

The Actuarial Profession

Response in relation to the International Actuarial Association's Exposure Draft of ISAP1

This response includes the feedback from the Profession's International Committee, the Chair of the Professional Regulation Executive Committee (PREC), the PREC International Sub-Committee and the Standards Review Committee.

1. Introduction

- 1.1. The Institute and Faculty of Actuaries commends the International Actuarial Association (IAA) on developing a model generic standard of practice. Hopefully this step will:
 - 1.1.1. encourage the adoption of practical, principles-based regulation that protects the public interest, enhances public confidence and thus supports the development of the financial services sector world-wide;
 - 1.1.2. enable member associations which do not have their own standards to use this standard as a basis for their own standards in order to benefit the world-wide actuarial community; and
 - 1.1.3. increase the world-wide recognition of the role of actuaries by legislators, regulators and standard setters.
- 1.2. The Institute and Faculty of Actuaries also welcomes the opportunity to comment on both general and specific issues concerning the exposure draft of the International Standard of Actuarial Practice 1: General Actuarial Practice (ISAP1).

2. General Comments

(1) Overlap with the Code

- 2.1. Concern has been expressed by members of the Institute and Faculty of Actuaries that some of the material in ISAP1 concerns matters which are also required to be found in the IAA's Criteria for the Codes of Full Member Associations (Code) (as set out in 2.1.4 of the Criteria for Full Membership of the IAA¹). Two examples of this potential overlap can be found at:
 - 2.1.1. paragraph 3.1.1b of ISAP1 which mirrors 2.1.4d of the Code (an actuary shall perform professional services only if the actuary is competent and appropriately experienced to do so); and
 - 2.1.2. paragraph 4.1.4 and 4.2.1b of ISAP1 which mirrors 2.1.4f of the Code (detailing appropriate responsibility and explanation of scope, methods and data).
- 2.2. This may cause confusion for member associations in working out which document takes precedence in the event of any inconsistency. In addition, the IAA may be including things in ISAP1 which are not in the Code. Again, this would lead to a lack of clarity. The Institute and Faculty of Actuaries feels that this material ought to better be placed in the Code rather than in an actuarial standard of practice.

¹ http://www.actuaries.org/ABOUT/Documents/Criteria_Full_Membership_EN.pdf

- 2.3. The Institute and Faculty of Actuaries would therefore encourage the IAA to review ISAP1 and remove any requirements which are either in the Code already or requirements which would be better placed in the Code. It may be that any further requirements which are not currently in the Code might eventually be included in the Code or offered as additional suggestions for recommended practice to include in a member association's code of conduct.
- 2.4. Additionally, there are two procedural points which might better be placed in best practice or other guidance material, as they seem to sit uneasily in an actuarial practice standard:
 - 2.4.1. Acceptance of assignment (paragraph 3.1); and
 - 2.4.2. Reliance on others (paragraph 3.4) (these two paragraphs are discussed further below at 3.9).

(2) Principles-Based vs Rules-Based

- 2.5. The Institute and Faculty of Actuaries is also apprehensive about certain parts of ISAP1 slipping into a rules-based standard, rather than remaining as a principles-based standard. Particular examples of this are set out further below under the "Specific Comments" section (see, for example, the comments in relation to paragraph 3.1 of ISAP1).

(3) Independence of the Standards-setting Process

- 2.6. The Institute and Faculty of Actuaries also has concerns about the independence of the standard setting process. For example, the Institute and Faculty of Actuaries supports the idea of encouraging users of actuarial work to be involved in the development of this standard. We appreciate, from our own experience, that it may be difficult in practice to obtain user input, but think it is very worthwhile and that it helps ensure the transparency of the standard setting process. We understand that the UK Financial Reporting Council's Board for Actuarial Standards has shared the draft ISAP1 with their own Actuarial Users Committee and would endorse the adoption of this approach across a wider jurisdictional basis.
- 2.7. Additionally, the Institute and Faculty of Actuaries would like to see an independent body being involved in the standard setting process, akin to the position in the UK. We would therefore support the idea being considered by the Task Force on a Permanent Structure for International Actuarial Standards (chaired by Paul Thornton) of there being a more independent standard setter for IAA standards.

