

REPORT OF THE DEVELOPMENT AND CONSULTATION OF THE ESAP1 AND AAE GLOSSARY EXPOSURE DRAFTS

1. Consultation of ESAP1 and the AAE Glossary

The AAE has issued ESAP1, the European model standard on general actuarial practice, on 3 October 2014, which at the time was basically the same as ISAP 1 issued by the International Actuarial Association (IAA). Since then the IAA has modified ISAP 1 by merging ISAP 1A (Governance of Models) and made some conformance changes with other ISAPs. The IAA has also a separate Glossary of defined terms used in the ISAPs, whereas AAE has included the definitions of defined terms in the ESAPs.

The Professionalism Committee (ProfC) agreed that ESAP 1 should be modified to be in line with the current ISAP 1 and an AAE Glossary should be created by removing the defined terms from the ESAPs. The Actuarial Standards Subcommittee (ASSC) prepared the Exposure Drafts (EDs) which were issued to the Member Associations for consultation on 22nd August 2019 with comment deadline of 22nd September 2019.

The proposed ED of ESAP 1 is in line with the current IAA ISAP 1.

The proposed ED of the AAE Glossary includes the defined terms used in proposed ESAP 1 and which are now removed from ESAP 1. The general principle is that the definitions should be the same in both the IAA Glossary and the AAE Glossary, unless there is some specific European issue which requires that a different definition be used in the AAE Glossary. In the ED of the AAE Glossary, the definitions of some terms differ from those in the IAA Glossary. Later when ESAP 2 and ESAP 3 will be reviewed (expected in 2020 and 2021) the defined terms which are currently included in these two ESAPs will be removed and the AAE Glossary updated. Also the definitions of the terms will be reviewed. With this gradual approach the ASSC and the ProfC avoid the need to review ESAP 2 and ESAP 3 twice.

As result of the consultation the AAE received seven responses from the Member Associations (Bulgaria, Finland, Germany, Hungary, Norway, Spain, Spain/Catalunya): six in favour and one with comments. In addition two ProfC members sent comments. All suggestions were carefully considered by the ASSC and responded below.

Comments on ESAP 1 and the ASSC Responses

	Luis Sáez de Jáuregui
1	<p><u>Comment:</u></p> <p>Given that the current AAE Glossary includes the terms of the ESAP 1, which are proposed now to be deleted from the ESAP 1, the new ESAP 1 should have an explicit</p>

	<p>mention saying that the definition of terms must be found in the AAE Glossary. For instance: “... ESAPs use various terms whose specific meanings are defined in the document named «Glossary of defined terms used in the European Standards of Actuarial Practice» which can be found on the following website: https://actuary.eu/</p> <p>These terms are highlighted in the text with a dashed underscore and in blue (e.g. actuary)...”</p> <p>The definition of Actuary should remain explicitly in the ESAP 1.</p> <p><u>Response:</u></p> <p>The reference to the Glossary is in paragraph 1.6.2. We have clarified the reference as to “the AAE Glossary” instead of “the Glossary” We have also included a reference in the Preface.</p> <p>The ASSC came to the conclusion that for clarity and consistency all the definitions should be only in the Glossary. No change.</p>
	<p>The Instituto de Actuarios Españoles</p>
2	<p><u>Comment:</u></p> <p>The Instituto de Actuarios Españoles supports an explicit definition of what an actuary is in the ESAP1, and while we would prefer it to be included in the ESAP itself, doing so in the AAE Glossary might be equally acceptable if the new ESAP 1 have an explicit mention saying that the definition of terms must be found in the AAE Glossary. As this is accepted, the vote of Instituto de Actuarios Españoles is favourable to the new ESAP 1.</p> <p>It is important to note that the ESAP 1 is mandatory in Spain, since it is mentioned in article 10 of Circular 1/2018, dated April 17, of the General Directorate of Insurance and Pension Funds, [Insurance Regulator] relative to Solvency II:</p> <p>“Article 10. Quality control. Reviewers must implement an adequate quality control system in the performance of their work, which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions. Specifically, the auditor must apply the International Quality Control Standard 1 (NICC 1) and the actuary must apply the European Actuarial Practice Standard (ESAP 1), or the international standards that may replace these in the future.”</p> <p><u>Legal reference:</u> https://www.boe.es/buscar/doc.php?id=BOE-A-2018-5670</p> <p><u>Response:</u></p> <p>The reference to the Glossary is in paragraph 1.6.2. We have clarified the reference as to “the AAE Glossary” instead of “the Glossary” We have also included a reference in the Preface.</p> <p>The ASSC came to the conclusion that for clarity and consistency all the definitions should be only in the Glossary. No change.</p>

