



International Actuarial Association

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Association Actuarielle Internationale

IAN 2

**Actuarial Practice
When Providing Professional Services
Concerning Financial Reporting under
International Financial Reporting Standards
IFRS [2008]**

**Prepared by the
Subcommittee on Education and Practice of the
Committee on Insurance Accounting
and the Pensions and Employee Benefits Committee**

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This International Actuarial Note is promulgated under the authority of the International Actuarial Association. It is an educational document on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject by readers of the IAN, including actuaries and others, who use or rely upon the work of actuaries. It is not an International Standard of Actuarial Practice (“ISAP”) and is not intended to convey in any manner that it is authoritative guidance. This IAN was originally drafted as an IASP and contains directive words such as “should” and “must”. These words should not be read as directive, and will be removed from the next version.

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1. Scope

The purpose of this PRACTICE GUIDELINE (PG) is educational. It provides advisory, non-binding guidance that ACTUARIES may wish to take into account when providing PROFESSIONAL SERVICES related to the FINANCIAL REPORTING of a REPORTING ENTITY in accordance with applicable INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs). This PG applies where the professional services required of the actuary by the PRINCIPAL relate to a part or all of the related financial reporting of the reporting entity. This PG applies where the reporting entity is an ISSUER of INSURANCE CONTRACTS, INVESTMENT CONTRACTS, or SERVICE CONTRACTS; and where the reporting entity is the sponsor of an EMPLOYEE BENEFIT ARRANGEMENT.

An actuary who provides these professional services may be acting in the capacity of an employee, officer, director, or external adviser of the reporting entity.

Reliance on information in this PG is not a substitute for meeting the requirements of the relevant IFRSs or International Standards on Auditing (ISAs). Actuaries are therefore directed to the relevant IFRSs (see Appendix C) for authoritative requirements. The PG refers to IFRSs and ISAs that are effective as of 4 November 2008, as well as amended IFRSs and ISAs not yet effective as of 4 November 2008 but for which earlier application is made. If IFRSs or ISAs are amended after that date, actuaries should refer to their most recent version.

2. Publication Date

This PG was originally published on 16 June 2005 and subsequently revised on 4 November 2008, the dates approved by the Council of the INTERNATIONAL ACTUARIAL ASSOCIATION (IAA).

3. Background

Under the IASB's *Framework*, the primary responsibility for preparation and presentation of the financial statements of the enterprise falls to management. Governance with respect to the application of INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) may vary by jurisdiction but is often the role of the board and the auditor. In some jurisdictions duties are imposed by law on actuaries holding reserved roles.

Further background to the development of relevant standards is included in section 1 of Appendix A.

The PG is structured to provide the framework for consistent application to a particular work product. Actuaries may act in different roles related to a particular work product. As an

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example, an actuary may prepare a work product in part or all for inclusion in a reporting entity's financial statement. The professional services of another actuary may be to audit the particular work product while the professional services of yet another actuary may be to review the particular work product. Therefore, the actuary may be applying the PG in different roles defined by the actuary's relationship to the entity or by the purpose of the engagement.

The work product of the actuary may be used by the entity's auditor. Its use by the auditor in the case of an auditor's expert is addressed in International Standard on Auditing (ISA) 620. Its use by the auditor in the case of a management's expert is addressed in ISA 500. ISA 620 requires the auditor to assess:

1. the professional competence of the expert;
2. the objectivity of the expert; and
3. the appropriateness of the expert's work as audit evidence regarding the assertions in the financial statement being considered.

This PG provides the actuary with non-binding educational information on RECOGNISED ACTUARIAL PRACTICE under IFRSs, separate from technical educational information. The IFRSs contain requirements for issuers of FINANCIAL STATEMENTS that are issued in conformity with the IFRSs. This PG addresses recognised actuarial practice and provides a bridge between the actuarial technical guidance and the related professional services performed by the actuary in conjunction with financial reporting under IFRSs.

4. Practice Guideline

In this PG, the requirements of IASB standards and educational/non-binding guidance are specifically referred to as such. This PG describes current educational/non-binding guidelines to recognised actuarial practice in accordance with IFRSs. Recognised actuarial practice also includes other practices commonly applied by actuaries in performing professional services.

4.1 Specific requirements

4.1.1 Disclosure regarding professional services

When providing professional services as described in this PG, actuaries generally disclose, in a REPORT or other suitable communication, when the actuary is providing professional services in compliance with IFRSs, the Code(s) of Professional Conduct, or other rule(s).

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4.1.2 Clarity of nature and scope of the professional services to be performed

When providing professional services as described in this PG, actuaries typically confirm with the principal the nature and scope of professional services to be provided, including any limitations or additional requirements that the actuary must satisfy. Actuaries typically document the confirmation in a letter of engagement, a memorandum of understanding, the report, or other appropriate communication to the principal.

4.1.3 Determining adequacy of the scope of work

The scope of the professional services requested by the principal, and the information available in relation to the assignment, may not be adequate to enable the actuary to perform the requested professional services described in this PG. If either the scope or the available information is inadequate, actuaries generally advise the principal of what additional professional services or information are necessary, and the actuary may then do the following:

1. Seek to obtain the additional information needed or change the scope of the assignment and obtain permission from the principal to perform additional professional services;
2. Determine whether it is appropriate to perform the requested professional services and, if the professional services are performed, state in a report or other appropriate communication that, in the actuary's professional judgment, the information provided or the requested professional services were not sufficiently broad in scope to permit the actuary to perform the professional services; or
3. Decline the assignment.

4.1.4 Financial reporting requirements

Part 2 of Appendix A lists considerations that may be appropriate to relevant work products.

Generally, actuaries would confer with the actuary's principal, or other appropriate person, on the ACCOUNTING POLICIES for this list. It is

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appreciated that management of the reporting entity as preparer of the financial statement is responsible for the financial statement, including the formulation of the accounting policies of the reporting entity.

Where some or all of these tasks have been appropriately performed by the principal or by others on the principal's behalf, it is not necessary for the actuary to duplicate this work. Section 4.2.7 provides further guidance on the use of the work of others.

