



ACTUARIAL ASSOCIATION OF EUROPE

ASSOCIATION ACTUARIELLE EUROPÉENNE

4 PLACE DU SAMEDI

B-1000 BRUSSELS, BELGIUM

TEL: (+32) 22 17 01 21 FAX: (+32) 27 92 46 48

E-MAIL: info@actuary.eu

WEB: www.actuary.eu

Due Process for the Development of European Standards of Actuarial Practice (ESAPs)

1. Introduction

A standard of actuarial practice is a statement of behaviour expected of actuaries operating within a specific context. It sets a minimum standard on matters such as the methodology to be adopted, the approach to be used in setting assumptions, the contents of a resulting report or opinion, and the way in which the report or opinion should be presented. The intention of a standard of actuarial practice is to achieve greater consistency of approach to actuarial practice in a given situation, so as to increase the confidence of users of actuarial services, including clients and the public, in the actuarial work product and thereby to serve the public interest, but without unnecessarily constraining actuarial judgement or creativity. A more detailed articulation of the purpose of standards issued by the Actuarial Association of Europe (AAE) can be found in the document *Purpose for Standards and Criteria to be met*, approved by the General Assembly on 21 October 2011 in Prague.

A European Standard of Actuarial Practice (ESAP) is a model standard for member associations and other actuarial standard-setting bodies in Europe to consider. An ESAP is not binding on an individual actuary unless that actuary states that some or all of the work has been performed in compliance with the ESAP or an association of which the actuary is a member adopts it as a mandatory standard of practice.

2. Due process

The due process to be followed by the AAE in developing and adopting an ESAP is as follows:

2.1 Step 1 – Initial considerations

A proposal is made that an European model actuarial standard is needed for a particular aspect of actuarial work (or if relevant experience or changing circumstances requires an existing standard to be reviewed for potential amendment). A proposal for a new or revised model standard may be put to the Standards Project Team (SPT), through the Chief Executive or Secretary-General, by

- a) the Board of Directors of the AAE;
- b) one of the technical Committees of the AAE;
- c) the Standards, Freedoms and Professionalism Committee of the AAE;
- d) the Solvency II Project Team (or one of its working groups) of the AAE;
- e) a Member Association of the AAE; or
- f) an external stakeholder

In the case of Committees or Project Teams, a proposal from the relevant Chairman will be deemed sufficient for the proposal to be considered.

A proposal might be in response to a direct request by European Insurance and Occupational Pensions Authority (EIOPA) or the European Commission (or other stakeholder) or might be because of a growing consensus that the AAE should issue a model standard for a particular area of actuarial work. It is open to the SPT to initiate the process, in the light, for example, of their knowledge of proposed actions by EIOPA, or new roles involving actuarial work arising from EU legislation.

It is expected that there would be informal communication and consultation between key players within the AAE, including *membres titulaires*, who would extend the consultation to their respective Member Associations, before it is decided to take forward a proposal for developing a standard. A formal request from an external stakeholder, such as EIOPA, would clearly need to be taken particularly seriously, with the emphasis then being on consulting on whether there are reasons why the AAE might not want to develop a model standard.

2.2 Step 2 – Standards Work-Plan

Following consultation with relevant Committees of the AAE, the SPT recommends to the Standards, Freedoms and Professionalism Committee (SFPC) that the proposed model standard be added to the Standards Work-Plan (SWP) with one of the following classifications:

- a) for immediate development, subject to preparation and approval of a detailed proposal under Step 3; (Elapsed time $t = 0$ – the timings given for each step in the due process are intended to represent the maximum aggregate elapsed time starting from $t = 0$ when the SFPC approves a potential ESAP to be on the SWP for immediate development)
- b) to be referred to a task force or working group to consider the idea in more detail;
- c) to be put on hold for possible future development; or
- d) not to be developed or considered further.

The SPT also proposes to the SFPC a broad timetable for the stages of any model standard recommended for immediate development (category (a)) and a timetable for review of whether category (b) or (c) standards should be reclassified as category (a).

The SPT keeps the SWP reviewed and updated and submits it to the SFPC at their (approximately) six monthly meetings, for approval by the SFPC if there are any changes proposed (subject to ultimate ratification by the General Assembly). The SFPC reports to the General Assembly on the current status of the SWP and the General Assembly is asked to ratify the current SWP.

