p> <p>To:</p> <p>“Be satisfied that the model risks have been identified, assessed, and that there are appropriate actions to mitigate these risks such as adequate model validation, documentation, and process controls.”</p>	The term “framework” may imply an unduly onerous approach for some work such as a simple model for a low impact piece of work.
2.10.2	<p>Change from:</p> <p>“Be satisfied that an appropriate model validation has taken place. For the purpose of this ISAP, validation includes assessments that...”</p> <p>To:</p> <p>“Be satisfied that an appropriate model validation has taken place. The validation may include assessments that...”</p>	This ensures that there is a requirement for an appropriate level of validation to be carried out which allows for a range of validation approaches to be applied which appropriate for complexity of the model. The detail is provided as guidance that may help actuaries in considering appropriateness.



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<p>2.10.3</p>	<p>Change from:</p> <p>“Understand the model, the conditions under which it is appropriate for the model to be used including any limitations of the model, the context in which the model will be used, how the model input will be provided ...”</p> <p>To:</p> <p>“Understand the model, the conditions under which it is appropriate for the model to be used including any limitations of the model <u>for the intended use</u>, the context in which the model will be used, how the model input will be provided ...”</p>	<p>It is unclear whether the actuary is to consider the conditions and limitations of the model, specific to its intended use or more generally, which we consider would be unduly onerous. The current wording could be seen as ambiguous when applied in context of proportionality.</p>
<p>2.10.4</p>	<p>Change from:</p> <p>“Be satisfied that there is adequate documentation of the model design, construction and operation, (including where appropriate scope, purpose, methodology, statistical quality, calibration and fitness for intended purpose) and of the conditions under which it is appropriate to use the model, including any limitations of the model.</p> <p>To:</p> <p>“Be satisfied that there is adequate documentation of the model and of the conditions under which it is appropriate to use the model, including any limitations of the model relevant for its intended use. The documentation may cover model design, construction and operation, including where appropriate scope, purpose, methodology, statistical quality, calibration and fitness for intended purpose.”</p>	<p>This ensures that there is a requirement for an appropriate level of documentation which is appropriate for the complexity of the model. The detail is then provided as guidance that may help actuaries in considering appropriateness.</p>
<p>2.10.5</p>	<p>Change from:</p> <p>“Be satisfied that an appropriate change control process is in place for the model”</p> <p>To</p>	<p>This ensures a broader control environment exists of which a change control process is just one component. This accommodates simple spreadsheet models used for small one-off pieces of work and more complex models used</p>



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	"Be satisfied that the model is subject to appropriate controls. This may include an appropriate change control process."	for regular financial reporting.
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Comments on specific definitions in the Exposure Draft of the updated Glossary		
Note that only the proposed revisions are open for comment		
Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
	No comments	

	Comments on the change to ISAP 2 (i.e. change in paragraph 2.1)	
	No comments	