



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

Report of the Standards Project Team to the Standards, Freedoms and Professionalism Committee meeting in Nicosia, 10 March 2016

Since the meeting of the Standards, Freedoms and Professionalism Committee (SFPC) in Bucharest, 24 September 2015, the Standards Project Team¹ (SPT) and its task forces have progressed work on two ESAPs and begun work in relation to three other possible ESAPs.

The SPT is conscious that there needs to be proper preparatory work and a phased and careful development of new model standards to be adopted by the AAE, especially considering that the IAA has been and will be progressing in developing new global actuarial model standards. The pace of progress should depend on the receptiveness of the Member Associations of the AAE, in particular when it comes to practice areas that are not traditionally core business for actuaries such as risk management.

ESAP2 – Actuarial Function Report

The SFPC approved the final draft of ESAP2 for submitting to the General Assembly of the AAE on 15 December 2015. Then it was submitted to the General Assembly for an electronic vote with the deadline of 31 January 2016. Finally, ESAP2 was approved by the General Assembly on 31 January 2016 with no objection and one abstention (UK). Then on 3 February 2016, Philip Shier (Chairperson of the AAE) and Ad Kok (Chief Executive of the AAE) formally promulgated ESAP2 to Member Associations and other stakeholders.

Note that this is the very first practice specific ESAP adopted by the AAE. The SPT thanks the whole Drafting Team of ESAP2 and its chair Dieter Koehnlein for their hard work and commitment in developing and finalizing this important ESAP.

¹ Gábor Hanák, Hungary, Chair; Dieter Koehnlein, Germany; Hillevi Mannonen, Finland; Manuel Peraita, Spain; Marianna Anyfanti, Greece; Marianna Papamichail, Greece; Nino Savelli, Italy; Philip Simpson, UK; Pierre Miehe, France; Yvonne Lynch, Ireland
Since the last meeting of the SFPC Hillevi Mannonen, Philip Simpson and Pierre Miehe joined while Chris Daykin, Jukka Rantala and Thomas Behar have stepped down from the SPT.

Task Force² on ESAP3 – Actuarial Practice in relation to the ORSA Process under Solvency II

The Exposure Draft (ED) of ESAP3 was sent out for consultation by Member Associations and other stakeholders on 28 September 2015 with a comment deadline of 31 January 2016.

10 responses were received, from 8 member associations, the IAA and the UK Financial Reporting Council. Some of the respondents were happy with the ED but the majority did not think it was appropriate and suggested major changes. Key issues to be addressed are as follows

- Scope is not clear; there is confusion about when / to whom / to what work various parts apply; in particular, it was felt that the ED did not address well enough its application in the case of an individual actuary acting as a member of a multi-disciplinary team, possibly in a minor role
- Too much on non-core and too little on core actuarial work for some respondents
- Too burdensome and detailed; difficult to apply in a proportionate way (although there are comments requesting more details as well)
- There is a mixture of hard requirements (“should”s, or mandatory provisions) and soft guidance (“may”s)
- Difficult to enforce

The assessment of the TF and the SPT is that we need to work out a second ED for this ESAP. At its recent call, the TF members on the call decided unanimously that in order to work out a new ED that can gain widespread support from our stakeholders the current ED can and should be revised in an appropriate way reflecting the comments received. In doing so the TF will have to elaborate the scope and the various roles the actuary may play in the ORSA process in a more defined and expressive manner than the current ED. Obligatory guidance and educational guidance will have to be separated clearly which may result in the transfer of some of the ideas in the current ED into the EAN drafted parallel with the ESAP. This may require a closer cooperation between the TF and the task force working on the EAN (the membership of the two task forces overlap to a great extent anyway).

At its call on 1 March 2016 the SPT agreed with the basic approach suggested by the TF and provided some guidance for the further work to the TF.

We need to review the membership of the TF; remove non active members and recruit some others who are expected to contribute to the work substantially.

The rough timetable and a more elaborate report from the TF on the summary of the consultation results can be read in Annex IIb. Appendix 2 of this Annex includes all responses received to the ED.

The SPT hopes to have a substantial and productive discussion at the SFPC meeting in Nicosia and seeks guidance from the SFPC for the way forward.