2.3 Step 3 – Develop Proposal to Develop a Standard

In accordance with the timetable proposed in the SWP, the SPT prepares, in respect of each category (a) model standard referred to at Step 2, a Proposal to Develop a Standard (PDS). This should include sufficient detail of the intended content and purpose of the model standard to enable a judgement to be formed as the nature of the proposed standard and the implications of it being developed. The PDS is submitted by the SPT to the SFPC and should demonstrate that the proposed model ESAP meets the pre-determined criteria which justify the development of standards at the EU level¹. At the discretion of the SPT, the PDS

¹ A policy on Purpose for Standards and Criteria to be met was approved by the General Assembly on 21 October 2011 and is published on the AAE website.

may include a draft of some sections of the proposed model ESAP, in order to illustrate the nature of what is proposed. At this stage the SPT should also provide an indication to the SFPC of a more detailed intended timetable for the development of the ESAP. (t = 3 months)

2.4 Step 4 – Approve Proposal to Develop a Standard

The PDS is normally considered by the SFPC at a full face-to-face meeting, either at the annual meetings in the autumn or at the spring meeting of the Committee. There should be early communication with Member Associations and relevant external stakeholders in advance of such discussion, in order to give ample opportunity for them to consider any draft PDS which SFPC is expected to be asked to approve. Member Associations are encouraged to engage strongly with the process of development of an ESAP at this stage, providing relevant feedback on the proposal and also putting in place an efficient process for responding in a timely way to consultation on the eventual exposure draft. If the members of the SFPC agree that the case for developing an ESAP has been well made, the Committee requests the SPT to continue work on developing an exposure draft of the ESAP. If the SPT requires urgent guidance from the SFPC on whether to continue with the development of an ESAP, this may in exceptional circumstances be dealt with by means of a conference call of the Committee and, if necessary, by electronic vote. (t = 6 months)

2.5 Step 5 – Develop Exposure Draft

The SPT decides whether to develop the exposure draft of the proposed ESAP as a full team or whether to establish a sub-committee, task force or drafting team with an appropriate balance of suitably qualified individuals to draft the ESAP (in English). Member Associations will be asked to nominate individuals with appropriate and relevant experience for each ESAP. The SPT will then appoint to the drafting team individuals whom they consider to be well-suited to the task of drafting a particular ESAP. The SPT must ensure that the drafting group is made aware of all relevant existing national and international actuarial standards, including EIOPA guidelines, and provides guidance to the drafting group on the format and structure of the proposed model standard.

The SPT considers any important issues of principle regarding the form and content of the model standard and its relationship to other model standards already issued by the AAE (or under development), to model standards (ISAPs) issued by the International Actuarial Association (IAA) with which consistency and avoidance of overlap must be ensured, and to any relevant guidelines issued (or under development) by EIOPA. The SPT and the drafting group must consult with the AAE Committees responsible for the relevant practice area (insurance, pensions or financial risk) as appropriate. (t = 12 months)

Where there is a close relationship between a proposed ESAP and an existing or proposed ISAP, consideration should be given by SPT to setting in place more formal consultation arrangements with the IAA Actuarial Standards Committee and relevant subcommittees or task forces.

2.6 Step 6 – Approve issuance of Exposure Draft

Once a complete exposure draft of the proposed model standard is ready, the SPT seeks the approval of the SFPC to issue the exposure draft for wider consultation. (t = 15 months)

2.7 Step 7 – Consult on Exposure Draft

Consultation for a prescribed period (normally no less than three months) takes place with a range of stakeholders, including Member Associations of the AAE, EIOPA, the European Commission, national supervisory authorities, industry bodies (such as the Insurance

Europe, the CRO Forum, the CFO Forum, AMICE, FEE, EFRAG and, in the case of pensions, Pensions Europe), other standard-setting bodies (both actuarial and for the accountancy profession), including the Actuarial Standards Committee of the IAA, and potential users of professional services by actuaries. The exposure draft is published on the AAE website with an indication that comments are welcome from all stakeholders (including individual actuaries, industry firms and advisers). The list of relevant stakeholders to be formally consulted is decided in any particular case by the SFPC, on the advice of the SPT. (t = 18 months)

