



THE SOCIETY OF ACTUARIES IN IRELAND

**Comments on the International Actuarial Association's
Exposure Draft of ISAP 1, General Actuarial Practice**

November 2011

1 Introduction

- 1.1 The Society of Actuaries in Ireland is the professional body representing the actuarial profession in Ireland. Our Mission is:
- To develop the role and standing of the actuarial profession in Ireland and enhance its reputation;
 - To support actuaries throughout their career so that they have the skills, attributes and knowledge appropriate to both current and future needs of actuarial practice; and
 - To develop, maintain and enforce actuarial standards that require actuaries to advise their clients with integrity, professionalism and objectivity.
- 1.2 Our Code of Professional Conduct¹ sets out principles which members are expected to observe in the public interest and in order to build and promote confidence in the work of actuaries and in the actuarial profession.
- 1.3 In addition, we have implemented a comprehensive suite of Actuarial Standards of Practice (ASPs)². ASP PA-1 sets out Continuing Professional Development requirements which members are obliged to meet. Other ASPs govern how certain actuarial work should be performed, including in particular work performed within the statutory roles of Appointed Actuary, Signing Actuary, Scheme Actuary and Personal Retirement Savings Account Actuary.
- 1.4 We support, in principle, the IAA's development of International Standards of Actuarial Practice, and we are pleased to have this opportunity to comment on the proposed ISAP 1 – General Actuarial Practice.
- 1.5 Please direct any queries on the comments that follow to Ms. Yvonne Lynch, Director of Professional Affairs, at the contact details at the end of this submission.

¹ <https://web.actuaries.ie/standards/code-of-professional-conduct>

² <https://web.actuaries.ie/standards/asp>

2 General Observations

- 2.1 We welcome the development of a model standard on general actuarial practice, which we believe could be a useful complement to national actuarial associations' codes of professional conduct.

We welcome the fact that the proposed ISAP does not seek to reiterate all the requirements which, under the IAA's Internal Regulations, must be included in codes of conduct. We strongly endorse this approach.

There are, however, some overlaps (e.g. within paragraphs 3.1, 3.2 and some paragraphs of section 4). We recommend that consideration be given to excluding the relevant sections from the ISAP or modifying them, in order to prevent the practical issues which will otherwise arise if associations have to consider the consequences of parts of the ISAP being similar to but not quite the same as parts of their codes of conduct. Avoiding overlaps with codes of conduct will make it easier for associations to adopt the ISAP in its original form, an outcome which would add to the credibility of both the ISAP and the IAA as a standard setting body.

- 2.2 We agree wholeheartedly that all actuarial work should be performed to the highest standards of quality.

However, we wonder whether trying to apply the detailed provisions of ISAP 1 to all actuarial work performed by actuaries everywhere is perhaps too ambitious. In the interests of getting this first ISAP up and running in a timely and effective manner, we recommend that the scope be restricted initially to statutory and regulatory work performed by actuaries and/or to reserved work (i.e. work which by law or regulation must be carried out by an actuary).

The scope can be extended in the future, having regard to experience gained in application of the ISAP. In the meantime, codes of professional conduct will apply to all actuarial work, and actuaries could also be encouraged to have regard to the ISAP for material projects that are not strictly within its scope, e.g. mergers and acquisitions, advising on government policy, etc.

- 2.3 We agree that actuaries should take care to ensure that their oral communications are of high quality.

However, many of the provisions of the ASP are impractical in the context of oral communications (such as an actuary's oral response to questions posed during a meeting with a client or board of directors). For example, based on the definitions of "Report" and "Communication" as drafted, section 4.2 of the ISAP applies to oral communications, which presumably was not intended.

We suggest that the ISAP should be restricted to written communications, but should require actuaries to confirm in writing any advice or information of a substantive nature that is provided orally.

- 2.4 We comment further on the scope of the ISAP in our response to the question "*Is the guidance at the right level of detail, or should it be more or less detailed?*" (see 3.2).

3 Responses to questions

3.1 Is the guidance clear and unambiguous?

3.1.1 Some provisions refer to the “actuary” while others refer to the “responsible actuary”. This is confusing. We suggest dropping the term “responsible actuary” and defining “actuary” as “An individual member of one of the member associations of the IAA who is responsible for the work product”.

