

November 28, 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

Dear members of the Interim Actuarial Standards Subcommittee (IASSC) and its General Task Force:

Thank you for providing the Actuarial Standards Board of Canada with the opportunity to comment on the first exposure draft of International Actuarial Standard of Practice (ISAP) 1 on General Actuarial Practice. The mission of the Actuarial Standards Board is to develop, establish and maintain Standards of Practice governing actuarial practice in Canada. We are pleased to offer the following comments.

We appreciate that it is a significant challenge to develop a model standard for general actuarial practice suitable for adoption by International Actuarial Association (IAA) member associations and other actuarial standard-setting organizations, and we commend the IAA for the quality of this first exposure draft. We agree in principle with much of the document, and have not identified any material conflicts with our current Standards of Practice in Canada, except for section 3.8.1 in limited circumstances.

In order to facilitate the adoption of ISAP 1 by IAA member associations on a timely basis, we suggest that the initial version of ISAP 1 when first adopted should be based on fundamental principles, with little detail included. Generally we agree that this first exposure draft provides an appropriate level of guidance, based on broad principles which we hope would be accepted as minimum standards in many jurisdictions. As experience with the new standards develops, additional detail may be added and refinements may be introduced to ISAP 1. We also believe that the guidance provided is clear and unambiguous in most respects.

Our submission on the exposure draft for ISAP 1 includes three parts, as follows:

1. General Comments;
2. Comments on Specific Sections (i.e., our comments on specific wording or sections of the exposure draft); and
3. Additional Issues (i.e., issues which we suggest be added to ISAP 1 before it is adopted).

We understand that the Canadian Institute of Actuaries will also be providing comments on the exposure draft.

1. GENERAL COMMENTS

As noted above, we agree in principle with much of the exposure draft for ISAP 1. We also believe that the document provides an appropriate level of guidance.

The guidance provided in the exposure draft has been developed based on three key verbs: “must”, “should” and “may”. This approach is largely consistent with that followed for the Standards of Practice in Canada. The Canadian Standards of Practice also use three key verbs: “should”, “would” and “may”. The meanings of the Canadian verbs “should”, “would” and “may” are similar, but not identical, to the definitions of “must”, “should” and “would” respectively in ISAP 1. Generally we agree with this approach and with the three specific verbs used in ISAP1. Nevertheless, we have the following comments:

- For the purpose of an international standard, where circumstances and practices can vary widely between jurisdictions, the word “must” should be used rarely. We note, however, that the word “must” is not used at all in ISAP 1, and suggest that it should be used for some of the most fundamental guidance, where such guidance is similar to rules of professional conduct. For example, “must” could be used in sections 3.1.1.b. and 3.1.1.c (Acceptance of Assignment). In the future, as practices evolve under ISAP 1, the word “must” could be used more frequently.
- The word “should” may be used frequently in the standards of an IAA member association, but we suggest that the meaning may be too strong for some parts of this exposure draft. We note that the exposure draft recognizes this issue, and uses the words “should consider” for some guidance. We propose that the words “should consider” be used more frequently in ISAP 1, at least initially, in areas where the guidance is more appropriately considered as best practice instead of a minimum standard.

We question the concept of using the term “employed actuary” and relating the actuary’s conduct to the nature of his or her employment. Although the nature of the employment relationship may be a consideration, we suggest that the nature of the assignment and the sophistication of the intended users are more significant factors when the actuary is considering the interpretation of actuarial guidance and standards. Hence, we suggest that it may be preferable to focus the guidance on the nature of the assignment and the sophistication of the intended users.

For example, under the Canadian Standards of Practice, a distinction is made between internal and external users and internal and external reports, and the actuary’s conduct may vary depending on whether the user or report is internal or external. The Canadian standards define internal user as “the actuary’s client or employer”, and the external user as any other user. The disclosure requirements are more extensive when one or more of the intended users is an external user. We would be pleased to provide additional sample definitions or other assistance with respect to this issue.

While we agree that the level of guidance provided is appropriate in most parts of the exposure draft, we suggest that there may be too much detail in a few sections, and highlight those sections later in this submission.

