

## **Report on Review of the Due Process for the Development of European Standards of Actuarial Practice from the Standards Project Team to the Standards, Freedoms and Professionalism Committee**

### Introduction

The Standards, Freedoms and Professionalism Committee (SFPC) is required to recommend to the General Assembly an appropriate due process for the development and issuance of model European actuarial standards of practice. A paper on due process was submitted to and approved by the General Assembly on 21 October 2011 in Prague and has guided work on the development of model standards since then.

At the meeting of SFPC in Vilnius on 24 April 2014 the Standards Project Team (SPT) was asked to review the due process in the light of experience so far with its operation and, in particular, to take into account 1) the fact that it has been agreed that ESAP1 should follow closely ISAP1 issued by the International Actuarial Association (IAA) and the Actuarial Association of Europe (AAE) might therefore need a straightforward process for making amendments in order to follow changes made by the IAA and 2) the possible intention of the AAE to issue formal educational notes related to model standards (or in place of model standards).

### Clarity of Roles

In order to achieve a firm basis for the Due Process, we have reviewed the roles of the various bodies within the AAE, as set out in the original due process paper, and propose that there should be no material change (other than replacing Groupe Consultatif by AAE and including proposed roles relating to European Actuarial Notes – for discussion of this see below) and that they should therefore continue to be defined as follows:

#### **a) AAE General Assembly**

- approves the overall strategy for the AAE's standard-setting activities;
- approves the Purpose for Standards and Criteria to be met;
- approves the Due Process for the Development of European Standards of Actuarial Practice (ESAPs);
- approves the Due Process for the Development of European Actuarial Notes (EANs);
- ratifies the work-plan for standards development at least annually;
- approves the final model ESAPs for issuance by the AAE; and
- approves the final versions of EANs for issuance by the AAE.

#### **b) Standards, Freedoms and Professionalism Committee**

- is responsible for the implementation of the strategy for standards once this has been determined by the General Assembly;
- approves any changes to the work-plan (subject to eventual ratification by the General Assembly);
- recommends changes in strategy to the General Assembly;
- recommends to the General Assembly the Purpose of Standards and Criteria to be met;

- recommends to the General Assembly the Due Process for the Development of European Standards of Actuarial Practice;
  - recommends to the General Assembly the Due Process for the Development of European Actuarial Notes;
  - decides priorities and target time frames for the development of each model standard;
  - gives authority to the SPT to develop (or continue development of) an exposure draft, based on submission by the SPT of a Proposal to Develop a Standard (PDS);
  - approves exposure drafts of ESAPs to be issued for wider consultation;
  - recommends the final model standards to the General Assembly for approval;
  - ensures that the due process is followed during the development of ESAPs and EANs;
  - is responsible for encouraging and facilitating the adoption of the model standards by member associations (or issuance of congruent standards);
  - provides guidance, if required, on the interpretation of model standards;
  - oversees the development of EANs by Committees, including approving each Proposal to Develop an EAN (PDEAN) and laying down guidance as to language, style and presentation for EANs;
  - monitors progress on the drafting of each EAN once a PDEAN has been approved; and
  - approves the Terms of Reference of the SPT.
- c) **Standards Project Team (SPT)** (which is a project team reporting to the SFPC)
- is responsible for maintaining, reviewing and updating the work-plan for standards development and recommending the contents to the SFPC;
  - is responsible for submitting to the SFPC, in respect of each model standard proposed for immediate development, a Proposal to Develop a Standard (PDS);
  - proposes the content, format and style of model standards and oversees the preparation of exposure drafts (which it may delegate to a sub-committee or task force, while retaining oversight);
  - carries out the consultation on exposure drafts of model standards;
  - decides how to respond to the feedback from the consultation process, including preparation of a Basis for Conclusions which can be made available on the AAE website (and may delegate this task to a sub-committee or task force, while retaining oversight);
  - proposes final versions of model standards which the SFPC can recommend to the General Assembly for approval;
  - may suggest material which could be suitable for an EAN that it has decided not to include in an ESAP; and
  - advises the SFPC on appropriate due process for EANs and on developing guidance as to language, style and presentation for EANs.

#### AAE Due Process for Development of European Standards of Actuarial Practice

The AAE has not yet had a model standard complete the existing due process and therefore it could be seen as premature to make any significant changes. However, both ESAP1 and ESAP2 have been through the exposure draft stage and ESAP2 will need to have a second exposure draft. It has also been suggested that the AAE should adopt a fast-track process for revisions to ESAP1 which might be brought about by future changes to ISAP1.

