

# Standard Setters' Roundtable

Wednesday 22 May 2013, 13:00–17:30  
The Hague, Netherlands

## Minutes

### Attendance:

#### Members:

Chris Daykin, Chair (and Groupe Consultatif Actuariel Européen)  
Peter Doyle, Actuarial Society of South Africa (and IAA Professionalism Committee)  
John Instance, Financial Reporting Council, UK (representing Paul Kennedy)  
Yvonne Lynch, Society of Actuaries in Ireland  
Tom Karp, Actuaries Institute Australia  
Ad Kok, Het Koninklijk Actuariel Genootschap (Netherlands)  
David Martin, Institute and Faculty of Actuaries  
Dave Pelletier, Actuarial Standards Board (Canada) (and IAA Actuarial Standards Committee)  
Robert Meilander, Actuarial Standards Board (USA)

#### Observers:

Felix Arias, Col.legi d'Actuaris de Catalunya (Spain)  
Al Beer, American Academy of Actuaries  
Mary Downs, American Academy of Actuaries  
Keith Jones, American Academy of Actuaries  
Ben Kemp, Institute and Faculty of Actuaries  
Godfrey Perrott, Actuarial Standards Board (USA) – by phone

#### Apologies

Thomas Béhar, Institut des Actuaire  
Hansjörg Furrer, Schweizerische Aktuarvereinigung  
John Maroney, Actuaries Institute Australia (and IAIS)  
Yosuke Nakano, Institute of Actuaries of Japan  
Michael Rosenberg, Deutsche Aktuarvereinigung (Germany)  
Jesús Alfonso Zúñiga San Martín, Colegio Nacional de Actuarios (Mexico)

## **1. Welcome and introductions**

## **2. Appointment of a minute taker**

As Amali Seneviratne of the IAA Secretariat was not present the chair called for someone to assist with preparing draft minutes of the meeting. Tom Karp agreed to do this.

## **3. Approve agenda**

The agenda for the meeting was approved without amendment.

## **4. Documentation of e-mail votes**

The following item approved by e-mail vote was noted.

- a. Minutes of the SSRT meeting in Nassau.

## **5. International Standards of Practice**

The chair asked participants about their jurisdiction's and organisation's response to the ISAPs so far, in particular ISAP 1. The following were the specific responses:

- a. Catalunya has "approved the voluntary adoption of ISAP 1".
- b. Denmark has advised it has no authority to impose actuarial standards, but the ASC leadership has provided examples of what other jurisdictions, also not necessarily with completely clearcut authority, have done<sup>1</sup>.
- c. Caribbean is establishing actuarial standards and plans to adopt ISAPs.
- d. Netherlands is working on a comparison of ISAP 1 with its standards.
- e. Groupe Consultatif is developing a proposal to adopt an equivalent of ISAP 1 as a Groupe standard, which would be part of a coherent set of Groupe standards.
- f. US Actuarial Standards Board (ASB) has determined that the provisions of ISAP 1 are all covered somewhere in the US actuarial standards, except for some elements of the provisions around engagement of work.
- g. Canadian actuarial standards are a fully integrated set of standards so many cover aspects of ISAP 1. There are a few items where ISAP 1 goes further and Canada is proposing to alter its standards to include these.
- h. UK – Financial Reporting Council (FRC) has examined ISAP 1 line by line against its standards and the two areas of shortcoming are FRC standards only cover specified actuarial work (ie not all actuarial work) and there is no requirement for peer review. The FRC is intending to publish its comparison against ISAP 1. The Institute and Faculty of Actuaries (IFoA) has many (around 40%) of its members working outside the UK, so its decision tree about which standards they should comply with is important. The main difference with ISAP1 is that FRC standards only cover technical actuarial work, although there is also The Actuaries Code and the APS (Actuarial Profession Standards). The IFoA is likely to include in a future APS that peer review should be considered.
- i. Ireland has a Code and practice area standards, but ISAP 1 is more prescriptive than these and covers a wider scope of actuarial work. Considering adopting ISAP 1 and updating the technical standards accordingly.
- j. South Africa is still in the process of reviewing ISAP 1, but is also reviewing all of its actuarial

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<sup>1</sup> Although not discussed at the meeting in The Hague it is worth recording that there was an earlier e-mail discussion that the US ASB has no authority to impose standards, but the US Full Member Associations (through their codes of conduct) require their members to abide by the ASOPs (Actuarial Standards of Practice). Denmark (and other associations) might be able to do the same.

standards and possibly separating its standards into mandatory and educational. So it is still to decide whether to adopt ISAP 1, although it has made all its members aware of ISAP 1 as some members do work outside of South Africa.