3. Specific Comments

Purpose

- 3.1. The Institute and Faculty of Actuaries considers that the purpose of ISAP1 as set out in paragraph 1.1 is insufficient. However, we support the purpose as outlined in the discussion paper "Objectives of IAA Standards" (Objectives) prepared by the Interim Actuarial Standards Subcommittee. That purpose agrees that actuarial standards should promote high quality actuarial practice (in terms of consistency, usefulness and clarity) while also recognising that such practice ensures that the public interest is best served by assisting the users of actuarial work and regulators, participants and beneficiaries of financial security programs.

- 3.2. We feel that it would be more beneficial to refer to that purpose in ISAP1 itself, whether by simply lifting the purpose from the Objectives and placing it into ISAP1 or by preparing a succinct summary and by cross-referring to the Objectives document.
- 3.3. Additionally, the Institute and Faculty of Actuaries would like to see more emphasis on proportionality in the purpose provision. Along with materiality, which is clearly very important, there should be a focus on proportionality: risky practices should be focussed on rather than an indiscriminate approach being taken to all work performed by an actuary.

Scope

- 3.4. The Institute and Faculty of Actuaries is concerned that paragraph 1.2 of ISAP1 extends the scope of the standard beyond what actuaries and users of actuarial services would commonly regard as being “actuarial work”. The Institute and Faculty of Actuaries believes it would be more appropriate to narrow the scope to incorporate work which is regarded as truly actuarial work, with an incremental approach then being taken, allowing, if thought appropriate, the inclusion at a later date of work which is not “actuarial work” but which is done by actuaries. This ensures that member associations will be brought along with the IAA (a “come with us” approach) if it is thought that it is appropriate and proportionate to increase the scope of the standard at a later date.
- 3.5. That is not to say, of course, that member associations could not, themselves, seek to widen the scope of the standard if they choose to adopt ISAP1. Perhaps the nature of the approach adopted could be mentioned in the covering letter to all member associations when the final version of the standard is published.

Section 2: Definitions

- 3.6. The Institute and Faculty of Actuaries notes that the definitions section contains a definition of “sponsor”, in addition to “principal”. However, “sponsor” is only referred to once in paragraph 8.21. We wonder whether it might be simpler to include a reference to “sponsor” within the definition of “principal”.
- 3.7. It seems as though the definition of “report” should be restricted to written communications, in order to ensure consistency with paragraph 4.2 which clearly seems to be drafted with a written report in mind e.g. paragraph 4.2.3 refers to the report including an executive summary. This presumably would be quite difficult to do in an oral context.
- 3.8. Additionally, we would suggest that any significant oral advice provided by an actuary ought to be followed up in writing.

Section 3: Appropriate Practices

Paragraph 3.1 Acceptance of Assignment and Paragraph 3.4 Reliance

- 3.9. The acceptance of assignment provisions (paragraph 3.1) and the reliance provisions (paragraph 3.4) do not seem to fit within an actuarial practice standard for two reasons – one, because they touch on procedural points and two, because they delve into the realm of rules-based guidance. As outlined above, we feel that such provisions would better be placed in a good practice guide or some form of other non-mandatory resource material.

Paragraph 3.2 Knowledge of Relevant Circumstances

- 3.10. Paragraph 3.2 refers to an actuary being “comfortable” in performing the professional services. This phraseology seems peculiar and we would suggest instead referring to “competent” which better fits with the requirements of the IAA’s Code and which is a concept that actuaries are more familiar with generally.

Paragraph 3.3 Employed Actuaries

- 3.11. The Institute and Faculty of Actuaries queries why there is a carve-out for employed actuaries in relation to the provisions in paragraphs 3.4 to 4.2 of ISAP1. As the stated intention of ISAP1 is that it is a generic standard to apply to all actuaries, it seems self-defeating if a large exception is allowed for various members of the profession. We would suggest that the IAA review the requirements in paragraphs 3.4 to 4.2 to see which requirements appear to place an unequal burden on employed actuaries and consider re-drafting those provisions so that they can apply equally to all actuaries.

