



TO: IAA IASSC & Executive Committee

FROM: Yvonne Lynch, Director of Professional Affairs, Society of Actuaries in Ireland

DATE: 14th September, 2012

SUBJECT: ISAP 1, General Actuarial Practice

Thank you for providing an opportunity to provide feedback on the latest draft of ISAP 1, General Actuarial Practice. I am responding on behalf of the Society of Actuaries in Ireland.

The ISAP 1 Task Force and the IASSC have clearly put a lot of effort into developing the draft ISAP, including taking on board feedback from last year's consultation where they thought it appropriate to do so.

We note that many of the key issues raised by the Society have been addressed in the latest draft. However, we remain concerned about the scope of the ISAP, and we do not feel that we could support the implementation of the current draft.

Scope

In our response to last year's consultation on an exposure draft:

- We questioned whether trying to apply the detailed provisions of ISAP 1 to all actuarial work performed by actuaries everywhere was perhaps too ambitious. In the interests of getting this first ISAP up and running in a timely and effective manner, we recommended 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). We noted that the scope could 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.
- We also noted that the ISAP reads as though it was written from the perspective of consulting actuaries, and that some of the provisions might not be practical in the context of an employed actuary (including an actuary employed within a consulting firm).

Our recommendation on scope was not taken on board. Therefore, given the very broad definitions of “work” and “actuarial services”¹, the proposed ISAP, if adopted by the IAA and subsequently by standard setters, would apply to actuaries (and trainee actuaries) in a very wide range of circumstances. (Was it really the intention to include trainee actuaries in scope? For some associations, it is a corollary of the definition of “actuary”).

Several other contributors to last year’s consultation shared our concern about the application of the ISAP to employees. The revised draft addresses some of the points raised in this regard, but we still have concerns about the practicability of implementing / enforcing the proposed standard.

We note the comment in the IASSC’s response to the consultation that their mandate was to produce a general standard. Perhaps it would have been possible, within this mandate, to make the provisions of the ISAP mandatory for specific work (such as financial reporting) and “suggested practice subject to materiality and proportionality” for other work?

We recognise that the ISAP provides that:

“If an **actuary** is performing **actuarial services** for an affiliated party the **actuary** should interpret this ISAP in the context of normal corporate or partnership practices, but following the general principles of this ISAP” (*para. 1.4*)

and

“The **actuary** should exercise reasonable judgment in applying this ISAP” (*para. 1.5*).

However, there is considerable ambiguity regarding what would be expected, on foot of the ISAP, from employed actuaries performing work other than core actuarial work such as valuation of long-term liabilities and financial reporting.

Indeed, paragraph 1.4 is difficult to interpret and difficult to confidently comply with:

What happens if “normal corporate or partnership practices” conflict with “the general principles of this ISAP”? Is the actuary expected to ignore / disobey his firm’s policies and procedures?

- In an employed situation, an actuary may become involved on a daily basis in many assignments of different types, and can experience many different “normal corporate . . . practices”. It will be impossible for actuaries to know in advance whether their reasoning on interpretation of the ISAP would survive a professional challenge. Moreover, it will be very difficult for their professional bodies to evidence non-compliance, with implications for enforcement of the ISAP.

¹ **Work** – All actuarial activities performed by an **actuary** related to **actuarial services**. It usually includes acquisition of knowledge of the circumstances of the assignment, obtaining sufficient and reliable data, selection of assumptions and methodology, calculations and examination of the reasonableness of their result, use of other persons’ work, formulation of opinion and advice, documentation, reporting, and all other **communication**.

Actuarial Services - Services, based upon actuarial considerations, provided to **intended users** that may include the rendering of advice, recommendations, findings, or opinions.

The ISAP could impose unnecessary (and costly) compliance burdens on employed actuaries who are engaged in roles where their actuarial knowledge and skills - including their ability to, and the fact that they do, have regard to “actuarial considerations” - contribute to their effectiveness but are neither essential nor the only knowledge and skills required. An example might be work done by an actuary on a multi-disciplinary product development team in an insurance company.

The ISAP could also expose actuaries (particularly employed actuaries) to unnecessary risk should they exercise what they consider to be reasonable judgement in applying it.

Perhaps these concerns could be addressed, or at least reduced, by covering the principle of proportionality explicitly in the ISAP – i.e. provide that an actuary is not required to undertake an action that is not proportionate to the task or problem in hand.

Reliance on others

We also have some concerns about the practicability of some of the provisions in the “Reliance on others” section (3.3). For example, when deciding whether to use information prepared by another party, the actuary should consider that party’s competence, integrity and objectivity. It seems unreasonable to put this onus on the actuary, unless the party concerned was engaged by the actuary.

Responses to 2012 consultation

We note that few of the small to medium sized associations in the IAA responded to last year’s consultation. Many of the associations that did respond have well-established standards and probably will not adopt ISAP 1 in any event (- so I understand from discussions at IAA meetings). We question whether the consultation process has been successful in providing insight into the views of the associations at which the ISAP is primarily aimed.

We have considered what would be involved in a member association putting in place a standard that was consistent with ISAP 1. Notwithstanding that the Society has already created a comprehensive suite of professional and technical standards, we think that there would be a considerable amount of work involved, including liaising with the IAA to get clarity on some of the provisions and engaging with our members to secure their support. Given their lack of participation in the consultation process, we question whether many of the small to medium sized associations have thought this through. There is a risk that ISAP 1 could be adopted by the IAA but not by member associations, or that it could be adopted (in original or adapted form, or endorsed) by associations but not enforced.

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