- k. Australia has actuarial standards for mandatory actuarial work and guidance for other actuarial work. Comparison with ISAP 1 is therefore difficult and a congruence assessment against ISAP 1 is only now beginning. Expanding the scope to include all actuarial work is a major issue. After the congruence assessment it will be decided whether to remain with the current structure of standards and simply assess congruence against each ISAP or to move to a structure more aligned to ISAPs.

The scope of the actuarial work covered by the various standards was a major issue with many jurisdictions having standards initially focussed on specific areas of actuarial work.

In respect of the ISAP work in relation to IAS 19 the UK and South Africa advised they will consider congruence assessments against their detailed standards; Canada will maybe reformat along the lines of the proposed ISAP; the US does not have IFRS reporting so it needs to consider its position; and the Groupe Consultatif does not intend to have an actuarial standard on this.

In respect of the proposed ISAP 2 on Social Security the UK will consider widening the scope to cover it; South Africa will possibly adopt it; Canada will likely adapt it; the US believes it is already well covered by its standard ASOP 32; and the Groupe Consultatif does not intend to have an actuarial standard on this.

Modelling was the area which dominated the discussion on areas for new standards, with the UK advising it already has a modelling standard, the US is currently developing a modelling standard and Canada is thinking about a modelling standard

## **6. Actuarial Standards Committee (ASC)**

Dave Pelletier provided the following as an update on the ASC's work:

- a. ISAP 1 has been approved;
- b. ISAP 2 on Social Security is getting close to the approval stage with revised ED comments imminent;
- c. the ASC has moved to have a single Glossary of all defined terms which are used in any ISAP;
- d. the IAS 19 Working Group is making good progress with an Exposure Draft expected around October 2013 with a comment period of six months leading eventually to a standard expected to be adopted in 2015; and
- e. the IFRS 4 Task Force is being reconstituted given the moves by the IASB, with an SOI likely around end 2013 leading eventually to a standard expected around end 2017.

## **7. Professionalism Committee (PC)**

Peter Doyle gave an overview of the recent activities of the PC with the main item being that a task force has been established to look at and produce a discussion paper on the Governance of International Actuarial Work. It will cover training on professionalism, revisions to the template code of conduct, the lack of discipline arrangements for actuaries working outside jurisdiction and a database on disciplinary matters.

The PC is also reviewing the standards due process as it is being applied, with this completed in respect of ISAP 1 and ongoing for other standards.

## **8. Quality of Actuarial Advice – how is public assurance achieved?**

UK representatives began this discussion with details of what is currently being done in the UK on this matter. The UK FRC developed in 2010 an Actuarial Quality Framework (details available at <http://www.frc.org.uk/Our-Work/Publications/POB/Actuarial-Quality-Framework-June-2010.aspx>) which noted that actuarial standards are but one component needed to produce quality actuarial work, by having technical standards to produce good actuarial methods. The other components of the framework are good communication (especially of results); good education, including CPD; professionalism and ethics; and an appropriate actuarial work environment. The IFoA is moving to regulate individual actuaries through their employers, with the IFoA accrediting actuarial employers which voluntarily seek it, with employers then allowed to display this accreditation on their firm material.

Discussion under this agenda item covered both the profession's relationship with actuarial employers and CPD and training on standards. The following detail emerged through the discussion:

- a. South Africa has an arrangement whereby firms can be accredited as an 'actuarial training office' and there is the provision for MoUs between the profession and actuarial employers which helps overcome confidentiality issues in disciplinary matters;
- b. The UK, South Africa and Australia have or had Senior Actuary roles whereby the Senior Actuary in the firm has responsibility for overseeing the quality of the work of other actuaries in the firm and, often, their CPD compliance;
- c. South Africa is producing a research document on CPD and actuarial training;
- d. in Canada CPD is the role of the Canadian Institute of Actuaries (CIA);
- e. in the US the ASB often does presentations on CPD and training;
- f. Australia is updating its CPD requirements to give more weight to authoring and reviewing papers, personal development and training outside traditional practice areas, and work for the professional body; and
- g. there are regular meetings between the insurance regulator and the professional regulators in Australia, South Africa and the UK (ie the FRC).

