

**Meeting of the Standard-Setters Round Table
October 10, 2010
Vienna, Austria**

Dave Pelletier	Chairman, SSRT and Chairman, Actuarial Standards Board, Canada
Thomas Behar	Immediate Past President, Institut des Actuaire, France
Chris Daykin	Chairman, Groupe Consultatif and Chairman, Actuarial Standards Task Force, Groupe Consultatif
Mary Downs	Legal Counsel, Actuarial Standards Board (United States) and Executive Director, American Academy of Actuaries
David Martin	Institute and Faculty of Actuaries, UK
Katy Martin	IAA Secretariat
Godfrey Perrott	Actuarial Standards Board (United States)
Louise Pryor (by telephone)	Director, Actuarial Standards, Board for Actuarial Standards (UK)
Michael Pomery	Chairperson, IAA Professionalism Committee
Paul Thornton	President, International Actuarial Association
Hillevi Mannonen	Chairperson, IAA Task Force on Convergence of Actuarial Standards
Yosuke Nakano	General Secretary, Institute of Actuaries of Japan
Martin Stevenson	Representing Institute of Actuaries of Australia
Kurt Wolfsdorf	Representing Deutsche Aktuarvereinigung e.V. (DAV)
Jesús Zúñiga	Vice-President, Colegio Nacional de Actuarios A.C. (CONAC)

1. Introductions

The meeting was chaired by Dave Pelletier who asked participants to introduce themselves and to state which entity they were representing. He welcomed new member, David Martin, to the Round Table as well as Hillevi Mannonen, who had been invited to address the meeting on behalf of the IAA Task Force on Convergence of Actuarial Standards.

2. Confirm previous meeting record and agenda

The minutes of the September 15 conference call will be circulated and approved by email (Paul Thornton would propose wording to reflect the initial reaction of the Executive Committee on the Task Force on Convergence report).

3. Update on IAA Convergence of Actuarial Standards Task Force

3.1 Hillevi Mannonen thanked the members of the Task Force for their dedication to completing the report under a tight deadline. A copy of her presentation to Council can be found [here](#). Tasked with preparing a discussion paper on a way forward for the IAA on the convergence issue, the report provides extensive background analysis of the subject, and considers the expectations for the actuarial profession worldwide and from within the profession. A number of possible options were outlined for Council consideration.

3.2 Godfrey highlighted paragraph 2.5.3 of the paper which defines the various levels of convergence and therefore provides a helpful vocabulary for discussion of this complex subject. He also stressed the report's recommendation that the IAA proceed in baby steps and evaluate after each step if the right move has been made. Michael added that he hoped for a positive sense from Council on the long term objectives and that the implementation issues could be debated later on.

3.3 While the focus of the IAA should be long term, the question becomes what to do between now and then, and how quickly to move toward some form of convergence or congruence. Chris Daykin stated that a top priority should be for the IAA to enable all of its member associations around the world to have actuarial standards (many have none), and in terms of the reputation and future of the profession standards need to be in place everywhere. Solvency II, IFRS 4 and IAS 19 provide an important opportunity for the profession to respond to these external developments on an international front. The IAA requires its member associations to have a code of conduct that is congruent with that of the IAA. Similarly, if the long term goal for actuarial standards is congruence, a similar membership requirement could eventually be put in place. The challenge will be to work through the interim period where some associations have detailed standards and others have none.

3.4 The IAA's focus on the long term was understandable, but the revised IFRS 4 was an urgent issue for Canada in the meantime. Chris Daykin thought that the way forward in the interim was to proceed with the proposed International Actuarial Standard of Practice on IFRS 4. (There was a motion before Council to approve a Statement of Intent which would begin work on a standard.) While there were issues with how generic or specific to IFRS the IASP should be, voluntary congruence was needed at this point in time.

3.5 Paul Thornton was optimistic that the IAA would proceed with plans to produce an IASP on IFRS 4. He explained that the Convergence Task Force had ably examined many of the wider issues related to standard setting, and he hoped to get a sense of direction from Council as to how much support there was for moving forward and how quickly. If the IAA were to develop model standards that associations could adopt, it could then be reasonable at some future point to include a requirement for associations to promulgate actuarial standards as part of the criteria for Full Member accreditation. However, moving forward too quickly on anything mandatory could mean a push back from the larger associations who already have well established standards.