3.1.2 ISAP 1 is intended to apply to actuaries in a wide range of circumstances. However, it reads as though it was written from the perspective of consulting actuaries. We feel that some of the provisions might not be practical in the context of an employed actuary (including an actuary employed within a consulting firm).

Paragraph 3.3 provides that employed actuaries may interpret paragraphs 3.4 – 4.2 “in the context of normal corporate or partnership practices, but following the same general principles”. We feel that this creates some ambiguity, in terms of what is expected from employed actuaries. We suggest that more thought be given to the extent to which the provisions in 3.4 – 4.2 – and indeed those in 3.1 - should reasonably be expected to apply to employed actuaries, and that clarification be provided within the ISAP accordingly.

3.1.3 Introduction 1 says that “When the standard is translated, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, even if such verbs are not the literal translation of “must”, “should”, and “may”.”

Introduction 2 says that “The verb “must” means that the indicated course of action is mandatory and failure to follow the indicated action will constitute a departure from this ISAP.”

However, note that the verb “must” is not used in the draft ISAP.

3.1.4 Paragraph 1.3, on cross references, is confusing. Is it necessary – does ISAP 1 refer to the provisions of any other documents? If it is not necessary, we suggest that it be deleted.

3.1.5 Definitions:

- “Communication” and “Report”: please see comments at paragraph 2.3 of this submission.
- Please see also our comments on scope at paragraph 2.2 above. We suggest that the definition of “professional services” be revisited in the context of a more tightly defined scope.

3.1.6 Paragraph 3.1.1.d: Is the implication that, if the assurances listed are not available, the assignment should be declined? Or is it acceptable, in some circumstances, for an actuary to perform work but qualify his report?

- 3.1.7 Paragraph 3.1.2: The comment about letters of engagement etc at the end of this paragraph seems to be for information, rather than a requirement. It may be useful to move this to an explanatory note, and include also in the note some explanation of what might typically arise under paragraphs 3.1.2.a, b and c.
- 3.1.8 Paragraph 3.2, Knowledge of Relevant Circumstances: We feel that this requirement is already covered by codes of professional conduct and could therefore be excluded. If it is to be included, some guidance on what is expected would be useful. The provision could be interpreted as requiring an onerous level of documentation (to prove compliance), which could be costly and unnecessary in many instances.
- 3.1.9 Paragraph 3.4.2.a: Effectively, this paragraph says that, if the actuary uses information provided by a third party and does not state reliance on the information and disclaim responsibility for it, he should determine that the use of the information conforms to relevant actuarial standards of practice and other relevant requirements. It seems to us that this requirement should also apply if the actuary states reliance on the information and disclaims responsibility for it. More generally, we think that paragraphs 3.4.1 and 3.4.2 are not necessarily mutually exclusive or exhaustive.
- 3.1.10 Paragraph 3.5, Materiality: Is there an implicit requirement here that materiality must always be explicitly considered and determined? That might not be necessary for all work that would fall within the scope of the ISAP.
- 3.1.11 Paragraph 3.8.2: Does “If not” mean “If not consistent” or “If not modelled”?
- 3.1.12 Responsibility for setting assumptions: There seems to be a conflict between paragraphs 3.7 and 3.10.1.

3.2 Is the guidance at the right level of detail, or should it be more or less detailed?

- 3.2.1 We feel that many of the provisions would not be practical in the context of a minor piece of work. However, the ISAP does not set out clearly that the actuary should have regard to the concepts of materiality and proportionality in applying the ISAP.
- 3.2.2 Oral communications: Please see our comments at paragraph 2.3 of this submission.
- 3.2.3 We question whether actuaries can realistically be expected to be able to comply with paragraphs 3.4.3.b, c and e. At a minimum, the words “where practicable” should be added at the start of each of these bullet points.
- 3.2.4 We suggest that paragraph 3.4.3.f be dropped. If an actuary decides to rely on work done by, say, a qualified lawyer, he should not be expected to check that the lawyer did his work in accordance with relevant requirements, those being requirements that are specific to a different area of expertise.
- 3.2.5 Paragraph 3.4.4: Again, we feel that this is too prescriptive. An actuary should not be required to verify or second guess another expert’s work.

3.2.6 Paragraph 4.1.4: We suggest that the requirement to indicate the extent to which the actuary is available to provide supplementary information and explanation be replaced by a broader requirement to indicate how any further explanation can be obtained.