## **9. Any Council topics we wish to discuss**

Due to time constraints there was no discussion on this item.

## **10. Consideration of possible future agenda items**

The two items mentioned were:

- a. it was important to keep an item for updates on actions that standard setters were taking in response to ISAPs, and
- b. to consider discussing the value of independence in standard setters.

## **11. Brief country updates**

Australia provided a written update (attached) with others providing oral reports. The main details were as follows:

- a. US - developing a standard on modelling, has an ongoing pensions project and moving to a standard on the disclosure of pension risks; Bob Meilander will replace Godfrey Perrott (who will continue as an observer) as the ASB representative to the SSRT;
- b. Canada - looking at a modelling standard, revising its standard on the investment return assumptions for insurer valuations, debating the adequacy of pensioner mortality in its commuted value standard;
- c. Groupe Consultatif -work on GCASP 2 has stalled due to slowness in Solvency II legislation,

but a working draft is expected by the end of 2013, future standards are possible for the actuarial function in risk management and modelling, and for ORSA (although this may be only educational material);

- d. Netherlands - possibly developing a standard on review work for audit purposes;
- e. UK - minor revisions to Actuaries Code to meet IAA requirements, possible changes to its modelling standard, reviewing whether its standards framework is still fit for purpose; and
- f. Australia – regulator now requires actuaries to provide advice on the quality of an insurer’s risk management systems, major prudential standards being implemented by the regulator for superannuation (ie pension) funds.

## ATTACHMENT

### COUNTRY REPORTS TO SSRT MEETING 22 MAY 2013

#### AUSTRALIA

- Note that Actuaries Institute of Australia professional practice documents are structured as follows:
  - Professional Standards – Compliance is mandatory; there are separate requirements in each of the traditional practice areas; requirements are heavily driven by legislated roles and responsibilities for actuaries;
  - Practice Guidelines - Compliance is not mandatory – however, a member should consider explaining any significant departure and document that explanation; usually specific to a traditional practice area;
  - Information Note - Compliance is not mandatory – issued simply to provide information on a particular issue; usually specific to a traditional practice area;
  - Discussion Note - Compliance is not mandatory – issued simply to encourage discussion or debate on a particular issue.
  
- Recent professional practice document activity has focussed on;
  - Reviewing all professional standards to ensure that all professional standards use consistent and objective terminology such that mandatory duties and requirements for members are clearly defined and understood, and to ensure they are consistent with the revised Code of Professional Conduct adopted in November 2009– this has been ongoing for about 4 years and is almost complete;
  - Updates to life and general insurance professional standards to accommodate APRA's (prudential regulator) review of capital standards for general and life insurers – in particular for the actuary to provide commentary on an Entity's Risk Management Framework;
  - Continuing the updating of a few technical standards in superannuation where the actuary has responsibility for advice or certification related to tax or prudential matters;
  - Moving the professional standard on CPD from an hours-based requirement to a points-based requirement – mostly to provide good incentives for:
    - personal development and training outside the traditional practice areas;
    - authoring and reviewing papers etc; and
    - work on Institute committees.
  
- Upcoming work will focus on:
  - Updating superannuation standards in response to APRA's imminent release of prudential standards and prudential practice guides for superannuation funds – APRA was given the power to issue these only in the last 2 years and is now nearing the end of a lengthy consultation phase; and
  - Developing a comprehensive approach to assessing congruence with ISAP 1 and reviewing the structure of Actuaries Institute of Australia professional standards to determine if a move to a general practice standard is warranted.

