

Paris, Wednesday 30th November 2011

ISAP 1 General Actuarial Practice – Exposure Draft

Comments from the *Institut des Actuaire* (France)

The *Institut des Actuaire* has studied ISAP 1 within its new internal Committee, the *Groupe de travail sur les standards actuariels* (GTSA - Actuarial standard working group), chaired by us, Viviane Leflaive and Pierre Miehé, on behalf of the Institut des Actuaire Council which we also represent here as members of its board. In this context, we are very pleased to give you our comments.

- The *Institut des Actuaire* welcomes the broad terms of ISAP1 and the existence of this standard of practice.
- The main comment of the *Institut des Actuaire* is about the scope of the ISAP1. We think it would be better to specify that this standard shall only be applicable when an actuary writes in his/her reports if he/she acts as an actuary and not as another profession (for instance an actuary can act as an auditor, or a supervisor, and these professions also have guidances to apply).
- We think that the proportionality principle should be defined, and should apply to this standard. According to this principle, an actuary shall take into account the standard in a manner and to the extent which is appropriate regarding the report and the nature, scope and complexity of the actuarial professional services subject to the report. The result may be that the manner and extent of implementation of the principles may vary from one professional services to another.
- We will be very pleased to answer any questions and provide additional explanations about our general and detailed comments and may be contacted at the following email addresses: vleflaive@kpgm.com and pierre.miehe@actuaris.com.

Viviane Leflaive
Co-president of GTSA

Pierre Miehé
Co-president of GTSA

Detailed Comments

Form:

- Each paragraph should be numbered to facilitate the references.
- A translation into French of the Exposure draft, the other official language could have helped avoiding double meanings and inaccuracies.

Page 3:

- 1.2.: The term “deviation” should be defined in our opinion.

Page 4:

- **Communication:** the application of the rules to the oral communication will be impossible to check.
- **Entity:** we recommend adding that an entity can also be a government, a group, a part of an enterprise, Social Security, and so on. We should not limit the scope to undertakings.

Our proposal: “**Entity** - The enterprise that is, in whole or part, the subject of the professional service. **An entity can also be a government, a group, a part of an enterprise, Social Security...**”.

- **Principial:** Our proposal, to guarantee the independence of the actuary is :
“**Principal** : The party who has the right to provide the **scope** to the provider of professional services. The principal will usually be the client or the employer of the responsible actuary.”
 - **Professional judgment:** “specialized” training should be defined.
 - **Professional services:** As written in general comments, actuaries can act as another profession with their specific guidances (see our general comment
- 

on scope). So our proposal is: “**Professional services – Actuarial services** provided to a principal that may include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”.

- **Report:** Our proposal is: “**Report:** An actuary's **written formal** communication presenting the results of professional services.”
- We'd like to add the definition of the **qualified opinion** which may be: “It’s a statement written on the front page of the report that he/she is unable to render a full opinion because some parts of the standards can’t be applied, or because the information was for some reason incomplete.”

Page 6:

- 3.1.: as it seems difficult to apply to employed actuaries, we suggest to add that in the case of an employed actuary, the engagement is generally defined by the employer and could be defined only in general terms in the employment contract.
- 3.1.1.d.: in the middle of the sentence we suggest to add, after “documentation”, the words “datas, assumptions, models, and calculations”.
- 3.1.2.: we propose to change this paragraph this way: “When providing professional services,..., to be provided, including:
 - a. any limitations that **the actuarial work is subject to ;**
 - b. any** additionnal requirements that the actuary is required to satisfy ;
 - c. identification...
 - d. the information...confidential.”.
- We propose to add a 3.1.3.: in the case some standards can't be fully applied, or information is incomplete, an actuary can accept his/her assignment but gives a qualified opinion. He/She should write what couldn't be applied or/and done.

Our proposal for the whole 3.1. is:

3.1. Acceptance of Assignment

In the case of an employed actuary, the engagement is generally defined by the employer and could be defined only in general terms in the employment contract.