Paragraph 3.7 Assumptions and Methodology

- 3.12. We consider that Paragraph 3.7.1 should make it clear that, in selecting an appropriate methodology, the actuary should take into account all material risks applicable to the entity concerned. Analysis and understanding of risks is fundamental to actuarial work, but the word “risk” does not appear in the draft model standard.
- 3.13. Paragraph 3.7.2 does not refer to documenting what the actuary has done. There should be a requirement for transparency’s sake that an actuary should consider documenting their assumptions and appropriately record upon what they have based their assumptions. This would assist peer reviewers to undertake their job properly and allow the user to understand the actuary’s thought processes.
- 3.14. Paragraphs 3.7.2, 3.8.4 and 3.10.2 all seem to be linked. It is suggested that these paragraphs be incorporated into one paragraph which leads to the end result that other actuaries or users of actuarial services are aware that an actuary might not necessarily agree with the assumptions chosen by the principal etc.

Paragraph 3.11 Peer Review

- 3.15. Paragraph 3.11 deals with peer review obligations. Whilst the Institute and Faculty of Actuaries agrees with the concept of peer review, particularly given the often highly complicated and complex nature of the advice actuaries provide, other methods of peer review might be referred to in ISAP1, rather than simply having a mandatory, formal peer review obligation.
- 3.16. Furthermore, it may be the case that employed actuaries - who are given a “get out” for the formal peer review process if they have internal peer review or “appropriate review in the normal course of events” - should properly have recourse to a formal external peer review mechanism depending on the complexity or risk of the work that they are performing.
- 3.17. Consequently, the Institute and Faculty of Actuaries would rather that the peer review obligations in ISAP1 be re-directed to ensuring that the work is carried out to an appropriate degree of scrutiny/analysis.

Section 4: Communications and Disclosures

Paragraph 4.1 Communication

- 3.18. Paragraph 4.1 deals with communication requirements, which are also mentioned in the Code. Again, this leads to the possibility of confusion amongst member associations as to which provisions should apply in which circumstances. Either the communications section remains in but repeats the Code requirements, or, as the Institute and Faculty of Actuaries feels would be more appropriate, those requirements are removed from ISAP1 altogether.
- 3.19. Additionally, paragraph 4.1 does not require the communication to users to be transparent. This conflicts with the “Open Communication” principles in section 5 of the Institute and Faculty of Actuaries’ Actuaries’ Code. Section 5 refers to the capacity of users to understand the concepts being explained by the actuary, whether in written or oral communications, by reference to the intended audience, the purpose of the communication, the significance of the communication to the user and the capacity in which the member is acting.
- 3.20. Furthermore, section 5 of the Actuaries’ Code requires members to ensure that any communication with which they are associated is not misleading and contains “sufficient information to enable its subject matter to be put in proper context”. The current requirements in the IAA Code and in section 4.1 of ISAP1 are not as explicit as the Actuaries’ Code and the Institute and Faculty of Actuaries suggests that either the IAA code or section 4.1 of ISAP1 be amended to include such explicit requirements. This would be in the public interest in promoting high quality actuarial work and trust in the world-wide actuarial profession.

Paragraph 4.2 Report

- 3.21. The Institute and Faculty of Actuaries also has concerns that the detailed requirements in paragraph 4.2 stray into rules-based requirements, rather than principles-based requirements. This is at odds with most of the rest of ISAP1.
- 3.22. That is certainly not to say that the content requirements of reports are not important; rather, that given the detailed nature of paragraphs 4.2.1, 4.2.3 and 4.2.4 - which contain helpful information about what should be included in a report - this might be better placed in some form of best practice or non-mandatory guidance material which could be made available to member organisations.

Other Requirements Which Should Be Included in ISAP1

- 3.23. In addition to the comments above, the Institute and Faculty of Actuaries also believes that there should be a reference in ISAP1 to communicating risk and uncertainty. Users of actuarial services should be aware of risks and uncertainties that actuaries have come across in the preparation of their report in order to ensure transparency in actuarial reporting. The Institute and Faculty of Actuaries takes a risk management approach to regulation and it is something that we very are committed to in the public interest.
- 3.24. Likewise, actuaries should be required to take into account the impact of the advice on affected users and other stakeholders and advise the principal (or sponsor) accordingly. Again, this ensures the transparency of actuarial reporting.
- 3.25. Finally, methodology and assumptions should also be proportionate to the particular complexity or riskiness of the situation, the data available and the significance of that part of the exercise in the context of the report as a whole.