

Presidents and membres titulaires of Full Member Associations of the AAE
Presidents and General Assembly members of Observer Member Associations of the AAE

Dear Colleagues:

**Re: Working Draft of European Standard of Actuarial Practice 2 (ESAP 2)
– Actuarial Function Report under Directive 2009/138/EC**

I am pleased to attach a further working draft of ESAP 2. You will recall that an exposure draft of ESAP 2 (then called GCASP 2 but now renamed in the light of the change of name of the Groupe Consultatif to the Actuarial Association of Europe) was promulgated at the beginning of November 2012. The Basis for Conclusions was published on 31 May 2013 and is available on the AAE website at http://actuary.eu/documents/GCASP2_Basis_for_Conclusions_310513_final.pdf.

Further work has been carried out by the Standards Project Team of the Standards, Freedoms and Professionalism Committee (SFPC) and its ESAP 2 drafting team. At its meeting in Vilnius on 24 April the SFPC agreed with the recommendation of the SPT that the current version of ESAP 2 be published as a working draft, subject to minor tidying up.

The working draft is being promulgated in two formats. One of these is a straight draft model standard and the other is in tabular form to show 1) the provisions of the model standard, 2) the legal measures on which each particular aspect of the model standard is based and 3) commentary on why changes have been made to the original exposure draft, how the proposed model standard relates to the principles in the Basis for Conclusions and some practical remarks. The current draft tabular format contains provisional text of implementing measures and should therefore be treated with discretion as the text of these may not be in the public arena.

When the legal measures have been finalised by the European Commission and EIOPA the SPT will prepare a new draft of ESAP 2, which will be subject to full exposure under the AAE due process for the adoption of model standards. It is expected that this will be towards the end of 2014 or early 2015.

Consideration is being given to gathering together some of the commentary in the third column of the tabular format and developing it into an educational note to accompany the model standard. This may apply only to the sections dealing with the actuarial function giving opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements, which seem to be the areas where there is most uncertainty about the role of the actuarial function in preparing the actuarial function report.

Member associations will be aware that ESAP 1 is also under development (based very closely on ISAP 1 promulgated by the International Actuarial Association as a model standard in November 2012). ESAP 1 was approved by the Standards, Freedoms and Professionalism Committee at its meeting in Vilnius on 24 April 2014 and will be submitted to a vote of the General Assembly of the AAE on 3 October 2014 in Helsinki.

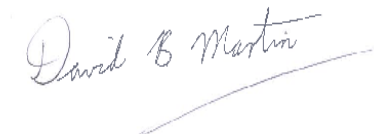
Both ESAP 1 and ESAP 2 are model standards intended to be suitable for adoption or adaptation by Full Member Associations of the AAE, and other actuarial standard-setting organizations who wish to adopt it. It is the AAE's intent that by publishing model standards it will encourage the creation and convergence of national actuarial standards.

I ask you to distribute this working draft of ESAP 2 widely to your members and to relevant external stakeholders in your country, emphasizing that it is neither an exposure draft nor a final model standard but a working draft **to help individual actuaries to write the actuarial function report in the preparatory period and give those concerned an indication of what it will be like when a final standard on the actuarial function report under Solvency II has to be applied in practice.**

The SPT welcomes comments from member associations, external stakeholders and also from individual actuaries on the latest working draft and, in particular, on experience with seeking to apply the provisions of the model standard in practice in the preparation of actuarial function reports within insurance entities during the next few months. Since this is not a formal period of exposure there are no specific deadlines for comments to be submitted but comments received before the end of August 2014 will be particularly valuable to the SPT and the ESAP 2 drafting team as they prepare the next formal exposure draft for issuance soon after the European regulations and guidance on this subject have become final. Comments should be submitted to the Secretary General of the AAE, Michael Lucas, at mlucas@actuary.eu. Needless to say all stakeholders will have a chance to comment on the exposure draft later on when it is promulgated.

The SFPC and the SPT look forward to your comments. Thank you in advance for your attention to this matter.

Yours sincerely,

A handwritten signature in blue ink that reads "David B Martin". The signature is written in a cursive style and is underlined with a single horizontal stroke.

David Martin
Chairman, Standards Freedoms and Professionalism Committee
Actuarial Association of Europe
2 June 2014

Copy to:

Members of Standards, Freedoms and Professionalism Committee
Members of Insurance Committee
Member of the Solvency II Project Team and working groups