In response to the questions posed in the cover letter to the exposure draft, we believe that:

- The guidance on when to issue an actuarial report (section 4.2) is appropriate for an international standard, but that the guidance on what should be covered in a report is too detailed in some respects (see comments on section 4.2 below).

- The guidance is generally clear and unambiguous (except for the specific sections noted below).
- The format and nomenclature are appropriate.

2. COMMENTS ON SPECIFIC SECTIONS

Introduction 1

We suggest that Introduction 1 be revised to clarify that an IAA member association must resolve any conflicts between ISAP 1 and the professional standards of practice adopted by that organization before it can adopt ISAP 1 as a standard or endorse the ISAP 1 standard.

Section 1. Purpose, Scope and Cross-References

1.4 *Effective Date.* The exposure draft includes three versions of wording which may be selected by the standard-setter regarding the effective date. We suggest that the third version is preferable, i.e., to state that the standard is effective for professional services performed relative to an event on or after (Date). We believe that this version provides greater clarity, and less opportunity for the actuary to choose the relevant standard. Hence, we suggest that standard-setters be encouraged to adopt this third version of the wording. However, we note that “event” is an undefined term in this context and it may lead to uncertainty or misunderstanding in some circumstances. For example, in determining the present value of lost earnings resulting from an accident that occurred five years ago, what is the date of the event? One suggestion for improvement would be to use the phrase “valuation event” and also to define the meaning of the phrase more specifically. It may also be useful to clarify how this wording would apply to different types of events, such as financial reporting in respect of a fiscal year.

Section 2. Definitions

- 2.1 *Actuary.* We suggest that the definition of actuary be revised to include all individuals who are subject to the professional standards of the member association of the IAA.
- 2.5 *Employed Actuary.* As suggested earlier, this definition should be deleted.
- 2.6 *Entity.* In the definition of entity, it may be useful to clarify that “entity” includes things such as an insurer, a pension or benefits plan, a social insurance program, an individual, etc. The word “enterprise” could be deleted.
- 2.8 *Intended User.* As suggested earlier, this section could be enhanced by adding a definition of internal and external user.
- 2.17 *Work product.* We suggest that the definition of work product be expanded to specifically include any “Communication”, as defined in Section 2.3.

Section 3. Appropriate Practices

3.1 *Acceptance of Assignment.* We suggest that part b of section 3.1.2 regarding identification of the schedule and expected cost or resources represents best practice, but should not be required by the standards. Hence, we suggest using the wording “the actuary should consider” these items. We also suggest that the final paragraph of 3.1.2 should be applicable to all actuaries, and not only to those who are not employed actuaries. The scope and form of the communication may vary, depending on the relationship between the actuary and the principal.

- 3.3 *Employed Actuaries.* We suggest that the guidance provided in this section should be applicable to all actuaries, and not just employed actuaries, and that a distinction be made between internal users and external users. The actuary would then consider the expectations and the expertise of the user when interpreting sections 3.4 to 4.2. We also suggest that a distinction be made between internal and external reports, and that the content of a report may be more limited where the report is internal.
- 3.4 *Reliance on Others.* Although item 3.4.1.e may represent best practice, we suggest that this requirement either be deleted or the verb changed from “should” to “should consider”.
- 3.6 *Data Quality.* It appears that section 3.6.1 has been drafted from an insurance perspective. Hence, we suggest revising the last sentence to: “Where such data are not readily available, relevant and credible, the actuary should consider industry data, data from other similarly situated organizations, population data or other published data, modified as appropriate”. In section 3.6.3, while we largely agree with the bullet points, this level of detail could perhaps be deleted. If the detail is to be retained, we suggest deleting the words “trial balances” from 3.6.3.a and expanding 3.6.3.b to include “external or independent data”.
- 3.7 *Assumptions and Methodology.* Although the actuary selects the assumptions and methods for many assignments, there are many instances when the actuary does not. For example, assumptions may be mandated by law or prescribed by the applicable professional standards, in which case the actuary must use the mandated or prescribed assumptions. Section 3.10 recognizes that another party may be responsible for the selection of a material assumption and outlines certain disclosure requirements. We suggest that 3.7 be revised to recognize that another party may be selecting a material assumption.
- 3.8 *Assumption Setting.* Where the actuary selects the assumption set, it is reasonable to require that the assumptions be reasonable in the aggregate in accordance with 3.8.1. However, as recognized in 3.8.1, where some assumptions are mandated by law or prescribed by the standards of practice, it may not be possible to have a set of assumptions that is reasonable in the aggregate, unless the actuary adjusts other assumptions to compensate for the mandated or prescribed ones. Such a practice of artificially adjusting certain assumptions may not comply with the Standards of Practice in Canada. Hence, we suggest that this section 3.8.1 be revised to limit the requirement to engagements where the actuary is selecting the assumption set. As an alternative, disclosure could be required where the assumption set is not reasonable in the aggregate as a result of mandated or prescribed assumptions (similar to the disclosure requirement in section 3.8.2).
- 3.9 *Process Management.* In section 3.9.1, the terms “process controls” and “controlled” should be explained. With respect to section 3.9.3, we suggest that the notification and discussion regarding the sensitivity of results may represent best practice in many situations, but that such actions may not be appropriate in some circumstances (e.g., some actuarial evidence work). Hence, we suggest that the word “should” be revised to “should consider”.
- 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.

