Matters of Mutual Interest between AAE and IAA arising from the IAA Meetings in Washington, March 2014

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The comments below relate to matters discussed at the Standard Setters Round Table (SSRT) and the Professionalism Committee. These subjects to some extent overlapped.

A useful pair of spreadsheets showing responses of associations to ISAPs 1 and 2 were examined, showing very varied outcomes and timescales for dealing with the issues by the associations. These surveys were both widely praised. There had been 45 responses. 6 had translated into another language, 6 had adopted, 6 had adapted (12 for ISAP 2), 4 had modified and adopted, 3 had confirmed their own standards were already consistent, 2 are making changes to ensure consistency, 6 are making no comment on consistency, two had given a straight "no" and 15 were still in the process of considering the matter (18 for ISAP 2). The information on how standards are set in different jurisdictions was of great interest. The interest of supranational organisations in our standards was touched on and the need to get feedback from them. In turn they would want to know how well our members were using model standards. Where associations supplied translations, these are put up on the IAA website with a disclaimer. In addition associations so doing should be asked to state where, if at all, they had amended the meaning of the original ISAP.

The issue of greater resources for standard setting was raised. Hard working committees of volunteers were mentioned along with the use of staff of associations. Use of seconded staff for short projects (paid by IAA or their usual employers) was considered.

A large volume of comments had been received by and issues raised with the Actuarial Standards Committee on ISAP 3. The final draft is expected next spring.

Comments on ISAP 4 included the view that the Statement of Intent (SoI) included too much interpretation of IFRS standards by the ISAP. There are draft SoIs for ERM - modelling & stress testing ISAP 5 and complying with ICP 8 & 16 and for capital standards from IAIS (ISAP 7).

ISAP 1 comments: Scope and the need to consider peer review were themes recurring in various countries. The scope issue is perceived to be a bigger problem by employed actuaries doing various tasks for their employers rather than for consultants who have a specific brief. Australia is considering a different structure with a general basic standard like ISAP1. Ireland is considering adopting ISAP 1 but this will probably happen at the same time as changes needed for standards for Solvency II. The UK moves to require consideration of Peer Review (APS X2) and scope (FRC review of TASs) and the reference to ISAP1 in reference to work outside UK were referred to. The congruence of ISAP 1 and ESAP 1 other than the glossary raised issues about future changes to the glossary. It was thought those changes affecting ISAP1 would not be substantial enough to cause concern. However other potential changes to ISAP1 would be stored up and taken together. This raised the issue of automatic changes to ESAP 1 should ISAP 1 change. US believes no changes are needed to their standards as a result of ISAP 1. