



ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

Comments by the International Actuarial Association (IAA) on the GCASP2 Exposure Draft (GC-2), prepared by its Actuarial Standards Committee (ASC)

1. Consistency of GC-2 with the IAA's Vision and Objectives for ISAPs. The IAA's statements call for ISAPs to:

Promote high quality actuarial practice globally. High quality actuarial practice:

- *Helps serve the public interest by benefiting users of actuarial work, regulators, and participants and beneficiaries of financial products and services, including social security programs; and*
- *Benefits actuarial associations and individual actuaries by enhancing the credibility of the actuarial profession.*

Characteristics of high quality actuarial practice include:

- *Professionalism – providing work that is rigorous, objective, soundly-based, and reflective of current thinking and practices;*
- *Consistency – providing users of the actuarial work product with confidence that practice is consistent across clients subject to similar requirements;*
- *Usefulness – adding substantial value to financial and risk analysis; and*
- *Clarity – clearly articulated and understandable.*

GC-2 supports the promotion of high quality actuarial practice. However we feel that Consistency and Clarity should be interpreted and evaluated in terms of the whole set of standards with which actuaries should comply when providing relevant actuarial services. We have elaborated on this under point 2.a.

2. Concerns that the ASC has that would prevent the IAA from supporting GC-2
 - a. Definitions should be consistent across standards. The GC has said it is considering adopting ISAP 1 as its general model standard. This implies that the GC-2 definitions should match ISAP 1, and the general sections (section 1) in both documents should be consistent.
 - b. Regulations (including laws and acts) should not be paraphrased. Regulations should only be cited when necessary and then as an obvious quote.
 - c. The EU principle of proportionality (see Appendix 1) should be identified as an overarching principle applying to the whole standard. The importance of the principle of proportionality should be emphasized. The standard should provide guidance to actuaries on applying this principle. Especially, it would be important to address the principle of proportionality in the context of both:
 - i. The nature, scale, and complexity (NSC) of the underlying risks, and

- ii. The purpose of the AFR which is to provide information to the AMSB in order that the AMSB may make well informed decisions.

If only NSC is considered, then the AFR is likely to be a document too long and detailed to serve its purpose as information on which the AMSB can act.

- 3. Concerns that the ASC has that are important but would not prevent the IAA from supporting GC-2
 - a. There is a concern that GC-2 is very detailed and prescriptive which makes it appear rules based rather than principles based. Although this content may be needed because it refers to a very specific work required by the regulations, we recommend a revision to clearly identify quotations (recommendation 2.b) and elsewhere to replace rules by principles where possible and appropriate. This would clarify that the prescriptive detail emanates from the regulations.
 - b. “To document” is a defined term but the only use of “to document” is in 3.1.8 (see our comment in 4.d below). The definition is inconsistent with the use in 3.1.8 and should be removed. “Documentation” is a defined term only used in the definition of “work product”. The definition of “documentation” is unclear as to who has access to it, and should be tightened. Standards should only require actuaries to retain documentation (which would be discoverable in a legal action) where there is a clear professional need. We recommend the distinction made in ISAP 1 be used in GC-2.

ISAP 1 differentiates between two situations:

- i. “Reports” or “Disclosures” which describes information which should be available to any intended user.
- ii. Documentation, which describes information that should be kept by the actuary but is not available to any intended user. This is information that needs to be retained (for professional, not business, reasons) so that “entitled” users such as auditors, regulators or supervisors, and peer reviewers can access it. This opens the actuary to legal risk, and the requirement should not be imposed lightly.

Furthermore the definition of “documentation” is an example of guidance embedded in a definition. We prefer that definitions define the meaning of the term, and the associated guidance be articulated in section 3.

- c. The definition of “component report” and “aggregate report” are reasonably clear (other than some ambiguity as to medium addressed in 4. below). The definition of “report” however is vague and not connected to “aggregate report” or “component report.”
- d. Several paragraphs in 3.1 contain the directive “must” that is categorical, so failing to comply with a “must” directive is per se unprofessional conduct regardless of the specific circumstances. This would make adoption problematical.

If these directives are paraphrasing the regulation (law or second level regulation), making it clear that it is a quotation (as recommended in 2.b above) should resolve the issue. Otherwise we believe that “must” should usually be avoided.

- e. Paragraph 3.1.20 should clarify the nature of the feedback needed. In our opinion feedback before the report is submitted would be useful in order to produce the report

appropriately. We presume feedback after the report is submitted is to determine if recommendations in the report have been implemented. It would help to make that clearer.

- f. Several paragraphs in 3.2 would be unacceptable for some member associations of the IAA. The combination of “must” and “all” in (for example) 3.2.1.3, 3.2.2.2 and 3.2.2.3 seem to place an unacceptable risk on the actuary.

4. Technical points

- a. Roman preamble paragraph in “Preface”. Delete the sentence starting “... or an association of which...” to the end of the paragraph. The adopted standard will necessarily be modified (at least by following the instructions in the Preface) so should not be included in this paragraph.
- b. We recommend defined terms be hyperlinked to their definition.
- c. The standard appears to require reports be in documents delivered to intended users (either physically or electronically). It is unclear if this can be accomplished through on line repositories (such as websites, SharePoint, drop box, etc.). It would help to clarify that this is acceptable (or give reasons if it is not).
- d. We would prefer a verb such as “contain” in place of “document” in 3.1.8 (which would also resolve the definition of “to document” referred to in 3.b above. However it appears 3.1.8 is slightly paraphrasing language from the regulation. Making 3.1.8 an exact and identified quotation would also fix this.
- e. The reference in 3.1.5 to 3.3 should refer to 3.4, and in 3.1.6 to 3.4 should refer to 3.3.
- f. Numbering of Section 2 as 1.1 should be removed.

Appendix 1

EU Principle of Proportionality Citations

In the context of EU level laws and how these laws are to be developed and enforced, Paragraph (4) of Article 5 of the Treaty on European Union states “Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties.”

In the Solvency II Directive, there are some provisions underpinning this principle; additionally, Paragraph (3) of Article 29 states “Member States shall ensure that the requirements laid down in this Directive are applied in a manner which is proportionate to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking.”