3.2.7 Paragraph 4.2.5: We suggest that the words “the actuary is asked to produce shorter reports” could be changed to “the actuary is asked or considers it appropriate to produce shorter reports”. Also, “shorter reports” should draw the reader’s attention to the existence of a “full report”.

3.3 Is the guidance on when to issue an actuarial report and what should be covered in the report appropriate?

3.3.1 In relation to section 4.2, note that “report” is, in effect, defined as “An actuary’s [oral or written statement issued by an actuary with respect to professional services] presenting the results of professional services”. Presumably section 4.2 was intended to apply only to written reports. Please see paragraph 2.3 of this submission.

3.3.2 The report should include commentary on uncertainty in the results.

3.3.3 Paragraphs 4.2.3 and 4.2.4: We suggest adding a statement that the lists here are not exhaustive. Also, we suggest adding “relevant” before “subsequent events” at paragraph 4.2.3.f.

3.4 Are there other matters that should be included in this standard on general actuarial practice? Are there some included here that should not be?

3.4.1 We suggest that it might be useful to include a general statement about compliance with relevant code(s) of professional conduct somewhere near the start of the ISAP.

3.4.2 Paragraph 3.11, Peer Review: We agree with the principle that actuaries should take appropriate steps to ensure that their work is accurate and complete. However, we suggest that it would be useful to have a debate on peer review within the IAA before including a peer review requirement in the ISAP. (This need not delay introduction of the ISAP – a peer review requirement could be added to a subsequent version). We feel that trying to address peer review in just one paragraph creates uncertainty regarding what exactly is expected and what considerations should be taken into account. Moreover, for a variety of reasons, some actuaries may face considerable practical difficulties in relation to getting work peer reviewed, even if they think that peer review would be appropriate.

3.4.3 Please see paragraphs 2.2, 2.3 and 3.2.1 of this submission.

3.5 The intent is to use the same format for future ISAPs. Is the format of this ISAP appropriate?

3.5.1 We do not have strong views on the format.

3.6 Is the change in nomenclature (from IASP to ISAP) appropriate?

- 3.6.1 We do not have strong views on the change in nomenclature. However, we do feel strongly that the current IASPs should be reclassified as International Actuarial Notes before any ISAP is introduced, rather than have ISAPs and IASPs in existence at the same time.

4 Other comments

- 4.1 Introduction 1: “The INTERNATIONAL ACTUARIAL ASSOCIATION (IAA) encourages member organizations . . . to consider adopting this ISAP as a standard . . . or to endorse this ISAP as a standard.”

Note that the proposed Due Process discussed at the IAA Council meeting in October 2011 does not envisage any endorsing of ISAPs.

The definition of “Effective date” also refers to the concept of endorsement.

- 4.2 Introduction 2 – Background: The ISAP “applies to all professional actuarial work performed by an actuary unless an element of guidance is explicitly superseded by another standard such as a practice-specific standard.”

The ISAP could also be superseded by legislative or regulatory requirements.

- 4.3 Introduction 2 – Background: There are two references here to “general standards”. How many “general standards” are expected and what are they likely to cover?

- 4.4 Paragraph 3.4: “The actuary may take responsibility for [information prepared by another party], or the actuary may state reliance on such information and disclaim responsibility”:

The scope to state reliance may be subject to other standards or legal or regulatory requirements.

- 4.5 Paragraph 3.4.1.c: We suggest that this paragraph be deleted, as it will not always be practicable to examine the information for evident shortcomings, and in any event, what is evident to one person might not be evident to another person. We feel that paragraph 3.4.1.d is sufficient to address the issue. In that paragraph, the word “consistency” is ambiguous (consistent with what?); perhaps a word such as “completeness” would be preferable.

- 4.6 Paragraph 3.9.3 refers to a discussion with the principal. We feel that, as the situation mentioned relates to a material matter, it should be addressed in the actuary’s written report, rather than only discussed.

- 4.7 Paragraph 4.1.3: The wording of the first sentence could be interpreted as meaning that it is acceptable to agree unreasonable time periods for communication of work products. We suggest that the sentence be changed to read “The responsible actuary should issue each communication within the period agreed with the principal or sponsor or, where no period has been agreed, within a reasonable time period”.



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