Therefore, although no significant amendments seem necessary, some minor changes in wording are proposed, in some cases for clarity and in some cases to reflect practical experience of operating the due process.

The SPT commends the slightly revised Due Process for the Development of European Standards of Actuarial Practice, as set out in Annex 1, to the SFPC for discussion at the meeting in Helsinki on

2 October 2014 and, subject to the views of the SFPC, for onward transmission to the General Assembly on 3 October 2014 for approval as AAE policy. Once agreed, it is recommended that Annex 1 be uploaded to the AAE website as a self-standing document entitled Due Process for the Development of European Standards of Actuarial Practice (ESAPs).

#### AAE Due Process for the Development of European Actuarial Notes (EANs)

The SPT has considered what due process should be required for the adoption by the AAE of formal educational notes. SPT proposes that they should be called European Actuarial Notes (EANs). Since these are not intended to be model standards and are of an educational rather than regulatory nature, the SPT recommends that primary responsibility for development and issuance of such notes should rest with the relevant practice area committee, e.g. Insurance Committee, Pensions Committee or Investment and Financial Risk Committee. The relevant committee would be responsible for:

- deciding to develop a European Actuarial Note (EAN);
- defining the content;
- preparing a Proposal to Develop a European Actuarial Note (PDEAN) and submitting this to SFPC for approval;
- commissioning authors (which may include setting up a working group or task force or a steering committee to oversee a group of authors);
- overseeing the development of the note;
- carrying out exposure and consultation in accordance with the due process;
- revising the draft note as necessary in the light of comments received during the consultation process;
- recommending to the General Assembly that a note should be issued, subject to confirmation from SFPC that due process has been followed;
- promulgating the note to member associations; and
- ensuring that the note is kept up-to-date.

The SPT recommends that the SFPC should be responsible for recommending to the General Assembly an appropriate Due Process for the Development of European Actuarial Notes and recommending a title for such notes. The SFPC would be responsible for giving approval to the development of any EAN and for confirming that the appropriate due process has been followed, when a recommendation is made to the General Assembly that an EAN should be issued.

The SPT commends the Due Process for the Development of European Actuarial Notes, as set out in Annex 2, to the SFPC for discussion at the meeting in Helsinki on 2 October 2014 and, subject to the views of the SFPC, for onward transmission to the General Assembly on 3 October 2014 for approval as AAE policy. Once agreed, it is recommended that Annex 2 be uploaded to the AAE website as a self-standing document entitled Due Process for the Development of European Actuarial Notes (EANs).

Chris Daykin  
Convenor, Standards Project Team  
15 September 2014

## Annex 1

### 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 level<sup>1</sup>. At the discretion of the SPT, the PDS 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)

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<sup>1</sup> 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.

## 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 association<sup>2</sup> 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.

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<sup>2</sup> 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.

### **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



## **Annex 2**

### **Due Process for the Development of European Actuarial Notes (EANs)**

#### **1. Introduction**

- 1.1 A European Actuarial Note (EAN) is an educational document on an actuarial subject that has been adopted by the Actuarial Association of Europe (AAE) in order to advance the understanding of the subject by readers of the EAN, including actuaries and others, who use or rely upon the work of actuaries. It is not a European Standard of Actuarial Practice (ESAP) and is not intended to convey in any manner that it is authoritative. EANs may be issued
- a) To assist actuaries in complying with an ESAP, for example by offering practical examples of ways in which actuaries might implement an ESAP in the course of their work, or
  - b) To provide non-binding guidance on an actuarial topic for which the AAE has not developed an ESAP.
- 1.2 Because an EAN is not intended to be authoritative, its language will be chosen carefully. It will not contain words such as “should”. Rather, its style will be descriptive or will convey meaning by the use of examples of actual practice, without suggesting that these examples are comprehensive.