3.1.1. In accepting an engagement for professional services (whether a single freestanding assignment or an ongoing contract), the responsible actuary should:

- a. agree on its terms with the principal;
- b. be qualified to perform the services, or able to become qualified before the services are delivered;
- c. be satisfied that the assignment can be performed under the responsible actuary's code of professional conduct; and
- d. have reasonable assurance of time, resources, information, access to relevant employees, access to documentation, **datas, assumptions, models, and calculations**, and the right of the responsible actuary to communicate information, as may be necessary for the work product.

3.1.2. When providing professional services, the responsible actuary should confirm with the principal the nature and scope of professional services to be provided, including:

- a. any limitations that **the actuarial work is subject to ;**
- b. **any** additional requirements that the actuary is required to satisfy ;
- c. identification of the schedule and expected cost or resources needed (especially if they are substantial); and
- d. the information needed to be communicated to and by the actuary, especially if it is sensitive or confidential.

Responsible actuaries who are not employed actuaries typically document the confirmation in a letter of engagement, a memorandum of understanding, the report, or other appropriate communication to the principal.



3.1.3. **In the case some standards can't be fully applied, or information is incomplete, an actuary can accept his/her assignment but gives a qualified opinion. He/She should write what couldn't be applied or/and done.**

- 3.3.: we suggest to add, for the reasons expressed above in 3.1., “Employed actuaries should interpret paragraphs **3.1.**, 3.4-4.2...” For 3.1, an employee has an employment contract and has no recurrent assignment to a mission.

Our proposal is : “**Employed Actuaries** – Employed actuaries should interpret paragraphs **3.1.**, 3.4 - 4.2 in the context of normal corporate or partnership practices, but following the same general principles. An employed actuary should consider the expectations of the principal. These expectations might suggest that it may be appropriate to omit some of the otherwise required content in the report. However, limiting the content of a report may not be appropriate if that report or the findings in that report may receive broad distribution.”

Page 7:

- 3.4.: we suggest to add, in the first sentence, after “such as data”, the words “assumptions and models”.

Our proposal : “**Reliance on Others** - The actuary may use information prepared by another party such as data, **assumptions and models**, relevant contracts, insurance policy or pension plan provisions, projections, and supporting analyses. The actuary may take responsibility for such information, or the actuary may state reliance on such information and disclaim responsibility.”

- 3.4.2.a.: we suggest to change the verb “determine” by “verify”.

Our proposal: “3.4.2. : If the actuary uses information prepared by another party under any other circumstances:

- a. the actuary should **verify** that the use of that information conforms to relevant actuarial standards of practice and

appropriate requirements in the jurisdiction(s) of the actuary's services; and

- b. the actuary should establish appropriate procedures for the supervision or review of the information prepared by others which the actuary intends to use.”

Page 8:

- 3.5.: in the first sentence, after “else such as an auditor”, we suggest to add “or imposed by the principal”.

Our proposal is : “**Materiality**- If materiality is determined by the responsible actuary (rather than someone else such as an auditor **or imposed by the principal**), “material” should be assessed from the point of view of an intended user, having regard to the purpose of the work product. Thus, an omission, understatement, or overstatement is material if the responsible actuary expects it to affect significantly either the intended user’s decision-making or the intended user’s reasonable expectations. The responsible actuary should select the threshold of materiality considering the work product and the entity which is the subject of that work product.”

- 3.6.1.: we suggest to add at the end of the paragraph (after "as appropriate") ", and mention it in the report".

Our proposal : “Sources of data - To the extent possible and appropriate, the actuary should consider using data specific to the entity for which the assumptions are being made. Where such data are not available, relevant, and credible, the actuary should consider industry data or data from other similarly situated organizations, modified as appropriate, **and mention it in the report.**”

- 3.6.2.: we think this paragraph isn't precise enough. Thus we suggest to delete it, or at least it is necessary to be more precise on the definition of the sufficiency of the data: the amount of data has an impact on the level of

confidence of the actuaries' calculation (it is not a binary "yes" or "no" sufficiency, but depends on the confidence intervals required in consideration of the company risk policy).

- 3.6.3.a.: we suggest to add "audited" before financial statements, as they shall be considered as the most reliable source when available.