3.6 It was pointed out that the idea of model standards first emerged at the IAA Professionalism Committee meeting in Paris in 2006 but progress has been slow. Having a large number of different (local, regional, international) standards is a concern, and model standards would set us on the best path to convergence.

3.7 Would the task force's recommendations move us too quickly toward convergence? Hillevi clarified that in fact the report refers only to long and medium term objectives, and while it describes the implementation steps needed to achieve these objectives on some scale, it does not define the scale, i.e., how many years between one step and the next. There may also be variations on the speed of some steps versus others. What is most important is for the IAA to decide if it wants to do anything in this area or not and then define its long term objectives.

3.8 The 4th and 5th options, described in paragraph 9.1.3 of the report as weak convergence and no convergence, would not form an appropriate basis for the profession and therefore would not be acceptable options for the IAA. The Chair remarked that we were currently in a position of "no

convergence” – which the report terms unacceptable – and this should impel the IAA to move more quickly to convergence. Round Table members were invited to comment on the situation in their respective countries.

- i. A large percentage of UK actuaries work outside the country, often for multinationals, and must apply different standards for different aspects of their work. The profession has drawn up an algorithm containing a series of questions meant to assist UK actuaries working in different jurisdictions in determining the right standards to apply.
- ii. The standards in the United States are set by the Actuarial Standards Board and not by the actuarial associations. Actuaries practicing outside the US follow the standards applicable in the jurisdiction in which they are working. Both clients and the public interest would better served by international standards.
- iii. Guidance would be useful under Mexico’s new regulatory regime, which in practical terms is much like Solvency II. The reservations of associations with a long history of standard-setting are understandable, but given that we are in a global world Mexico would prefer to have some movement toward congruence among standards .
- iv. In Japan standards are set by regulators and thus it is a difficult and lengthy process to create new standards.
- v. France has two “labs” to see what can be done, the first is Solvency II and the second is IFRS 4 Phase 2. It is quite difficult to move 30 different associations in the same direction even though they may have the same regulatory framework of Solvency II. The first problem is that there are not many countries with standards in Europe, or they are very narrowly focused and written in a myriad of different languages. Model or core standards are needed that would enable an actuary to work in various countries and be able to explain to an employer why the standards are so different across jurisdictions.
- vi. Australia has a history of setting standards and would likely not have an issue with the long term goal of convergence; there may be some disagreement about the speed at which to proceed.
- vii. The task force within the GC was in favour of a European actuarial standards board but didn’t feel they had the authority to set one up – European Commission and EIOPA (European insurance and occupational pensions authority) buy-in would have been needed. Instead a smaller group for standard setting was set up within the GC. The European authorities seem inclined to believe that a European actuarial standards board may be the way forward.
- viii. In Europe over-arching political authority comes from the EC; however, on an international level there is no such authority, or sponsoring organization, that could issue standards and make them mandatory. This may be a vacuum that the IAA or the Round Table can fill by perhaps setting up an international standards board. The question remains as to who would give the authority to such standards; possibilities include the IASB, IOSCO, IAIS, and the G20 or its committees.

3.9 If the IAA embarks on the project of producing model standards, what assurances are there that anyone would voluntarily adopt them? We should grapple with the voluntary/mandatory question

before we get too far down the road. The question of financing will also have to be addressed. Economically, it is the large multinational consulting firms and insurance groups that will benefit most from actuarial standards.

4. [Principles in setting mortality assumptions](#)

4.1 Chris Daykin circulated a draft, written from the perspective of life insurance offices, that examined principles which drew on the existing standards of various countries. The objective was to try to see if there were a set of common principles for setting mortality assumptions, and it was hoped that this exercise would bring to light the sort of difficulties we would hit in producing a model standard in this one narrowly-defined area.

4.2 Would it be easy to converge, or find a common set of standards from what is currently out there? The view expressed was probably not, but if a best practice document were produced it might be easier to find agreement. A local standard would have more detail and some felt that a such high-level standard may be too general to actually be helpful. With a greater level of detail, however, it becomes more difficult to make it international. On the other hand, Godfrey indicated that the draft may already be more prescriptive than existing U.S. standards.

