International Standards of Actuarial Practice (ISAP)
IAA Fund Seminar

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IAS 19 TF, Common IFRS TF of IASSC
9 May 2012, 香港 (Hong Kong)
What we will cover

• The Need for Standards
• The IASSC of the EC of the IAA
• Supposed ISAPs
• What is ISAP?
• IAA Strategic Plan
• Classifications
• Due Process of ISAP
• ISAP 1 General Actuarial Practice
• The IFRS related ISAPs
• Permanent structure
• What does it mean for your Association?
The Need for Standards

- To assist newer member organisations to develop their own standards of practice
- To provide a common approach to global practices
- To demonstrate the professions commitment to supporting global initiatives such as IFRS
The Need for Standards

G20 members:
- Argentina
- Australia
- Brazil
- Canada
- China
- European Union
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Mexico
- Russia
- Saudi Arabia
- South Africa
- South Korea
- Turkey
- United Kingdom
- United States

Private Sector Taskforce of Regulated Professions and Industries

Final Report to G-20 Deputies
September 2011

Regulatory Convergence in Financial Professions and Industries
The Need for Standards

• Final Report to G-20 (cont.)
  • International Federation of Accountants (IFAC) [coordinator]
  • CFA Institute
  • INSOL International
  • Institute of International Finance (IIF)
  • International Accounting Standards Board (IASB)
  • International Actuarial Association (IAA)
  • International Corporate Governance Network (ICGN)
  • International Insurance Society (IIS)
  • International Valuation Standards Council (IVSC)
The Need for Standards

• Final Report to G-20 (cont.)

• Recommendation 5
  – G-20 to encourage and support the development, adoption, implementation and consistent interpretation of globally accepted high-quality international standards, to the greatest extent possible, for each of financial reporting, auditing, valuation, and actuarial services.
The IASSC of the EC of the IAA

• Interim Actuarial Standards Subcommittee (IASSC) was established in December 2010

• Task Forces
  – General
  – Common IFRS
  – Insurance Accounting
  – IAS 19 (Employee Benefits)
  – ERM
  – Social Security
Supposed ISAPs

• General
  – Common IFRS
    • Insurance Accounting
    • IAS 19 (Employee Benefits)
  – ERM
– Social Security
What is ISAP?

• Dave Pelletier clarified in the IAA Council Meeting, Sydney, April 2011

• The IASSC is in fact an interim structure developing actuarial standards. Its work arose from the Convergence Task Force and the resulting adoption by the IAA of a revised Strategic Objective 3 to include promoting the issuance and development of standards by FMAs and promoting the convergence of actuarial standards worldwide.

• A result of that was a priority action to develop some international standards of practice to serve as model standards that FMAs could adopt over time, but also be useable by individual actuaries carrying out assignments in which the terms of engagement would specify that these are standards which they are using for that purpose. Thought is being given to a permanent structure and this will come back to Council for discussion.
What is ISAP?

- **Due Process for International Standards of Actuarial Practice, approved 23 January 2012**

- A standard of actuarial practice is a statement of behaviour expected of actuaries operating within a specified context. It sets minimum standards on matters such as the methodology to be employed, the approach to be used in setting assumptions, the contents of the resulting report or opinion, and the way in which the report or opinion should be presented. The intention of a standard of actuarial practice is to achieve greater consistency of approach to actuarial practice in a given situation, so as to increase the confidence of clients and the public in the actuarial work product, but without unnecessarily constraining the exercise of actuarial judgment or creativity.

- An ISAP is a standard of actuarial practice that is adopted as a model by the IAA for consideration by (1) its member associations; (2) other standard-setting bodies that establish standards of practice for members of such associations; and (3) individual actuaries.
• Strategic Objective 3

– Establish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards in the jurisdictions of all Full Member Associations, and the global convergence of actuarial standards.

Amendment was approved January 2011
• Strategic Objective 3 (cont.)

— Priorities/Action Plans

1. Periodically review basic education standards to ensure they remain up to date.

2. Develop a recommended set of voluntary continuing professional development (CPD) guidelines.

3. Achieve a common understanding of the principles of professionalism, including code of conduct and disciplinary procedures.