## CANADA - ACTUARIAL STANDARDS BOARD

### Recent activity other than that related to ISAPs

- Approved new or revised final standards in four areas:
  - Post-employment benefits other than pensions
  - Wording of opinion on models used for life insurer valuation of “segregated funds” business (essentially analogous to “variable annuities” with guarantees)
  - Policyholder dividend-setting
  - Narrowing the range of practice in certain areas of insurer valuation
- Pensioner mortality issue:
  - No table promulgated for pension plan going concern valuation purposes, but there is one promulgated for purposes of commuted values for terminating employees
  - Table, and the associated improvement scale, out of date
  - Awaiting CIA research and new Canadian pensioner mortality table for some time
  - Now nearly ready. Will promulgate updated approach effective early next year.
  - Due to “solvency valuation” use of commuted values, table does affect regulated minimum funding requirements, worsening an already poor situation
- Revised standards on actuarial evidence / expert witness work due for approval in June
- Economic reinvestment assumptions utilized in life insurer valuation
  - Notice Of Intent (NOI) comment period ended Mar 15<sup>th</sup>
  - Aiming to publish Exposure Draft in June
  - Key areas:
    - the “ultimate interest rate”, beyond period where assets available to match liability cashflows
    - use of non-fixed-income assets: proportions and returns
    - consistency between stochastic and deterministic approaches
  - Potentially significant impact, varying by insurer
  - Aim to finalize in 2013, but effective date probably to be yearend 2014
- Proposed standard on modelling – a chequered history to date, but a revised NOI expected by August
- Linkages: insertion of a statement in each “part” of our standards that the “general” part also applies

### Activity related to International Standards of Actuarial Practice

- Canada’s response to ISAP 1:
  - Quoting from my article in the February 2013 CIA (*e*)Bulletin:

Countries with no or limited standards may well be those that find it easiest to adopt ISAPs as they are developed, once they have put a standard adoption process in place. It’s trickier in places like Canada with already existing standards, and particularly Canada where our standards across practice areas tend to be closely integrated, unlike in some other jurisdictions where the various standards are somewhat more stand-alone.

As [CIA President] Simon Curtis pointed out in his November article, philosophically and strategically “the CIA has been a strong supporter of the need for a robust standard-setting capability, largely because we feel that this will position the

actuarial profession globally to be a full participant with bodies such as the International Accounting Standards Board in the development of global practice in areas of interest to actuaries.”

The ASB and its counterparts elsewhere that share the same view will want to demonstrate support for this international initiative. The ASB is currently considering how best to do this, and has established a working group, to be chaired by Michael Banks ... , to examine the various options available to the ASB for dealing with this and future ISAPs. One approach could be, in the words of the news release accompanying the issuance of ISAP 1, to confirm that our existing standards are “substantially consistent” with this ISAP and others as they come along, and to modify our existing standards if necessary to achieve that “substantial consistency”. Our standards would be deemed substantially consistent with the ISAPs if work conforming to our standards would also conform to the ISAPs. However, as the body of ISAPs grows over time and as acceptability and credibility of the ISAPs grow, perhaps at some point in the (distant!) future, we’ll see a move away from our own standards to the body of ISAPs, in the same way that the AcSB in Canada adopted IFRS in 2011.

- ASB’s Working Group findings, reported to ASB’s March meeting. Our standards “generally consistent”. Only areas where possible changes required to ours:
  - Sensitivity analysis – ISAP indicates that “the actuary should consider and address the sensitivity of the methodology to the effect of variations in key assumptions where appropriate” (ISAP 3.7.7). SOP paragraph 1820.09 simply indicates that “reporting the sensitivity of the results to variations in assumptions is often useful”.
  - Required opinion where assumptions are specified by the terms of engagement (ISAP 3.8.). Part 1000 does not require an opinion on such assumptions. [This the only really significant, and potentially controversial, one.]
  - Where assumptions are mandated by law and not otherwise appropriate, the actuary’s report should state that the report should not be used for other purposes (ISAP 3.9).
  - The actuary is required to consider the need for independent peer review of a report (ISAP 3.11).
  - Communications should be issued within a reasonable period of time (ISAP 4.1).
- A draft Notice of Intent to revise our standards accordingly due for our June meeting
- Expect to do re:
  - Social Security – none now on that area in Canada. Will probably adopt, but probably reformatting into style of Canadian SoPs
  - IAS 19 – will use as basis for replacing a portion of our pension standards, again largely adopting but reformatting
  - IFRS 4 – similar to IAS 19, but this a much more significant change