4.1.5 Knowledge of relevant circumstances

Aspects of the history, processes, procedures, and nature of the business operations of the reporting entity and its Employee Benefit Arrangements or insurance products, where relevant, may be applicable to the actuary's performance of the professional services in accordance with the reporting entity's accounting policies. The extent to which the reporting entity has adopted IFRSs, the timing of such adoption, the accounting options selected, and the valuation date are additional considerations.

4.1.6 Material inconsistencies

If, while performing professional services or gaining knowledge of the relevant circumstances for completion of the professional services, the actuary becomes aware that information provided in the financial statement of the reporting entity contains material errors, omissions or double counting, or fails in another material manner to conform to the reporting entity's accounting policies, the actuary may inform the principal and/or the appropriate authority. If the information in the financial statement has not been corrected, the actuary may disclose that fact in the report or other appropriate communication.

Some actuarial Codes of Professional Conduct impose related disclosure requirements on the actuary. In addition some Codes of Professional Conduct require that the actuary not be associated with anything that the member knows or should know is false or misleading.

An example of such a potential situation is where, in the performance of professional services, the actuary determines that the selection of the measurement bases for FINANCIAL ASSETS, FINANCIAL LIABILITIES, or other items in the balance sheet from among those permitted under the IFRSs could result in materially misleading reported income or equity during the period. There are varying views as to how this should be addressed. Some Codes of

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Professional Conduct, in such an event, would require the actuary to disclose that information and its effect on income or equity in the report or other appropriate communication to the principal and/or other appropriate authority. An alternative view is that the actuary is not in a position to second-guess an IFRS, which has undergone the IASB standard-setting due process. Others view this as beyond the scope of the actuary's role.

The example given above is not intended to imply a duty on the actuary to search for problems that lie outside the scope of the actuary's assignment.

4.2 General requirements

4.2.1 Requirements of practice

According to the relevant actuarial Code of Professional Conduct that meets the IAA minimum standard for such a code, an actuary is responsible for maintaining applicable standards of practice in his or her work.

In meeting the actuary's professional responsibility, the actuary may wish to indicate whether the professional services provided by the actuary are intended to comply with applicable legal and regulatory requirements, recognised actuarial practice and financial reporting principles, and standards of conduct, practice, and qualification in the REPORTING JURISDICTION.

The applicable jurisdictions may include the jurisdiction of the Code(s) of Professional Conduct or other rule(s) under which the actuary is providing the professional services, the entity's reporting jurisdiction, and, if different, the jurisdictions in which the reporting entity's applicable business is located. For example, in a jurisdiction where the law requires a public OPINION of the actuary, the actuary needs to satisfy the requirements to sign such an opinion.

4.2.2 Qualifications

Under the actuarial Code of Professional Conduct that meets the IAA minimum standard for such a code, an actuary shall perform professional services only if he or she is competent and appropriately experienced to do so.

In meeting the actuary's professional responsibility, the actuary may wish to indicate that he or she has kept up to date regarding applicable legal and regulatory requirements, recognised actuarial practice and financial reporting principles, and standards of conduct, practice, and qualification in the applicable jurisdiction(s).

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As required by the actuarial Code of Professional Conduct that meets the IAA minimum standard for such a code, the actuary may not provide professional services if he or she does not have the appropriate qualification, relevant knowledge gained through basic and continuing education, and appropriate experience to successfully complete the assignment.

4.2.3 Communication of the actuary's role

Under the actuarial Code of Professional Conduct that meets the IAA minimum standard for such a code, an actuary shall, in communicating his or her professional findings, identify the client for whom these findings are made and in what capacity the actuary serves.

In meeting the actuary's professional responsibility when providing professional services, unless it is apparent from the circumstances, the actuary may wish to communicate to the principal whether he or she is acting as an actuary in providing advice in accordance with statute, regulations, accounting guidance, or actuarial professional guidance, rather than providing advice or expressing an opinion while acting in the capacity of an employee, officer, director, or external adviser, as the case may be.

4.2.4 Preparation and performance of professional services

In meeting the actuary's professional responsibility in performing professional services, actuaries generally do the following:

1. Request from the principal, and review, relevant information that is necessary to conduct the actuary's professional services;
2. Request from the principal relevant data and review the data for sufficiency and reasonableness;
3. Select and use appropriate assumptions and methods;
4. Perform the necessary calculations and examine the reasonableness of the results;
5. When relevant, make appropriate use of other persons' work, consistent with 4.2.7, and disclose if the actuary is not taking responsibility for such work; and

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6. Formulate an appropriate opinion, if requested or required, and provide accompanying recommendations, if any.

In order to complete the above, the actuary might develop a documented work plan and timetable for the professional services.

4.2.5 Sufficient and reliable data

In meeting the actuary's professional responsibility to consider the sufficiency and reliability of data, actuaries often perform the following steps:

1. Identify the data needed, which includes determining the appropriate level of categorisation and stratification;
2. Obtain such data from the reporting entity's management;
3. Review the data obtained for completeness; and
4. Assess the reliability and sufficiency of the data obtained.

4.2.6 Model and assumptions

Where applicable in meeting the actuary's professional responsibility to consider appropriate models and assumptions, the actuary might include the following selections:

1. MODELS that are sufficiently comprehensive to reasonably represent known existing circumstances affecting the reporting entity;
2. Assumptions that adjust for known material insufficiency or unreliability in the obtainable data, if appropriate; and
3. Other assumptions that may involve the legal, economic, demographic, and social environment on which the model and assumptions depend.

To the extent the actuary is involved in making or reviewing the selection of assumptions or models, such as when establishing a CURRENT ESTIMATE or a margin for risk and uncertainty, the actuary follows the requirements of the relevant IFRSs. Similarly the IFRSs are considered in terms of the level of aggregation and the internal consistency of assumptions. For example, when performing a liability adequacy test under International Accounting Standard (IAS) 37, the level of aggregation in the selection of assumptions may need to be considered related to that purpose. The actuary may need to consider consistency where components of an insurance contract fall under different

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IFRSs, and similarly where Employee Benefit Arrangements may fall under different IFRS. While assumptions might be justifiable individually, it is possible that prudence or optimism in multiple assumptions will result in an aggregate assumption that is no longer valid. An assessment of whether assumptions are reasonable in the aggregate, including assumptions supplied by the reporting entity or mandated requirements, may involve similar considerations (IAS 8.13).