4. Develop model standards of practice
Classifications

• Old Classifications
  – International Actuarial Standards of Practice (IASP)
    • Class 1 (mandatory)     n/a
    • Class 2 (voluntary)     n/a
    • Class 3 (recommended practice) n/a
    • Class 4 (practice guideline)  12 IASPs

• New Classifications
  – International Standards of Actuarial Practice (ISAP)
  – International Actuarial Note (IAN)
Classifications

- IASP 1 -> IAN 1  Guidelines of Actuarial Practice for Social Security Programs
- IASP 2 -> IAN 2  Actuarial Practice
- IASP 3 -> IAN 3  Classification of Contracts
- IASP 4 -> IAN 4  Measurement
- IASP 5 -> IAN 5  Current Estimates
- IASP 6 -> IAN 6  Liability Adequacy Testing
- IASP 7 -> IAN 7  Discretionary Participation Features
- IASP 8 -> IAN 8  Changes in Accounting Policies
- IASP 9 -> IAN 9  Accounting for Reinsurance Contracts
- IASP 10 -> IAN 10 Embedded Derivatives and Derivatives
- IASP 11 -> IAN 11 Business Combinations
- IASP 12 -> IAN 12 Disclosure of Information about Insurance Contracts
- Glossary
Due Process of ISAP

1. approval of the strategic action plan to develop ISAPs by Council;
2. approval of a Statement of Intent (SoI) by the Executive Committee (EC) and ratification by Council;
3. development of an ISAP by the IASSC, or a successor body, after consultation through one or more Exposure Drafts (EDs);
4. approval of the ISAP for submission to Council by the EC, provided that the Professionalism Committee has verified that this Due Process has been complied with; and
5. adoption of the ISAP by Council.
Section 1. Purpose, Scope, and Cross References

Section 2. Definitions

Section 3. Appropriate Practices

3.1 Acceptance of Assignment
3.2 Knowledge of Relevant Circumstances
3.3 Employed Actuaries
3.4 Reliance on Others
3.5 Materiality
3.6 Data Quality
3.7 Assumptions and Methodology
3.8 Assumption Setting
3.9 Process Management
3.10 Responsibility for Assumptions and Methodology
3.11 Peer Review
3.12 Documentation

Section 4. Communications and Disclosures
ISAP 1 General Actuarial Practice

27 Comment letters

- 5 individuals
- Actuarial Society of Malaysia
- Japanese Society of Certified Pension Actuaries
- Professionalism Committee (IAA)
- Actuarial Standards Board of the United States
- Office of the Chief Actuary, Canada
- New Zealand Society of Actuaries
- Actuarial Society of Hong Kong
- Financial Reporting Council (UK)
- Actuarial Standards Board (Canada)
- Society of Actuaries in Ireland
- Institut des Actuaires (France)
- Canadian Institute of Actuaries
- Svenska Aktuarieföreningen (Sweden)

- Institute of Actuaries of Japan
- Institute of Actuaries of Australia
- Actuariele Genootschap & Actuarieel Instituut (Netherlands)
- Institute and Faculty of Actuaries (UK)
- Groupe Consultatif Actuariel Européen
- Education & Practice Subcommittee of the Insurance Accounting Committee (IAA)
- Conference of Consulting Actuaries (US)
- Actuarial Society of South Africa
- American Academy of Actuaries (US)
On the IFRS-related standards, the actuarial standards would not be in the role of interpreting but rather elaborating standards of an actuarial nature on a principle basis.
The IFRS related ISAPs

• Possible Topics for ISAPx Common IFRS
  – Purpose
  – Scope
  – Definitions
  – Appropriate Practices
    • Knowledge
    • Compliance
    • Materiality
    • Subsequent Events
    • Data quality
    • Assumptions
  – Communication
Permanent Structure

- IASSC is a transitional structure, which is to be reviewed by 31 December 2012.
- Permanent Structure in Discussion Paper
  Option 1: Committee and Advisory Board
  Option 2: Independent Board within the IAA Structure
  Option 3: Independent Board outside the IAA Structure
What does it mean for your Association?
Domo arigato!