Our proposal: "Testing and validation - The actuary should take reasonable steps to verify the consistency, completeness, and accuracy of the data used. This might include:

- a. undertaking reconciliations against **audited** financial statements, trial balances and/or other relevant records, if these are available;
- b. testing the data for reasonableness against external data;
- c. testing the data for internal consistency; and
- d. comparing the data to that for a prior period or periods."

- As for 3.6.4. which deals with data deficiencies, assumptions and methodology deficiencies should be treated.

Page 9:

- 3.7.1.: in the last sentence we suggest to add, after "it is appropriate to use assumptions" the words "or methodology".

Our proposal is: "Selection of assumptions and methodology - The actuary should select the assumptions and a methodology (including models) that are, in the actuary's professional judgment, appropriate for the work product. The actuary should consider the needs of the intended users and the purpose of the professional services. In selecting assumptions and methodology, the actuary should consider the circumstances of the entity and the assignment, as well as relevant industry practices. The actuary should consider to what extent it is appropriate to use assumptions **or methodology** that adjust for known deficiencies in the available data."

- 3.7.2.:
 - in the last sentence, we suggest to add, after “it is appropriate to use assumptions” the words “or methodology”.
 - after the last sentence we suggest to add: ”For the assumptions on the future management actions, the actuary should rely on a documentation signed by the management who decides these future management actions”.

Our proposal is: “Reasonableness of Assumptions - The actuary should consider the reasonableness of the assumptions underlying each component of the methodology used. Assumptions generally involve significant professional judgment as to the appropriateness of the methodology used and the parameters underlying the application of such methodology. Assumptions may (if permitted in the circumstances) be implicit or explicit and may involve interpreting past data or projecting future trends. The actuary should consider to what extent it is appropriate to use assumptions **or methodology** that (in the actuary’s professional judgment) have a known significant bias to underestimation or overestimation of the result. **For the assumptions on the future management actions, the actuary should rely on a documentation signed by the management who decides these future management actions.**”

Page 12:

- In relation with the section 4, we consider that non formal reports are communication.
- 4.2.: the definition of the report is different from the one given in 2.14. It seems inconsistent.
- 4.2.1.:
 - the sentence “the actuary should ensure that report components in electronic media are such that they can be reliable reproduced at

future dates” should be deleted in our opinion because the role of being able to ensure backup and traceability of these electronic media is generally not devoted to the actuary but rather to the IT.

- at the end of the c. we suggest to add “In particular while communicating the results of professional services the actuary should explain the stochastic nature of the figures and if possible try to evaluate the confidence intervals, considering the models and assumptions used.”.

Our proposal is: “Content - A report may comprise one or several documents. The report may be in several different formats. Where a report for a specific intended user comprises multiple documents, the actuary should communicate which documents comprise the report. In the report, the actuary should:

- a. state the intended use of the report.
- b. state the results of professional services, and identify the methods, procedures, assumptions, and data used. The actuary should present this information with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work product.
- c. include in the report sufficient information and discussion such that the principal, or any intended user, will be able to form a view on the implications of the actuary’s recommendations. **In particular while communicating the results of professional services the actuary should explain the stochastic nature of the figures and if possible try to evaluate the confidence intervals, considering the models and assumptions used.”**

Page 13:

- 4.2.3: we suggest to change this paragraph by adding “f. control or check analysis”.

Our proposal is: “Specific disclosures – The actuary should include the following information in a report:

- a. executive summary
 - b. introduction or background
- 

- c. sections on data, methodology and assumptions
 - d. results and findings
 - e. analysis of results
 - f. control or check analysis**
 - g. subsequent events
 - h. actuary's name, signature, position held and date (employed actuaries should follow the normal internal protocol)."
- 4.2.5: we suggest to delete this part of the last sentence: "but the full report should be available to any intended user identified by the principal or the sponsor, or anyone who has to take over the task of any further work or subsequent reports.", because we think it is not the role of the actuary to take care about this availability.

Our proposal is: "Shorter reports - The guidance in this ISAP applies to any full report produced, but there are occasions when the actuary is asked to produce shorter reports or statements covering the work. Such reports do not have to, and cannot, contain all the details of the full report."