The actuary's assessment of the appropriateness of assumptions that he or she has selected or reviewed might include the following:

1. The basis for selection of the assumptions and any market calibration, loadings, or adjustments made in consideration of risk and uncertainty;
2. Available supporting data upon which the actuary relied in selecting the assumptions, for example, experience studies, pricing surveys, market surveys, and recent transactions;
3. An assessment of the sufficiency and reliability of the supporting data and such assumptions selected by the actuary in reliance upon the data.
4. Where the actuary is constrained to use an assumption that he or she considers inappropriate, a statement to that effect, including reasons for that view, the alternative assumption, and the impact of the difference.

4.2.7 Use of the work of others, including other actuaries

In providing professional services, the actuary may use the work of others, including that of other actuaries. Appropriate procedures should be in place for the supervision or review of work not performed by the actuary but which the actuary intends to use. Provided that using another person's work, and assumption of responsibility for it, does not constitute unauthorised practice in relation to the other person's profession, actuaries commonly use the work of another if, in the actuary's professional judgment, such reliance is appropriate.

Considerations for determining whether to use the work of another often include the following:

1. That person's qualifications;
2. That person's competence, integrity, and objectivity;
3. That person's awareness of how the work is expected to be used;

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4. Communications between the actuary and that person regarding known information that is likely to have a material effect upon the other person's work;
5. The actuary's review of the person's report or available working papers; and
6. Satisfaction that the other person's work has been completed in accordance with relevant requirements.

If the work involves multiple jurisdictions, there might be differences in the law or recognised actuarial practice in the reporting jurisdiction compared to the requirements of the jurisdiction to which the other person satisfied when conducting the work.

If the actuary uses the other person's work but does not take responsibility for it, then the actuary may wish to disclose that fact in a report or other appropriate communication to the principal.

If an actuary is using the work of another actuary for a portion of the WORK PRODUCT, it is the responsibility of the actuary who issues the work product, and not the actuary whose work is being used, to determine whether the work product conforms to recognised actuarial practice and appropriate requirements in the jurisdiction(s) in question.

4.2.8 Materiality

IAS 1.29 and 1.30 require consideration of materiality regarding the relevance of the information for an entity's financial statement (IAS 1.1.11 and 1.8.5). In determining what is material from the perspective of the reporting entity and the INTENDED USERS of the work product, the actuary, based on his or her professional judgment, would take into account the purpose of the work product, any limitations to the reliability of the actuarial estimates, and the accounting policy of the reporting entity with regard to materiality. Before reaching this determination, the actuary typically would discuss what is material for financial reporting purposes, and the extent to which more detailed figures are required for actuarial purposes, with the reporting entity's management and the auditor to confirm whether that assessment is in compliance with the accounting policy. The actuary might disclose what is material for actuarial purposes in the report or other appropriate communication.

4.2.9 Controls

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It may be valuable to design and implement an appropriate control environment, so that the professional services are performed as agreed upon in the engagement letter, memorandum of understanding, or other communication and so that calculations are done appropriately. In particular, the actuary may wish to include the relevant control procedures listed in part 3 of Appendix A as applicable and appropriate.

4.3 Report of the actuary's work

4.3.1 Requirement for a report

The actuary might wish to provide the principal, or any person or entity designated by the principal, with a report or other appropriate communication describing the professional services provided.

4.3.2 Coverage of the report

The actuary's report typically describes the following information:

1. The identity of the principal and the reporting entity;
2. The scope of the assignment and the work product, the purpose, the intended users, and the actuary's role, if any, in the preparation of the reporting entity's financial statements;
3. A statement of findings;
4. Whether the work is intended to comply with recognised actuarial practice and applicable IFRSs, and, if not, a description of material deviations from them;
5. Those material aspects of the work product for which the actuary does not take responsibility;
6. The methods and assumptions used and known material changes in methods or assumptions, including the financial effect, if readily estimable, of such changes;
7. Known material inconsistencies between the methods and assumptions of the current and immediately prior report;
8. Known material events occurring during the period addressed in the work product that, in the actuary's professional judgment, had a significant impact on the work product;
9. Known material subsequent events that have not been taken into account in the work product in accordance with IAS 10 but that, in the actuary's

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professional judgment, could be considered and taken into account when reviewing the work product;

10. Any material reservations regarding the work product;
11. Other disclosures;
12. An opinion on the results of the work if requested to do so by the principal or required to do so by law;
13. The identity of the actuary responsible for the work product and his or her signature if the work product is a written communication; and
14. The date of the report.

The descriptions or disclosures referred to above may be included in material referred to in the report, such as notes in the financial statements.

4.3.3 Documentation

The actuary's report may be supported by appropriate documentation in the form of work papers and/or electronic files. The actuary's documentation may include not only the actuary's conclusions, but also a description of the process followed by the actuary to apply requirements. As appropriate and relevant in relation to the scope of the professional services completed, such documentation typically may include the information listed in part 4 of Appendix A.

The actuary might, for a reasonable period of time, retain or maintain access to such documentation and/or electronic files so that another appropriately qualified actuary could review and evaluate the reasonableness of the actuary's work. In addition, retention of documentation may be subject to the requirements of local jurisdictions.

4.3.4 Distribution to third parties

On occasion it may be appropriate to place restrictions on the distribution of the report or extracts from the report to parties other than intended users or for purposes other than the stated purpose.

Appendix A – Specific Actuarial Issues

1. Background to the Development of Relevant IFRSs

Insurance Contracts, Financial Instruments and Service Contracts

Prior to 31 March 2004, many IFRSs excluded insurance contracts. The INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) decided to develop an IFRS on insurance contracts and amend a number of the other existing standards to include insurance contracts. The IASB published IFRS 4 to implement Phase 1 of the project. The actual effective date for adoption of IFRS 4 and other existing standards has varied by jurisdiction and reporting entity.

With the new definition of insurance contracts in IFRS 4, the reporting entity might also have existing “non-insurance” contracts that may now be classified as financial instruments and service contracts and be reported on, with various aspects affected by, IFRS amendments through the publication date of this PG. The most frequently applicable IFRSs are listed in Appendix C.