2.8 Step 8 – Evaluate consultation

The SPT collates the responses, normally publishes them on the AAE website, and prepares a formal Basis for Conclusions responding to the comments received and proposing whether, and if so how, the draft ESAP should be amended to respond to the comments received. The Basis for Conclusions is published on the AAE website. The SPT also prepares individual responses to those who have submitted comments. The SPT may delegate these tasks to a sub-committee, task force or drafting team, whilst retaining oversight. In the event of very large numbers of comments being received and aspects of the exposure draft proving to be controversial, this step and the next step may take longer than the time indicated. (t = 20 months)

2.9 Step 9 – Decision on Exposure Draft by SFPC

In the light of the consultation responses, the SPT prepares a final version of the ESAP for presentation to the SFPC, together with a commentary on responses to the public consultation, embodied in a Basis for Conclusions. In the event of substantial stakeholder disagreement with important aspects of the original exposure draft, or changes in circumstances or underlying legislation, leading the SPT to propose material changes, the SFPC decides whether a further period of consultation should be undertaken on the basis of a revised exposure draft. The decision by the SFPC to approve an ESAP or to request a revised exposure draft of the ESAP should be made at a physical meeting of the SFPC. In case a revised exposure draft is requested, Steps 5 to 9 should be repeated. (t = 22 months assuming no re-exposure)

2.10 Step 10 – Adoption by General Meeting

Once it has agreed the final version of the standard developed by the SPT, the SFPC recommends the model standard for approval by the General Meeting or by an electronic vote of the *membres titulaires* of the AAE. (t = 24 months)

2.11 Step 11 – Promulgation of ESAP

Following the adoption of an ESAP by the General Assembly, the standard is published on the AAE website (in the official languages of the AAE). The Chairman of the AAE issues the standard to the Presidents of all Member Associations, requesting them to acknowledge receipt and to inform the AAE in a timely fashion, through the Chief Executive or Secretary-General, of how they intend to use the ESAP, for example by

- a) adopting the ESAP (in one of the official languages of the AAE) as a standard of the association (after applying any drafting notes);
- b) translating the ESAP into the language of the association and adopting it;
- c) adapting the ESAP to take into account the circumstances of the country, existing standards and legislation, language and tradition while maintaining substantial consistency with the ESAP except if law prevents such consistency;

- d) adapting an existing standard or standards to incorporate any elements of the ESAP which may not be adequately covered to obtain substantial consistency with the ESAP;
- e) introducing a new standard or standards to cover the material of the ESAP;
- f) certifying that existing standards are already substantially consistent with the ESAP; or
- g) reporting that, in accordance with the arrangements in force in that particular member state, the association² has informed the local standard-setting body of the issuance of the ESAP by the AAE and encouraged the relevant body to take appropriate action.

Member Associations are strongly encouraged to take positive action with respect to the ESAP, as the AAE believes that adoption of standards will enhance the standing of the profession in all countries where such standards are put in place. Member Associations should provide due explanation of any adaptations which they make to the ESAP, especially if these involve material changes to the content of the model standard.

Member Associations should also inform the AAE, through the Chief Executive or Secretary-General, when any changes are made subsequently to standards which are based on the ESAPs.

2.12 Step 12 – Submission of ESAP to stakeholders

The Chairman of the AAE formally submits the ESAP to EIOPA, to the European Commission and to other key stakeholders.

3. Revision of an ESAP

Where Step 1 is initiated in respect of the revision of an existing standard, and in particular when relatively minor changes are thought necessary, or where a model standard which is based on a standard prepared by another organisation (such as ESAP1, which closely follows ISAP1 issued by the IAA), then some of the steps above may be foreshortened. The gestation and preparation period would be shorter, a PDS could be prepared and submitted to the SFPC for electronic vote instead of having to wait for a face-to-face meeting, and the consultation period on the exposure draft could be reduced to one month, unless at least five member associations oppose a shorter exposure period and request a full three months exposure to be observed. A revised ESAP resulting from this revision process could be adopted by the SFPC by electronic vote and submitted to the General Assembly for electronic vote. However, these accelerated procedures should not be used where material changes are being proposed (other than simply to follow the IAA in respect of a revision to an ISAP) or if the SFPC requests normal due process to be followed.

Helsinki, 3 October 2014

² In some countries standards might be issued by an independent standard-setting body rather than by the actuarial association, but the actuarial association which is a member of the AAE will still be responsible for reporting to the AAE on how the standard is to be implemented or that a congruent standard is in place.