3.12 *Documentation.* While we agree that the actuary should retain documentation for a reasonable period of time, there are many reasons for this retention in addition to a resulting assignment (such as legislated or regulatory requirements). Hence we suggest that the reference to the resulting assignment be deleted and instead the reference be to the circumstances of the work.

Section 4. Communication and Disclosure

4.2 *Report.* We suggest that it may be useful to revise section 4.2 to include all items where disclosure should be made in the report. Currently much of this disclosure guidance is included throughout the draft standard, and consolidation of this guidance in a single section may assist with compliance. For example, section 4.2.3 on specific disclosures could be revised to provide a consolidation of disclosure items. Section 4.2.1.a. (under Content) should be expanded to include intended users. We suggest that section 4.2.3 illustrates good practice but includes too much detail for a standard of practice (such as defining a report section for the executive summary and for the introduction or background). If this detail is to be retained, then we propose that the words “The actuary should include” be revised to “The actuary should consider including”. We suggest that the list of items in 4.2.4 (Actuaries other than employed actuaries) should be required items for all reports and for all actuaries, regardless of the employment relationship. The disclosure requirements could be reduced for an internal report. Other possible required disclosure items include: a potential conflict of interest, and level of materiality.

3. ADDITIONAL ISSUES

We suggest that there are a few additional issues that should be considered for inclusion in ISAP 1. These additional issues are as follows:

- *Judgment.* As the interpretation of any standard requires judgment, we suggest that the exposure draft be revised to add a provision such as: “The actuary should exercise reasonable judgment in applying the standards. A judgment is reasonable if it takes into account the spirit and intent of the standards, common sense and appropriate constraints on time and resources.”
- *Approximations.* Guidance on the acceptability of using approximations would be useful. For example, the guidance could state that the actuary may use an approximation where it is appropriate (e.g., where it does not materially affect the results, but does reduce the cost of, reduce the time needed for, or improves the actuary’s control over, the work).
- *Events.* Events often occur while and after the actuary completes his or her work (e.g., subsequent events). The appropriate response by the actuary in respect to the event would depend on the nature and timing of the event. We suggest that guidance be added to assist the actuary with the determination of the most appropriate response to and disclosure of the event.

Another issue which has not been included in ISAP 1—and which also appears to be excluded from the principles identified by the IAA as essential for a Full Member association’s Code of Professional Conduct (see section 2.1.4 of the IAA’s document Criteria for Full Membership)—relates to the financial interest of the actuary. In particular, we believe that guidance on the financial interest of the actuary is fundamental, and would be worthy of inclusion. It may be more appropriate to include such guidance in a member association’s code of conduct. In such case, we suggest that the IASSC raise this issue with the IAA entity responsible for member

associations' codes of conduct. This guidance could include a provision such as: "The financial interest of the actuary must not influence the result of the actuary's work".

We trust that the IASSC will find this submission useful. We would be pleased to answer any questions or provide additional information regarding any of the issues that we have raised.

Yours truly,

A handwritten signature in cursive script that reads "A. David Pelletier".

A. David Pelletier, Chair