Employee Benefit Arrangements

The IASB published a comprehensive revision of IAS 19: Employee Benefits in 1998. This was amended in 2000 to introduce the concept of ‘reimbursements’, and in 2002 to correct anomalies related to the operation of the ‘surplus cap’. In 2004, the standard was amended to allow immediate recognition of actuarial gains and losses in the Statement of Recognised Income and Expense (SORIE).

2. Considerations that may be applicable to relevant work products

Insurance Contracts, Financial Instruments and Service Contracts

1. The classification of CONTRACTS in accordance with IFRS 4;
2. Whether COMPONENTS of the contracts are to be UNBUNDLED, and whether EMBEDDED DERIVATIVES, if any, are to be separated in accordance with IFRS 4 and IAS 39;
3. What is the appropriate UNIT OF ACCOUNT(S) and measurement bases for such contracts and their components parts, as applicable in accordance with IFRS 4, IAS 18, IAS 39, or other IFRSs;
4. How DISCRETIONARY PARTICIPATION FEATURES are to be treated in accordance with IFRS 4;
5. The manner in which LIABILITY ADEQUACY TESTING, the impairment of reinsurance asset test, recovery of deferred transaction costs, or testing for onerous contracts are to be performed in accordance with IFRS 4, IAS 36, IAS 37, and IAS 39, respectively;

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6. The information needed to comply with IFRSs disclosure requirements; and
7. Any other applicable IFRS requirements.

Employee Benefit Arrangements

1. The classification of benefit arrangements in accordance with IAS 19 for the purpose of their treatment under IAS19;
2. Whether all obligations within the scope of employee benefit arrangements have been considered, including the possible existence of constructive obligations that go beyond the terms of contractual agreements;
3. The recognition and valuation requirements for any associated assets;
4. The requirements for attributing projected benefits to periods of service;
5. The choice of discount rate and other actuarial assumptions given the nature of the liabilities and the depth of local bond markets;
6. Possible limits on any company asset or liability;
7. The information needed to comply with IFRSs' disclosure requirements; and
8. Any other applicable IFRS requirements.

3. Control Procedures

Insurance Contracts, Financial Instruments and Service Contracts

1. Tests of the completeness of the contract inventory of exposures, the determination of the adequacy of the required data, subdivision and tests of consistency with other data, and financial records of the reporting entity;
2. Approval by the actuary and, where appropriate, the principal, of the selection of the models, data, and other assumptions, and confirmation of their application to the various blocks of business, with respect to reliability, completeness, and compliance;
3. Validation of the calculations performed, including confirmation that appropriate data files have been used; and
4. Testing for reasonableness and comparisons with prior years, which has been completed and explained.

Employee Benefit Arrangements

1. Tests of the completeness of the member data provided, subdivision and tests of consistency with other data, and financial records of the reporting entity;

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2. Approval by the actuary and, where appropriate, the principal, of the selection of the models, data, and other assumptions, and confirmation of their application to the various employee benefit arrangements, with respect to reliability, completeness, and compliance;
3. Validation of the calculations performed, including confirmation that appropriate data files have been used; and
4. Testing for reasonableness and comparisons with prior years, which has been completed and explained.

4. Documentation of Findings

Insurance Contracts, Financial Instruments and Service Contracts

1. A summary of the actuary's review of contracts;
2. Measurement basis used;
3. Treatment of discretionary participation features;
4. Liability adequacy or other tests;
5. Asset impairments;
6. The supporting information and criteria used to assess the reliability and sufficiency of the data used, appropriateness of the methods and assumptions, and the calculation procedures used;
7. The controls that have been applied or reviewed by the actuary; and
8. Reliances used.

Employee Benefit Arrangement

1. A summary of the actuary's review of the data provided;
2. Measurement basis used;
3. The benefit obligations measured in the work product, including any constructive obligations;
5. Any limit on assets or liabilities;
6. The supporting information and criteria used to assess the reliability and sufficiency of the data used, appropriateness of the methods and assumptions, and the calculation procedures used;
7. The controls that have been applied or reviewed by the actuary; and
8. Reliances used.

Appendix B – Supporting Information

This supporting information accompanies, but is not part of, the International Actuarial Association's (IAA) PG, "Actuarial Practice When Providing Professional Services Concerning Financial Reporting of Insurance Contracts, Financial Instruments, Service Contracts and Employee Benefit Arrangements Under IFRSs" (Actuarial Practice).

Introduction

This supporting information summarises the considerations of the IAA Subcommittee on Actuarial Standards of the Committee on Insurance Accounting and the Pensions and Employee Benefits Committee in reaching the conclusions on the *Actuarial Practice* PG. Certain members of the committee gave greater weight to some of the factors than others.

Background

1. Prior to the widespread introduction of International Financial Reporting Standards (IFRSs), accounting practices for insurance contracts and employee benefit arrangements on an international basis have been diverse and have often differed from practices in other sectors. With the demutualisation of a number of insurance companies, consequent additional trading in insurance stocks, combined with a desire by the European Union to have a comprehensive set of standards for financial reporting for financial entities, securities commissions have pressed for an international basis to be developed.
2. IFRSs have historically excluded insurance contracts. The International Accounting Standards Board (IASB) decided to develop an IFRS on insurance contracts and amend a number of the other existing standards to include insurance contracts. Adopted 31 March 2004, the IASB published IFRS 4 to implement Phase 1 of its insurance contract project. The actual effective date for adoption of IFRS 4 and other existing standards has varied by reporting entity.
3. In light of these developments, the IAA established the Committee on Insurance Accounting's Subcommittee on Actuarial Standards to develop recommendations regarding PGs to assist members practicing in this field. This PG is part of the initial recommendations of the Subcommittee as supplemented by later work by the Pensions and Employee Benefits Committee.
4. The PG provides the actuary with a practice guideline with respect to recognised actuarial practice under IFRSs, educational in nature and separate from technical guidance. The IFRSs provide guidance to issuers of financial statements that are issued in conformity with IFRSs. The PG addresses actuarial practice and provides a bridge between the actuarial technical guidance and the related professional services performed by the actuary in financial reporting

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under IFRSs. Where the PG is adopted by the local actuarial profession, or is agreed to apply to the work product by the parties, the PG provides the link to the actuarial profession's professional standards and expected practice for its members.

