

November 30, 2011

International Actuarial Association  
c/o Interim Actuarial Standards Subcommittee (IASSC)  
and its General Task Force  
601–150 Metcalfe  
Ottawa, ON K2P 1P1

### **Re.: International Standard of Actuarial Practice 1 – General Actuarial Practice**

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession in Canada.

The CIA establishes the Rules of Professional Conduct, guiding principles and monitoring and discipline processes for qualified actuaries in Canada. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

The CIA welcomes the opportunity to provide input on the exposure draft of International Standard of Actuarial Practice (IASP) 1 (General Actuarial Practice). In preparing our comments, we consulted with CIA members that practice in a number of fields, including life insurance, property and casualty insurance, pensions, and employee benefits.

We understand that the Canadian Actuarial Standards Board (ASB) is also submitting comments. We have reviewed a copy of their submission, and are in agreement with the content of that document. The ASB is obviously approaching this from the standpoint of the national standard-setting body, so our comments will focus more on issues of interest to practitioners.

We realize that this Exposure Draft is the result of significant work by a number of volunteers, and we would like to acknowledge that and thank them for their efforts. The comments in this submission are not intended to be viewed as a critique, but rather as additional points to consider from a fine-tuning standpoint. We will present general comments, followed by comments on specific sections of the exposure draft. As well, we have a few technical suggestions related to the editing of the ISAP.

#### **General Comments**

Actuaries will necessarily need to apply judgment when operating under any standards of practice. However, there may be differences in how individual actuaries interpret the spirit and intent of the standards, which may be a function of their level of experience. It should be made clear that the user is expected to follow the spirit and intent of the standards, and that they represent concepts and not just a list of detailed rules.

The General section of the Canadian Standards of Practice contains significant content on the topic of subsequent events; i.e., if the actuary is aware (or is made aware) of a significant event while in the process of preparing a report. We recommend that ISAP 1 address this situation along the lines suggested by the ASB in its submission; specifically, the actuary should discuss the nature of the event and its underlying risk with the principal, and then make any appropriate disclosure or disclaimer in their report.

There are other sections of the Canadian Standards of Practice that provide guidance within a general context, which the International Actuarial Association (IAA) should consider including within international standards. These include the following (note that the numbering refers to that used in the Canadian Standards of Practice):

*1210.05 (Accepted Actuarial Practice)*

The actuary usually reports having done his or her work in accordance with accepted actuarial practice in Canada, which is the norm and which, in the absence of disclosure of a deviation, is the expectation of users of actuaries' work.

*1230.09 (Extension of Scope)*

The standards applicable to a particular situation do not necessarily provide useful guidance in a second similar situation for which there are no standards. If they do provide useful guidance in the second situation, then the actuary would consider what modification is necessary in order to take account of the difference between the two situations.

*1230.10 (Extension of Scope)*

If the standards for the first situation are silent about the second situation, and if the actuary's work in the second situation is in accordance with those standards, appropriately modified, then the actuary would so report. If the standards for the first situation specifically exclude the second situation from their scope, and if it is, either by coincidence or convenience, appropriate for the actuary's work in the second situation to be in accordance with a modification of those standards, then the actuary would report the work without reference to those standards.

*1310.01 (Conflict with Law)*

If accepted actuarial practice conflicts with the law, then the actuary should comply with the law, but should report the conflict and, if practical, useful and appropriate under the terms of the engagement, report the results of applying accepted actuarial practice.<sup>1</sup>

*1320.01 (Conflict with Terms of Engagement)*

If accepted actuarial practice conflicts with the terms of an appropriate engagement, then the actuary may comply with the terms of the engagement, but should report the conflict and, if practical, useful and appropriate under the terms of the engagement, report the result of applying accepted actuarial practice.

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<sup>1</sup> The first part of this is covered in Section 4.3 of ISAP 1, but not the rest.

### *1330.03 (Unusual and Unforeseen Circumstances)*

Accepted actuarial practice evolves. The standards are not intended to inhibit research and discussion that contribute to that evolution. In an unusual or unforeseen situation, they may produce an inappropriate result and therefore are no substitute for sound judgment.

### *1340.01 (Materiality)*

Deviation from a particular recommendation or other guidance in the standards is accepted actuarial practice if the effect of doing so is not material.

## **Specific Comments**

The references in this section refer to those in the Exposure Draft.