Comments on AAE Glossary and the ASSC Responses

	Gabor Hanak
1	<p><u>Comment:</u></p> <p>Data: This is used in ESAP1 and 2 and is defined in the new ESAP Glossary; the definition in the new ESAP Glossary is the same as in ESAP2 which is different from the ISAP definition.</p> <p>ESAP3 uses Data but does not define (and highlight) it.</p> <p><u>Response:</u></p> <p>The current ESAP1 does not use “data” as a defined term but ESAP 2 does. Therefore ESAP2 definition is proposed (we also found it better, as the IAA definition is too long and includes examples which we would not normally include in a definition.) However, this will be considered when ESAP2 is reviewed. No change.</p> <p>Currently the ESAPs are not quite consistent with each other. This will be considered when reviewed, including ESAP3.</p>
2	<p><u>Comment:</u></p> <p>Intended User: This is used in ESAP1, 2 and 3 and is defined in the new ESAP Glossary; the definition in the new ESAP Glossary is different from the definition in ESAP2; ESAP3 has again a slightly different definition, although the current ESAP1 definition is the same as that of ESAP2 (actually the current definitions differ between ESAP1, 2 and ESAP3 in the usage of commas – i.e. not really substantial). However, the new ESAP Glossary would use a mixture of old ESAP definitions and the ISAP Glossary (where the <u>output of the actuarial services</u> is used instead of the <u>report</u>).</p> <p>I do not get why would we introduce a definition of Intended User which is inconsistent with both old ESAP definitions and the ISAP definition. However, in my assessment, the differences are not critical.</p> <p><u>Response:</u></p> <p>The IAA definition is not quite correct language which have been corrected in the AAE definition. The change of “report” to “output of the actuarial services” is in line with the IAA Glossary, which we agreed was an improvement. No change.</p>
3	<p><u>Comment:</u></p> <p>Model: This is used in ESAP1 and 2 and is defined in the new ESAP Glossary; the definition in the new ESAP Glossary is the same as in ESAP2 which is different from the ISAP definition.</p> <p>ESAP3 uses Model (but only in Sections 1 and 2 and not in Section 3) and does not defines (and highlight) it.</p> <p><u>Response:</u></p> <p>The current ESAP1 does not use “model” as a defined term but ESAP 2 does. Therefore</p>

	<p>ESAP2 definition is proposed. No change.</p> <p>ESAP3 need to be reviewed to be consistent with the others.</p>
4	<p><u>Comment:</u></p> <p>Report: This is used and defined in ESAP1 and 3 but not in ESAP2. The definitions in ESAP1 and 3 are the same but different from the definition in the new ESAP Glossary and this latter is different from the ISAP definition.</p> <p>ESAP3 uses Report but only in Sections 1 and 2 and not in Section 3; it defines (and highlights) Report.</p> <p>Again, I do not get why would we introduce a definition of Report which is inconsistent with both old ESAP definitions and the ISAP definition. However, in my assessment, the differences are not critical here either.</p> <p><u>Response:</u></p> <p>The use of “output of the actuarial services” (from the IAA Glossary) instead of “results” (as also above in Intended User) is an improvement. The only difference between the definition of Report in the IAA Glossary and our proposal is in the ordering of the text which improves the language. No change.</p> <p>ESAP3 need to be reviewed to be consistent with the others.</p>
5	<p><u>Comment:</u></p> <p>Subsequent Event: This is used and defined in ESAP1 only (neither in ESAP2 nor in ESAP3). The ISAP definition does / the ESAP definition does not use the defined term of Valuation Date</p> <p><u>Response:</u></p> <p>ESAP1 does not use the term “valuation date”. No change.</p>

2. Due Process Follow-up

According the Due Process of Development of European Model Standard of Actuarial Practice the following steps should be taken. When an ESAP is reviewed a fast track procedure can be used by approval of the Professionalism Committee (section 3).

Due Process	Prepared/Approved by
2.1. Initial consideration of the topic to review	Proposed by ASSC 21.9.2019 (Utrecht)
2.2 Inclusion to the Standards Work Plan	Approved by ProfC 21.9.2018 (Utrecht)
2.3. Development Proposal to Develop a Standard	ASSC Discussion paper 12.4.2019 (Sofia)
2.4. Approve Proposal to Develop a Standard: Review of ESAP1 and new AAE Glossary	ProfC 12.4.2019 (Sofia)
2.5. Develop Exposure Draft	Done by ASSC
2.6. Approve Issuance of Exposure Draft (and using fast track procedure)	ProfC 21.8.2019 (by email)
2.7. Consult on Exposure Draft	From 22.8. to 22.9.2019
2.8. Evaluate Consultation	Report and final proposal by ASSC (Vienna)
2.9. Decision on Exposure Draft	
2.10. Adoption by General Assembly	
2.11. Promulgation of ESAP	

The ASSC reports that the Due Process has been followed.

Hillevi Mannonen
Chairperson, Actuarial Standards Subcommittee
26 September 2019