5. IAA Practice Guidelines are educational in character.
6. The word "should" when used by itself has been used to indicate expected practice by a number of IAA members and would therefore normally be expected to appear only in a Recommended Practice. IFRSs have used the word "shall." In the exposure period for this PG, a number of commentators expressed the opinion that the use of the phrase "should consider," which was intended to be consistent with the educational nature of a PG, was confusing and in some cases inappropriate. In considering the commentary, the Subcommittee and the Pension and Employee Benefits Committee determined that it was important from an educational perspective to indicate the source of the authority. Such authority includes the following:
 - Requirements of the IFRSs;
 - Minimum requirements of the relevant Code of Professional Conduct that meets the minimum requirements of the IAA;
 - Some other actuarial Code of Professional Conduct that restricts practice; or
 - The combination of a Code and/or standard that limited practice even further in a particular area.
7. Small capitalised letters are used when a defined term (in the Glossary) is first given.
8. It should be noted that the Subcommittee initially and the Pension and Employee Benefits Committee subsequently have recommended that the *Actuarial Practice* International Actuarial Standard of Practice (IASP) be classified as a class 4 IASP under the IAA IASP hierarchy, although it is currently the intention to re-evaluate this classification within two years from its adoption date in order to decide whether to recommend that the IAA should consider revising it to become a class 3 IASP. It is important to note that a class 3 (Recommended Practice) status implies that the standard would then become recommended practice on an international basis. ("Actuaries would be expected to follow a recommended practice unless there were sound and defensible reasons for not doing so. Actuaries who do not follow the recommended practice should be prepared to give good account as to why it was felt appropriate not to follow the standard and should disclose the material aspects where they have departed from it. An IAA Member Association may choose to raise the recommended practice to a stronger type of standard in the local context.")

Title

1. The title has been selected to make it clear that this PG now addresses IAS 19 requirements regarding employee benefits.

The following provides more detailed supporting information on some of the issues discussed in this PG. Reference to the specific paragraph is included in parentheses.

Interaction with local rules of professional conduct and local actuarial standards

Interaction of local rules of professional conduct and local actuarial standards with this PG is governed by the IAA Statutes, the IAA “due process for international actuarial standards,” the local rules of professional conduct, and local standards of practice.

2. In practice, when an actuary is asked to perform professional services, he or she will do so in the context of a reporting entity preparing a financial statement. It is instructive to consider a number of examples.
 - In the first and simplest example, the reporting entity is incorporated within a specific jurisdiction, the reporting entity has no business outside that jurisdiction, the jurisdiction has accepted IFRSs without amendment, and the IAA Full Member association in that jurisdiction has not issued its own standard. In such a simple case the PGs would provide educational material.
 - In a second, more complex example, the reporting entity has a number of subsidiaries, and the actuary deals with the consolidated financial statements of a number of related entities with business in numerous jurisdictions. The financial statements are being prepared under IFRS so the reporting entity can raise capital in numerous jurisdictions. It is noted that, because IFRS allows the use of many aspects of national accounting standards for insurance contracts under Phase 1, this implies there potentially are multiple approaches being consolidated. In relation to which actuarial standard applies, the involvement of multiple national methods would imply that national standards would apply to the development of these national values but are not relevant to the reporting entity’s overall financial statements. The matter can be more confusing if the IAA Full Member association in whose jurisdiction the reporting entity was incorporated has issued their own standard. However, as the financial statements have been prepared in accordance with IFRSs and there is no jurisdiction applicable in terms of accounting policies, the PGs would provide educational material.
 - However, in a third example using the same situation as in the second example but in preparing the statements under IFRSs, the accounting policies elect to be bound by the laws

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and regulations in the jurisdiction in which it was incorporated. Assuming that the jurisdiction has accepted IFRSs without amendment and that jurisdiction had an IAA Full Member association that had issued a stronger standard, then the local actuarial standard would apply to the reporting entity. Note that different situations may apply to the subsidiary entities that may be preparing financial statements.

2. Given the multiple potential options, the PG has been designed to be applicable where the IFRS standard has not been amended and the PG not replaced in accordance with the due process by a stronger standard in the applicable jurisdiction. The PG is silent on this matter as it is governed by other documents.
3. The question arose as to how it would be determined whether an IAA Full Member association has implemented a stronger standard than the PG. There was concern regarding how a comparison of the PG with local standards would be performed. It was envisaged that the standards may be stronger or weaker in different ways, and, in any case, who is to say what constitutes strength or weakness in a standard? They may just be different. The IAA's Professionalism Committee, given the nature of the IAA, recommended that this judgment be left to the member association. It was thought that it would be unacceptable for an IAA Full Member association to develop a standard that would prevent an individual member of that association from being able to comply with a PG, unless it was a matter of local law. If the local association has produced a standard that required something more than suggested in the PG, it is understood that the actuary could still be following the PG. The question of whether the actuary might have to comply with additional standards is a matter for the local association and the local standard, and not for the IAA and the PG.
4. A question arose regarding a situation in which an actuary did not disclose what standard he or she had complied with. In the example, the actuary states that he or she has conformed to an IFRS. Presumably someone would make a complaint to the national association to which the actuary is a member. That national association would make a determination as to which standard its member should have followed and if the member had appropriately conformed to that standard.
5. A further question arose as to the jurisdiction that the IAA Full Member association's standard applies to. It was thought that if this question arose in practice, it would be beyond the scope of the PG and would be addressed by the Professionalism Committee or another designated IAA body.

Scope (1)

1. The PG has been designed to apply to actuaries. It was recognised that an actuary may not be the only provider of these professional services in some jurisdictions. Although it was the view that the guidance would be appropriate for all practitioners, it was determined that specific

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reference to *practitioner*, as opposed to *actuary*, was not appropriate in this PG, which is intended to provide guidance on the expected conduct of actuaries when practicing in this area. *Practitioner* has been used in the technical standards.