4.3 Chris concluded that we could bring out a set of principles which probably everyone could sign on to - more or less - with some adjustments to wording. It may also be worth examining Jacqueline Friedland's work on actuarial standards, where she pulled together the commonalities of the principles from the U.K., U.S., Canadian and other standards.

4.4 Thomas Béhar commented that the paper does not cover the different uses for the assumptions. Setting mortality assumptions is very different if you are doing pricing, reserving or solvency capital requirement calculations, or reinsurance estimations, and the way that you will focus on the mortality assumptions will depend on their use. Chris Daykin agreed that the genesis of the paper was around reserving and addresses what sort of standard might be set from the reserving angle. Thomas explained that France has regulations that set different mortality tables depending on the way they are used; for example, there are different mortality tables for annuities than for other life products. Their exposure draft on mortality assumptions was 74 pages long.

4.5 There was agreement that the problem lay largely in the level of prescription. Chris Daykin added that a key issue was whether to set the standard at the lowest common denominator that everybody can sign up to (but little is achieved), or whether to make it a bit challenging for some associations in order to raise the bar a little.

4.6 Members of the Round Table were asked to revert to Chris with their comments so that the paper can be revised. Members should also submit their views on the level of prescriptiveness and whether the standard should be aimed at the lowest common denominator. After Chris has circulated a revised draft, members will be asked to (i) look at their own standards to determine if they would be congruent; and (ii) specify what problems would be encountered in their local jurisdictions if the paper were adopted as a standard. Chris Daykin will then summarize the various issues and lessons we can learn from this exercise.

5. [Results of survey on purposes of standards](#) (related [zip file](#))

5.1 Godfrey Perrott presented the results of his survey on the purpose of actuarial standards. For some members, the survey prompted lively debate within their organizations; for others there was a reluctance to go on the record, thus some responses were delayed. While there was not a unanimity of opinion, there appeared to be a set of purposes that most, if not all, standard-setters subscribed to. Survey respondents ranked the following purposes highest:

- i. to help ensure the quality of actuarial services
- ii. to protect beneficiaries; increase consistency of actuarial practice; and assist users of actuarial work
- iii. to educate actuaries regarding what is expected or acceptable
- iv. to enhance the accountability of actuaries
- v. to improve the competitiveness of domestic companies and to serve social purposes.

5.2 The Chair suggested that the purpose of “serving the public interest” is too narrowly defined in questions 1 and 15 (it should not encompass only beneficiaries, but investors as well for example). Another member thought that it would be useful to survey non-actuaries for their opinions on the purpose of actuarial standards, although this might be difficult to do.

5.3 Godfrey Perrott will send out a complete survey so that everyone who has not yet done so can respond. In addition, everyone is asked to respond to the “other purposes” items that have been added to the questionnaire.

6. [Issues with creating a model standard for general actuarial work](#), but in fact limiting its scope to **IFRS work**

6.1 The Round Table discussed the issues surrounding the creation of a model standard for general actuarial work. Godfrey explained that a standard on general material that purports to be restricted to one area of practice, such as IFRS work for example, is in practice artificial and untenable. The concern with hybrid standards – some offering IFRS guidance and some general – is that it would make adoption or congruence that much more difficult.

6.2 Godfrey welcomed feedback on an amendment submitted to the Professionalism Committee which clarifies the expectations of the Statement of Intent before Council (see [Appendix](#)). One member commented that the proposal assumes the development of two IASPs concurrently (general and IFRS), which Godfrey confirmed as the best scenario. An IFRS-specific standard would have more controversial issues surrounding it, whereas a general standard based on the current IASP 2, less so. Another member questioned if it would even be possible to write a standard that is not at all generic but only related to IFRS-specific issues. What would be left after the generic parts were removed? The Chairperson cited Canada as having a general standard. Canada had recently identified about 12 or so areas of IFRS that needed actuarial standards to support them. The guidance required would be quite IFRS-specific. In addition, the UK has started work on a standard to support IAS 19 specifically.

6.3 It was suggested that there were two possible ways to proceed: one where there were two separate standards and another where there would be one standard divided into two sections but prepared at the same time. Those countries requiring the generic standard, because they had none currently, could adopt the whole standard; while those countries who already had generic standards

could choose to adopt only the IFRS-specific standard. Another member commented that one standard with two sections would only result in a delay in releasing the standard because the IFRS-specific section is likely to be contentious, with wide differences of view on the level of prescription and depth of coverage of various issues. Thus the advantage of having separate standards (a separate general standard applicable to everything and an IFRS standard applicable only to IFRS work) although the IFRS standard may well address general topics where they are treated differently under IFRS.