² David Hare, UK, Chair; Ana Martins Pereira, Portugal; Colin Murray, Ireland; Dieter Koehnlein, Germany; Kirsten Sasady, Denmark; Matthias Pillaudin, France; Paola Scarabotto, Italy; Sam Achord, UK

Task Force³ on The role of the AF in contributing to the RM system under S II (ESAP4)

The TF has had two conference calls so far and is currently gathering relevant information and forming initial thoughts on whether it would be useful to develop an ESAP. The Solvency II Directive and associated regulations throw little light on what is required / expected in relation to the actuarial function contribution to risk management. It may be that an EAN would be preferable to an ESAP at this stage of evolution of the regulatory framework.

The TF will be working so that a report could be submitted to the SFPC meeting in Barcelona on 22 September 2016 on the pros and cons and the way forward, in particular whether an ESAP or an EAN would serve the AAE's goals better.

Task Force⁴ on Independent review by actuaries in the context of S II (ESAP5)

The Task Force started by analysing the existing AAE position paper on independent review then moved on to collecting examples of standards from other jurisdictions (Canada, Ireland, UK) and quickly came to realise that across jurisdictions in Europe, there will be very different requirements for independent review. The TF therefore conducted a mini-survey using informal contacts of the TF, across 10 jurisdictions, addressing questions such as regulatory requirements for certification of technical provisions and the reporting line of the actuarial function. The TF is now working on a document that will summarise their thoughts on the pros and cons of developing a model standard and hope to finish it soon. There are still a number of items in the terms of reference to be addressed by the TF and the TF would like to engage further with Member Associations and other stakeholders and would like to conduct a further survey involving all MAs using the AAE infrastructure. A request will be sent to the Officers accordingly.

The TF will be working so that a report could be submitted to the SFPC meeting in Barcelona on 22 September 2016 on the pros and cons and the way forward, in particular whether an ESAP or an EAN would serve the AAE's goals better.

The TF has four members but both the TF and the SPT feel that an enhanced membership would be desirable, especially it would be useful if a wider geographical representation of the AAE could be achieved.

Task Force⁵ on Actuarial Function Reporting for IORPs; Risk Reporting for IORPs (ESAP7-8⁶)

Following the current period of trilogue (between the European Commission, the Council of Ministers and the European Parliament), it is expected that the

³ Colin Murray, Ireland, Chair; Bernhard Klinger, UK; Elsa Renouf, France; Paola Scarabotto, Italy; Robert Pusz, Poland; Sam Achord, UK; Volker Goersmeyer, Germany

⁴ Thorsten Seidensticker, Germany, Chair; James Tuley, UK; Tony O'Riordan, Ireland; Yanick Bonnet, France

⁵ Cathal Fleming, Ireland, Chair; Huw Evans, UK; Pieter Heesterbeek; Tibor Párnitzky, Hungary

⁶ The number 6 for ESAPs is reserved for a potential ESAP on Model Governance although the AAE might chose a similar numbering for that as the IAA; i.e. ESAP1A

provisions of the new IORPs Directive will be decided by end June 2016. There will then be an implementation period of 18-24 months.

Actuarial function reporting

The TF has identified material to be reviewed (including ESAP 2) and started to gather its thoughts on the pros and cons of developing a standard on actuarial function reporting. The TF is conscious that different member associations are adopting ESAP1 in different ways, and that ESAP2 has only recently been adopted by the AAE. One of the considerations, therefore, will be the need for a balancing act between countries that already have relevant actuarial standards and those that do not. The Task Force will present its thoughts at and seek guidance from the Pensions Committee meeting in April.

Risk function reporting

The TF will then turn its attention to considering pros and cons of developing an ESAP on risk function reporting.

The TF will be working so that a report could be submitted to the SFPC meeting in Barcelona on 22 September 2016 on the pros and cons and the way forward, in particular whether an ESAP or an EAN would serve the AAE's goals better.

Updated work-plan

An updated work-plan for the SPT is at Annex IIa2. This update reflects the past and expected future pace of development on the work in progress of the various ESAPs. No new potential ESAP has been identified.

Commenting on ED of ISAP1A Governance of Models

A small working group of three SPT members, led by Chris Daykin, has prepared a draft comment. This will be discussed by the SPT on 9 March, the day preceding the SFPC meeting. An oral update will be given at the meeting.

Terms of References of the various task forces

For ease of setting the context, the ToRs of the TFs are attached at Annex IIa3

Gábor Hanák
Chairperson, Standards Project Team
4 March 2016