2. In performing professional services, the actuary who is a member of one or more actuarial associations that are Full Members of the IAA, would in addition be bound by professional Code(s) of Professional Conduct or other rule(s) of those actuarial associations. The actuary could therefore be exposed to discipline by his or her IAA association(s) if its Code(s) of Professional Conduct or other rule(s) are not followed.
3. While the IAA believes that whoever performs the professional services (actuary or not) should take into account this PG, it recognises that the professional requirements may not apply in all cases.
4. The scope of the PG has been structured to relate only to practice with respect to IFRSs. This includes applicable IASB-published international standards (IFRSs and IASs). The PG is not intended to relate to a specific applicable jurisdiction. For a reporting entity whose financial statement is subject to a specific jurisdiction, the IASB-published international standard could be amended by legislation or regulation in that jurisdiction. If such is the case and the amended version applies to the reporting entity, then it would be expected that its accounting policies would identify that the financial statements have been prepared in accordance with a particular jurisdiction's standards and not IFRSs (see IAS 1.14). In such a situation, this PG would not therefore be expected to apply in full. In addition, in accordance with the IAA Statutes and due process, this PG may be superseded where an IAA Full Member association has issued its standard.
5. *Professional services, financial reporting, and reporting entity* are defined terms. They have been chosen with the intended purpose to clarify the application of the PG. The term *professional services* is intended to restrict the application of this PG to work within the domain of recognised actuarial practice. The PG-defined term, *financial reporting*, is intended to cover professional services related to the preparation of financial statements and to cover related advisory or audit-related work, but exclude from its application such services as merger and acquisition work. The professional services to be performed will be determined by the nature and extent of the assignment. This has been reflected in the scope by reference to "part or all." *Reporting entity* is intended to relate the work to the entity for which the financial statement is being prepared. This could be a consolidated entity, a single company, or a single company within a group.
6. The focus of this PG as it relates to insurance contracts was naturally intended to be on insurance entities (who would normally issue insurance contracts) but would also be applicable in certain other cases in which IFRS is applied and on similar contracts issued by other entities, provided that the actuary has been requested to perform the professional services. For example, if a bank issued an investment contract, insurance contract, or service contract for which an

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actuary was asked to perform relevant professional services, then that actuary would be expected to take into account this PG.

7. The actuary can perform professional services under the PG while acting in a number of different roles for the reporting entity. It is intended that this PG should apply irrespective of the status of the actuary in regard to the reporting entity. In this regard the actuary could be an employee, officer, director, or an external adviser, including an auditor.
8. The need for separate sections in the PG regarding when an actuary is providing professional services in a reviewing role was discussed, such as when the actuary is serving in an auditor or peer review function. It was concluded that the same PG should apply in all situations and therefore no such provisions were included. However, within the scope and description of practice and requirements it has been recognised that the work to be performed may be a review of part or all of a financial statement as opposed to its preparation. The focus, however, is on the situation of the actuary as a preparer of a financial statement.
9. Recognised actuarial practice can have different meanings in different jurisdictions. For the purpose of the PG and the contemplated professional services to be provided, it was considered important that this should be clear. We have chosen to define a hierarchy that would constitute recognised actuarial practice for this purpose as outlined in the Glossary. The intent is that the actuary would know what recognised actuarial practice is and when to disclose an approach that has not been performed in accordance with such practice.
10. There was a question as to whether *actuary* should be a defined term or defined by the IAA Code of Professional Conduct. It was determined that IAA observer/associate members will not necessarily have a Code of Professional Conduct, discipline process, or their own standards of practice. In addition, some individuals have been grandfathered as individual members. As a result, it was decided to have *actuary* be a defined term and restrict it to Full Member associations of the IAA.

Specific requirements (4.1)

1. In discussing the question regarding potential conflicts with this PG, there was an expressed desire to subdivide this PG between what may be classified as general practice standards that would apply in other practice areas and specific requirements that would be related to IFRSs. It was recognised that the scope of some of the general practice standards would have to be narrowed when an actuary was working in this area and these should be included in this section as well.
2. The introduction of standards on international accounting raises some new questions for the IAA. On the one hand, the IAA Statute III *Principle of Subsidiarity* would have the local associations establish standards for their members to apply. On the other hand, there is a desire

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that the actuary's work be recognised in international arenas that might be enhanced if there were more consistency of practice on an international basis.

3. The expansion on specific insurance guidance has been included in separate document. The guidance on insurance is relatively new and anticipated to develop further over time.

Disclosure regarding professional services (4.1.1)

1. Given the varied circumstances outlined above as to when the PG may be considered, the approach taken is to suggest that the actuary document which standard applies to the professional services being performed.
2. The PG takes the approach that the actuary performing the professional services disclose, in a report or other suitable communication, the Code(s) of Professional Conduct or other rule(s) under which the actuary is providing the professional services. The reason this approach was taken is that any complaint regarding an actuary would be the responsibility of the national association that the actuary is a member and his or her applicable Code(s) of Professional Conduct or rule(s). Usually a national association operates in a particular jurisdiction. The applicable jurisdiction for the professional services can vary as outlined above regarding the application of the PG. In addition, the actuary performing the professional services may be performing outside the actuary's national organisation's jurisdiction. Some actuaries are also members of more than one actuarial organisation. Given this additional complexity, the approach selected was to suggest the actuary disclose the Code(s) of Professional Conduct or other rule(s) such that if the principal had a concern regarding the professionalism of the member, the principal would know which organisation(s) might best be contacted.
3. One of the options considered was to require the actuary, in performing such professional services, to be subject to the Code(s) of Professional Conduct or other rule(s) of the IAA member association in the reporting entity's reporting jurisdiction where applicable. In the case where no jurisdiction would apply and the actuary is a member of an IAA Full Member association, then in the absence of such applicable Code(s) of Professional Conduct or other rule(s), the actuary should comply with the Code(s) of Professional Conduct or other rule(s) of the actuary's primary IAA member association. This approach was not followed because of the difficulty in certain situations to be sure of the applicable jurisdiction and that this would address only IAA Full Member associations. In addition, the view was expressed that actuaries who are members of more than one association may have to comply with all such Codes of Professional Conduct.
4. Some are of the opinion that the reference to the Code of Professional Conduct is redundant, as any Full Member association of the IAA will automatically have a Code or rule that covers the actuary's conduct. Others are of the view that, because a number of the members of the IAA are

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not members of IAA Full Member associations and the intent is to establish international standards, they are subject to the IAA standards as a minimum international basis.

