

# EAN on ESAP3 and ORSA – list of open issues for AAE meetings 11-12 April

## Summary

The EAN on ESAP3 and ORSA had the first round of IC approval in AAE Utrecht meetings, September 2018. In this meeting, the substance was more or less approved but noticed that more work needs to be done with the language and the way matters are brought out, the style. The work continued in the TF (Lauri Saraste, Chair) and a more finalized version was sent for IC, RMC and Prof.C at the end of February. This document contains the findings from the review process and a response from the TF on what has been done regarding these. The final Draft which has been sent for committees on 28<sup>th</sup> March includes improvements on these findings so that the approval of this version would be possible. This document aims to bring out also any open issues existing. As this EAN is planned to be a living documents with new versions to follow (e.g. every second year), some of the needs for improvements can be left into future.

## Prof. committee and ASSC review

1. The language, which at some parts could be found complicated especially for non-native-English speakers **TF response: some additional examples and simplifying has been done but there still remains concepts, words which require quite much depth and experience of such matters. Also a list of abbreviations has been added. Also if simplifying the text a lot then some of the subsections should be deleted because of the nature of the issues covered there**
2. Terms and definitions, which were not consistently or clearly explained **TF response: corrected, now same abbreviations used. Also changes are made to harmonize the wordings. Still there remains different way to say same things, a long document with several writers.**
3. Some wording to exclude “should” or similar kind of quite strong language. **TF response: corrected**
4. As a common format for EANs did not exist at the time of the drafting the format of the EAN need to be checked afterwards as well as some other requirements of the style guide. **TF response: OK**
5. The EANs are educational documents. Although this draft EAN is linked to ESAP 3 its intent is not to interpret ESAP 3 but only give additional background or aspects to the actuary to consider when applying ESAP 3. This need to be considered when finalizing the draft. **TF response: A considerable amount of time has been used especially in section 3, which tries to provide the support for actuaries complying with ESAP 3 articles. The TF finds no clear issues in relation to ESAP3 anymore.**

6. A lot of specific comments to improve the text / error findings. **TF response: basically everything corrected now. Some specific ones; 'p. 39 Footnote 23 does not seem to refer to an ACPR document' needs to be checked. There was also a question whether 'there needs to be an indirect link to ESAP 3 sections in EAN section 4'? The TF response is that no links needed in section 4 because these topics are not covered in ESAP 3.**

### **RMC's comments**

1. The detailed and prescriptive nature of the paper and how aligns with regulatory expectations that the ORSA is to be the firm's own assessment. **TF response: some clarifications made but the paper remains to be prescriptive. This EAN aims only to support the work so the 'firms own assessment' remark seems not to be an issue.**
2. "should's" or equivalent ways of saying things might need to be changed **TF response: other words used, no should's or similar expressions for actuaries responsibilities**
3. In 2.1, the interpretation of the terms "risks" and "uncertainties" (and "exposures") doesn't seem to fully align with the standard ways in which these terms are used in the risk management community (or in academia). **TF response: clarifications made**
4. In 2.2, an out-of-cycle ORSA might be needed if the risks (i.e. risk profile) faced by the firm change by a large enough amount to render the current ORSA invalid. **TF response: will be added**
5. In 2.2 Some of the examples given under "Structured thresholds to identify ORSA-triggering events" seem quite narrow, e.g. equities -20% or credit spreads +/- 50 bps, relative to what might be expected to happen reasonably often, so one would have expected that the in-cycle ORSA would have already allowed for what might be needed in some of these circumstances. **TF response: Some improvement has been made to widen the perspective**
6. The complexity around different way to talk about 'best estimate. **TF response: This has been clarified**
7. In some areas the paper introduces terminology which may not be universally understood, particularly if there is a possibility of the paper being referenced for non-actuaries. **TF response: some additional examples and simplifying has been done but there still remains concepts, words which require quite much depth and experience of such matters. Also a list of abbreviations has been added**
7. In 4.2.3, the abbreviation ALACDT is not common, instead the concept is referred to as LACDT? **TF response: corrected, only LACDT now is being used.**
8. Is there enough on how to address materiality? For example, in 4.3.5, one would presumably only want to explore different angles for sovereign risk if they were expected to result in materially different answers / conclusions. **TF response: No changes by now**
8. Is there enough on what happens if the work is being principally done by non-actuaries, e.g. a CRO who is not an actuary, or on how any of the material covered interacts with the AMSB being ultimately responsible for the ORSA? E.g. page 14 says "there will be incomplete knowledge with the actuary's understanding of a given system", but isn't the more important issue the level of knowledge of the broader team involved? **TF response: No changes, the team angle is covered but not the AMSB.**
9. Is there anything in ISAP 6 (or 5) that is relevant? **TF response: This has not been checked / prioritization of work**

**IC's comments**

1. A deep read through on sections 1 to 3 done and several needs for corrections pointed out. **TF**  
response: More or less all suggestions taken on board

DRAFT