#### **2. Due Process**

- 2.1 Because an EAN is not intended to be authoritative and because (unlike an ESAP) it is not intended for use by Member Associations as the basis for issuing Standards of Practice for their members, the Due Process for issuing an EAN is simpler than for an ESAP.
- 2.2 On the other hand, it is also possible that the drafting of an EAN will cause differences of opinion to surface about what should or should not be included, so some due process is needed.
- 2.3 In addition, because it is important to ensure that the wording of an EAN is consistent with its non-authoritative and non-binding nature, the Standards, Freedoms and Professionalism Committee (SFPC) has an oversight role in terms of the format of EANs and the language to be used. Furthermore, the SFPC should ensure that the EAN is consistent with already published ESAPs and EANs, where appropriate ESAPs and EANs under development, and ISAPs and IANs promulgated by the IAA.
- 2.4 The eventual issuance of an EAN is approved by the General Assembly.

#### **3. First Stage – Proposal to Develop an EAN**

- 3.1 Any AAE Committee may put forward a Proposal to Develop an EAN (PDEAN). The PDEAN should describe the objectives and scope of the proposed EAN and, once the PDEAN is adopted by the Committee, is sent to the SFPC for approval.
- 3.2 In addition, the General Assembly or the Board of Directors of the AAE may request a Committee to develop a PDEAN.

- 3.3 In deciding whether to approve the PDEAN, the SFPC takes into account the views of member associations, expressed through their representatives on the SFPC.

#### **4. Second Stage – Development and Issuance of an Exposure Draft**

- 4.1 The Committee that is developing the EAN prepares an exposure draft of the EAN and submits it to the SFPC.
- 4.2 On approval by the SFPC, the Committee communicates the exposure draft to Member Associations. The communication should indicate the deadline for comments (normally three months from the date of the communication) and should indicate to whom comments should be sent.
- 4.3 During the exposure period, the SFPC reviews the exposure draft in terms of language and format, and provides comments to the developers of the exposure draft. The SFPC's review should also include consideration of any apparent overlap or conflict between the proposed EAN and existing EANs or ESAPs, where appropriate ESAPs and EANs under development, and any relevant IANs or ISAPs.

#### **5. Third Stage – Issuance of the EAN**

- 5.1 The Committee that is developing the EAN reviews all comments received and considers whether and how to reflect them in the EAN.
- 5.2 The Committee approves the final version of the EAN.
- 5.3 The SFPC approves the EAN from the aspects of language and format, confirms that the prescribed due process has been followed and submits it to the General Assembly for approval to issue, subject to the opinion of the SFPC as to whether the language and format of the EAN are appropriate and that the appropriate due process has been followed.
- 5.4 On approval of the EAN by the General Assembly, the Secretariat publishes the EAN, posting it on the AAE website and distributing it to Member Associations, requesting that it should be made accessible to individual actuaries. The Secretariat will develop a numbering system and will assign numbers to EANs when they are distributed and posted.

#### **6. The Role of the SFPC in the EAN Process**

- 6.1 The SFPC has the ongoing responsibility to make recommendations to the General Assembly regarding the due process for developing and adopting EANs.
- 6.2 The SFPC will develop a format in which EANs are to be issued. The format will include a description of the nature of EANs, consistent with the definition set forth in paragraph 1 above. The objective of a standard format is to provide the drafters of an EAN with guidance as to the desired style and layout of an EAN; using a consistent style and layout is expected to assist the users of EANs. The format will include the definition of the term "European Actuarial Note", and other information that can be expected to be similar or identical for each EAN. Such format is not intended to limit in any way the technical information that is conveyed in the EAN.

- 6.3 As described in paragraphs 4 and 5 above, the SFPC provides comments on exposure drafts of EANs and confirms that an EAN is appropriate as to language and format and that the EAN is consistent with already published ESAPs and EANs or ESAPs and EANs under development and any relevant ISAPs and IANs.
- 6.4 The SFPC has an overall responsibility for monitoring whether the EAN due process is working well and whether the due process should be updated from time to time. This includes monitoring:
- whether the correct due process been followed in the preparation of an EAN;
  - how effectively the EANs have been publicised;
  - whether Member Associations are making EANs available to their members;
  - whether the EANs are meeting their objectives.
- 6.5 The SFPC ensures that EANs that have been adopted are reviewed regularly, and works with the committee that developed each EAN to have the review carried out. Normally, an EAN should be reviewed every three years; however, the SFPC may request more frequent review of an EAN if it believes such review to be advisable.

In certain cases it may become necessary for more than one AAE Committee to provide their resources for the development of an EAN. In such cases, when the due process makes a reference to a Committee, it applies to the relevant Committees.

Helsinki, 3 October 2014