Clarity of nature and scope of the professional services to be performed (4.1.2)

1. It is considered recognised actuarial practice for the nature of the work to be clearly defined in an early state in providing professional services. Some questioned if this practice needs to be included here. Some have expressed the concern that this PG suggests that the actuary complete certain activities when performing professional services that could involve additional work that the principal may not have considered in outlining the scope for those intended professional services. It has been included in part so that the actuary will be supported when such discussions are necessary. This paragraph should be read in conjunction with section 4.1.3 in determining the adequacy of the scope of work.
2. Situations were considered where the actuary's scope of work is limited to, for example, a single line of business or part of the calculation process. This paragraph should be read in conjunction with section 4.2.7 on the use of the work of others, especially the last paragraph, which addresses this issue.
3. Concern was raised with regard to whether documentation of the professional service is suggested when the actuary is in an employee situation of the reporting entity. The position taken was that the actuary had this responsibility—whatever his or her relationship with the principal.
4. However, it was recognised that the documentation necessary can be far less formal than a letter of engagement. In order to address the situation where the nature of the scope is very narrow, flexibility was needed. Rather than suggesting the documentation be provided before the commencement of the professional services, which continues to be viewed as good practice, it was broadened to allow documentation to be provided with the report.

Determining adequacy of the scope of work (4.1.3)

1. This has been included to ensure that appropriate professional services are provided so that the quality of the work product will meet applicable IFRS rules and professional codes and standards.
2. This section is included particularly to implement section 4.1.2. There were differing views on the position that should be taken if the principal resists the actuary undertaking the additional work necessary.

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3. The approach adopted was to leave to the actuary's judgment the best way of addressing any problems that may arise. It is not proposed that the actuary withdraw, but it is suggested that the actuary document any limitation on the work performed and the subsequent result. This places an obligation on the actuary to be specific about the potential inadequacy and its possible expected effects when including such a limitation in the report.

Financial reporting requirements (4.1.4)

1. When considering the specific requirements, the context of the professional services arose. These are areas where the actuary generally has specific expertise and in order to perform the role adequately needs to ensure that the terms of the scope of the assignment would not be limited in a way that would prejudice his or her ability to complete work to an appropriate professional standard.
2. While the proposals appear appropriate in the context of the full financial statement, they could prove to be onerous if the scope of the project was narrower than that. This was overcome by providing the context based on the full scope of the PG and providing relief subject to the actuary's professional judgment when the scope was narrower or the nature of the scope was different, such as in the case of audit work.
3. Concern arose with regard to the examination of all contracts issued in the period covered. The wording "Determine whether contracts issued by the reporting entity during this accounting period (and earlier, if applicable) have been examined and have been reviewed with respect to whether the requirements under IFRS have been met as to the treatment in whole or in part as insurance contracts, financial instruments or service contracts. Where a standard contract is issued, the actuary may rely on an examination or determination that has been performed in advance if the actuary is satisfied that appropriate controls were used" is based on the comments given during the exposure period and is limited to "The classification of contracts in accordance with IFRS 4." The purpose was to provide the authority, indicate the role the actuary may play and to indicate this work may be done by others. This made each of the specific items referenced consistent and the inclusion of others not limiting.
4. The PG provides for delegation of work in section 4.2.7 and this was made clearer as well as the need for the actuary to confer regarding the applicable accounting policies.

Material inconsistencies (4.1.6)

1. The obligations of the actuary to identify if material inconsistencies exist when he or she reviews the material to perform the professional services within the scope of the services have been discussed. This matter has been particularly problematic given the potential for inconsistent measurement of assets and liabilities under IFRS during Phase 1.

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2. The approach adopted has been to suggest that the actuary, on becoming aware of an inconsistency, inform the principal of it. However, this has been constrained in that it must be material and the actuary is not expected to go on a fishing expedition and step outside the scope of the professional services for which he or she has been engaged.
3. Some have questioned, given the fact that IFRSs have gone through the IASB due process, whether the actuary should be placed in the position to identify situations that would result in materially misleading income or equity if the reporting entity is in compliance with the IFRSs. The intent is not to question the IFRSs. However, the IFRSs have provided management with certain options, as it has incorporated a mixed measurement approach to assets and liabilities. If management selections result in creating materially misleading income or equity, this needs to be drawn to the attention of the principal. In addition, there may be other issues that the actuary may identify that without her or his expertise would not be apparent to the principal.
4. The comments during the exposure period continued to indicate varying views on this topic. Given the nature of a PG it was determined to include the varying positions in the PG.

General requirements (4.2)

1. The approach adopted for this section has been to separate the general requirements of the actuary from those that apply to the specific accounting requirements involved. The purpose of this was to facilitate the potential of including other areas at a later time. In addition, the section addresses how the general requirements apply in this specific area of practice.
2. Expansion of the general requirements has been included in this PG. The expansion of the general guidance in some countries is well developed while in other countries it is not as well developed.
3. Additional discussion of special issues on these sections is included below.

Requirements of practice and qualifications (4.2.1 and 4.2.2)

1. In the Scope section, reference is made to the PG providing guidance for all applicable preparers. While it would be expected that Full Member associations would cover these requirements in their Code(s) of Professional Conduct or other rule(s), such rules may not apply to a non-actuary or possibly the members of some IAA associations that are not yet Full Member associations. Given the desire to ensure that the quality of work meets expectations, these two sections have been included.

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2. Another reason for including this reference was to position the PG so that this PG could be the only additional guidance within the IASB approach. The IASB may wish this guidance to be followed by all those preparing applicable financial statements.
3. It was questioned whether in the context of the PG the actuary has to be familiar with all IFRSs and IAS documents or only those that are directly relevant to the professional services provided. This has been structured as a general requirement to better ensure that the actuary should have the knowledge needed to perform the professional services he or she has accepted as an assignment. The concern raised was how does the actuary determine what is relevant to the situation if he or she is not aware of all relevant IFRSs. The selected approach was to leave the judgment of relevance to the actuary.