6.4 Godfrey acknowledged the divergence of opinion on what an IFRS standard would contain - ranging from one extreme (no specific guidance) to the other (12 substantial points that should be made); however, it was agreed that there was no apparent downside to Godfrey's recommendation on the Statement of Intent before Council.

6.5 A complication with having a general standard would be that with every new standard produced, for example one on pensions (IAS 19), the general standard would need amendment or adjustment. The Chair commented that in fact it took ten years to come up with consolidated standards for Canada, but this should not be taken as a sign of the complexity involved. The possibility of an IAS 19 specific standard having its own general standard for pensions was also suggested.

6.6 The timeline for producing the actuarial standard on IFRS 4 would ideally coincide with the publication of IFRS 4 by the IASB. Some members speculated that one year would not suffice for producing the standard, given the IAA's lengthy due process, although work on the standard had already commenced. It was recognized that a clear draft of the architecture for the standard would be required by Sydney (April 2011), indicating what will be covered and the areas identified as being IFRS-specific. After discussion and debate in Sydney, the draft text leading to a possible exposure draft would have to be prepared by Zagreb (October 2011), a challenging timeframe.

7. Status of survey on motor insurance claim reserving

7.1 Thomas Béhar presented his findings on the survey on motor insurance claim reserving. Standards for motor insurance are written in different ways for different countries. There may be general standards covering general topics, life and non-life, or general standards for non-life, and sometimes also different general standards for P&C. Thomas summed up the common aspects of the different standards he researched.

7.2 The round table considered whether these findings should be turned into a paper along the lines of Chris Daykin's mortality survey. It was agreed that a survey with more general questions would be more efficient so that members of the Round Table could state whether their standards covered the various topics or not, and if so, provide details of what is prescribed. Thomas hoped to have a survey ready for the end of November.

8. Country/region updates (particularly EU, but also others) (not discussed)

9. Results of survey on [standard-setters' resources](#)

9.1 Godfrey Perrott presented the results of his survey, and noted the following: actuarial standards boards have some professional staff; annual budgets range from C\$250,000 to £2.4 million; standards boards tend to be small; setting standards requires a large actuarial effort; and the amount of

peer review was more than expected. Godfrey thanked the SSRT members for their efforts to complete the survey.

9.2 Paul Thornton asked, in thinking about the long-term goal, if a single IBAS (international board for actuarial standards) would not be more cost-effective than all of these associations spending all of this money in parallel. The Chair agreed and added that Canada, for example, would be spending less on its standards board in future as Canada moved to adopt IFRS.

10. Website status/progress

(not discussed)

11. Implications of discussion today for SSRT role and/or action/inaction

It was agreed to schedule a telephone meeting within the next 3 to 4 weeks to discuss the need to support the IAA's efforts for actuarial standard setting, or conversely the need to address issues that the IAA is not taking on.

12. Selection of new chair and effective date

The Chair invited members to contact him if they wished to volunteer for the position of Chair of the SSRT for the calendar year 2011.

13. Upcoming meetings:

The next face-to-face meeting shall take place in Sydney, Australia, on Thursday, April 7, 2011. A conference call shall be held in the interim, on or about November 15.

Professionalism Committee Recommendation (presented by Godfrey Perrott)

The Professionalism Committee (and we believe Council) is eager to see a model IASP on IFRS. The SOI describes a model IASP that we feel is unclear as to its scope, whether general or IFRS specific. Nonetheless, we (the Professionalism Committee) have approved the SOI so as not to block the process, but we recommend Council make clear what it expects in the one or more model IASPs that result from the SOI. We recommend Council endorse the following premises.

1. A model IASP on IFRS should address only topics unique to IFRS work. General topics (such as assumption setting) should be addressed only if there is guidance on assumption setting for IFRS work that is different from general work, and such guidance should be linked to the relevant IFRS material.
2. If a model IASP on IFRS needs to be supported by guidance on general actuarial topics such guidance should be contained in a separate model IASP.
3. A model IASP on general topics should apply to all actuarial work (rather than being artificially limited to IFRS work).