### *1.3 (Cross References)*

We do not agree that the actuary should be responsible for considering how a referenced document has changed since the time of the adoption of the standard. This creates an unreasonable burden for the actuary, and makes it prohibitively difficult to keep records. The governing body should take on this responsibility, and ensure that if changes are made to one standard, the corresponding changes required to other standards are made as well. If our interpretation of this section is incorrect, then the wording should be clarified.

### *2.13 (Recognized Actuarial Practice)*

There should be a reference to adherence to the Rules of Professional Conduct, or the equivalent code of conduct of the member organization. Accepted actuarial practice in Canada assumes adherence to these rules.

### *3.1 (Acceptance of Assignment)*

In paragraph 3.1.1.b., it states that the actuary should be qualified to perform the services, or be able to become qualified before the services are delivered. We have a general concern about actuaries performing work when they are not qualified, so we would suggest that the circumstances surrounding this particular requirement be more fully defined. The content of subsection 3.1.2. is good practice, but should not be a requirement. We recommend that it be categorized as supplementary guidance. (Please see comments under “Technical Suggestions” below.)

### *3.5 (Materiality)*

When the level of materiality is selected by someone else, there should be additional guidance provided. Suggested wording would be: “When materiality is determined by someone else, the actuary should exercise judgment to determine the appropriateness of that materiality and if in the actuary’s opinion the materiality is inappropriate, report any concerns”. As well, in the final sentence of this section, the intended users should be included as an item for consideration.

### *3.8.1 (Individual Assumptions and Aggregate Assumptions)*

We concur with the comments offered by the ASB on this section. We suggest that the following wording would address the Board’s concern: “If an assumption is mandated, the other assumptions should be reasonable in the aggregate and should not compensate for the mandated assumption by modifying the other assumptions.” We also note that the Canadian Standards of

Practice were modified to include independently reasonable assumptions, to reduce the risk that cross-subsidized assumptions resulted in unintended effects. We would suggest that the ISAP include a similar standard. The standard should also address the analogous situation when a methodology is mandated, perhaps through additional wording in 3.7.1.

### *3.8.3 (Alternative Assumptions and Sensitivity Testing)*

We would be concerned that sensitivity testing could inappropriately increase actuarial costs for certain mandates, such as actuarial valuations of small pension plans. We assume that the clause “unless constrained by the assignment” would be sufficient to prevent that situation. A similar comment can be made for paragraph 3.9.3 (Sensitivity of Results).

### *3.10 (Responsibility for Assumptions and Methodology)*

This section addresses the actuary’s obligations where another party sets a material assumption. We suggest that the wording be revised to clarify that 3.10 also applies where assumptions are mandated by law or where a specific assumption is required to comply with regulatory, court or similar requirements when this disclosure would be appropriate to the work. As well, in paragraph 3.10.1, we suggest using “taken responsibility for” instead of “endorsed”. We also suggest that the word “methodology” in the subsection title be plural.

### *4.2 (Report)*

The Canadian Standards of Practice distinguish between internal and external users, and have different reporting requirements for each group. We believe, as does the ASB, that this distinction should be included in ISAP 1. It is not reasonable to expect that a report should be written for the lowest level of sophistication of any intended user. Any guidance in this area should focus on the purpose of the report, the principal, and the intended users.

#### *4.2.3 (Specific Disclosures)*

ISAP 1 should recognize that not all actuarial work necessarily leads to the production of a report.

#### *4.2.5 (Shorter Reports)*

In short or interim reports, proper reference to the full report containing complete data should be made. As well, instead of the term “work”, we suggest the use of a defined term such as “professional services”.

### *4.3 (Deviation from Guidance in this Standard)*

The use of the word “procedures” may be too limiting. We instead suggest saying that “the actuary should be prepared to provide the rationale for any material departure from this ISAP”.

## **Technical Suggestions**

The Canadian Standards use *italics* to distinguish between main recommendations and supplementary guidance. We think this approach would be useful within ISAP 1.

There are many instances in the exposure draft where a defined term is used, but not identified as such. In Canada, we have defined such items with a dashed underline throughout.

## **Conclusion**

The Canadian Institute of Actuaries hopes its comments herein will be of value. We thank you for offering us the opportunity to respond.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jim Christie". The signature is written in a cursive style, with a large, stylized initial "J" that loops around the first part of the name.

Jim Christie  
President