Communication of the actuary's role (4.2.3)

1. It is considered recognised actuarial practice that, when the actuary is providing professional services in accordance with the PG, it should be clear whether the advice is being provided in accordance with the PG or whether the actuary is providing the advice in another capacity. Some questioned if this needs to be included. The position taken was that it should be included, but if obvious it does not have to be re-emphasised.

Preparation and performance of professional services (4.2.4)

1. Concern arose regarding whether all the items mentioned would be too onerous for an actuary who is an employee of the reporting entity. In addition, routines are often regularly followed because financial reporting work can be conducted on a routine schedule on an annual, quarterly or even monthly basis. To address this concern, it was decided that the proposal to develop a plan and timetable should reflect the needs of the situation faced. The need for such a plan will also depend on the extent and complexity of the services provided.

Sufficient and reliable data (4.2.5)

1. It has been questioned whether the actuary can use the auditor to perform the assessment of reliability and sufficiency of the data. If the actuary selects this approach, the PG provides guidance in section 4.2.7 as to how to delegate such work and how to determine if the actuary can use that work. The actuary would retain the responsibility to assess if it is adequate to provide the professional services.

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Model and assumptions (4.2.6)

1. It is proposed that the actuary document the appropriateness of assumptions that he or she has selected. It is possible that management has selected a result that is within the range of what the actuary considers acceptable and the actuary may not have assumptions to support the actual number filed. The PG looks to the actuary to document the assumptions he or she selected, which presumably would span management's selected result.
2. It has been questioned whether all types of assumptions should be considered and if some priority among them should exist. The intent was not to prioritise or exclude any assumptions. Guidance on the selection of current estimates has been covered in a separate PG.
3. There was considerable discussion in the comments during the exposure regarding the reference to aggregation and types of assumptions and models. It was concluded that the reference to the authoritative guidance was necessary and the PG should include the range of views.

Materiality (4.2.8)

1. In performing professional services, the actuary must apply a level of materiality to items he or she is considering. While the actuary needs to be consistent with the accounting materiality level used in the preparation of a financial statement, such materiality may well be different in nature.
2. To address these issues, the approach taken was to suggest that the actuary determine the appropriate materiality, discuss it with the entity's management and auditor, and document the level applied.

Controls (4.2.9)

1. Actuarial practice currently differs by country as to the obligation for the actuary to take responsibility for controls on the professional services performed. The approach adopted has been to include a section that clearly states the actuary's role in this regard.

Report of the actuary's work (4.3)

1. Actuarial practice can differ by country as to the obligation for the actuary to report and document the professional services performed. The approach adopted has been to include sections that state the expectations placed on the actuary in this regard.
2. A concern was raised that the principal may not be the person who would receive the report. In particular, the concern raised was that the regulator in a particular jurisdiction could call for a report to be obtained by the reporting entity.

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3. The identification of who are the intended users of the report has been questioned. The position expressed is that the actuary should include in his or her report a description of the scope of the assignment, the purpose of the work, and its intended users. This should permit non-intended users to assess its appropriateness with respect to their needs and thereby avoid unintended use of the work product. In the case of a report intended for an internal user and not intended for other potential users, it may be appropriate to abbreviate or even provide only an oral report with respect to the work performed. Nevertheless, it is good practice to confirm an oral report in writing.
4. The approach adopted was to indicate that the intended users should be identified in the report but not to include a suggestion that the actuary would restrict the use of the report by others. Nevertheless, there may be circumstances where such a restriction may be appropriate.
5. The approach adopted included the disclosure of compliance with the IFRS because the PG is an educational document. If an applicable standard of actuarial practice adopted by an IAA Full Member association has been followed, then the disclosure requirements would be included in that standard and should at least include similar disclosure. However, no proposal has been included to indicate where the local version would generate materially different amounts than the version approved by the IAA. This would have to be addressed by the IAA Full Member association's standard.
6. The obligation is placed on the actuary to evaluate what actuarial disclosures are appropriate within his or her report. Nevertheless, suggestions have been included in the PG.
7. The IFRSs require disclosure in the financial statement regarding the financial implications of certain significant risks and contingencies to which the reporting entity has been exposed. The obligation of the actuary in section 4.1.4 is only to determine the information needed to comply with accounting disclosure requirements. Work that the actuary would do in this regard would have to be included in the scope of her or his professional services and would be included in the statement of findings in the report.

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Appendix C – Relevant IFRSs and ISAs

The most relevant International Financial Reporting Standards and International Accounting Standards for this Practice Guideline are listed below.

- IAS 1 (2007 September) Presentation of Financial Statements
- IAS 8 (2004 March) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 18 (2004 March) Revenue
- IAS 19 (2004 December) Employee Benefits
- IAS 32 (2008 February) Financial Instruments: Disclosure and Presentation
- IAS 36 (2004 March) Impairment of Assets
- IAS 37 (1999 July) Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 (2004 March) Intangible Assets
- IAS 39 (2005 August) Financial Instruments: Recognition and Measurement
- IAS 40 (2003 December) Investment Property
- IFRS 1 (2007 November) First-Time Adoption of International Financial Reporting Standards
- IFRS 3 (2007 January) Business Combinations
- IFRS 4 (2006 January) Insurance Contracts

In addition, the IASB *Framework* is relevant.

Relevant International Standards of Auditing include the following:

- ISA 500 (2008 September) Audit Evidence
- ISA 620 (2008 September) Role of the Expert in Auditing

Appendix D – List of terms defined in the Glossary

The first time that these terms are used in this IASP, they are shown in small capital letters. The definitions of these terms are included in the IAA Glossary.

Accounting policy
Actuary
Component
Contract
Current estimate
Discretionary participation feature
Embedded derivative
Employee Benefit Arrangement
Financial asset
Financial instrument
Financial liability
Financial reporting
International Accounting Standard (IAS)
International Accounting Standards Board (IASB)
International Actuarial Association (IAA)
International Actuarial Standard of Practice (IASP)
International Financial Reporting Standard (IFRS)
International Financial Reporting Standards (IFRSs)
Insurance contract
Intended user
Investment contract
Issuer
Liability adequacy testing
Model
Opinion
Practice Guideline (PG)
Principal
Professional services
Recognised actuarial practice
Report
Reporting entity
Reporting jurisdiction
Service contract
Unbundled
Unit of account
Work product

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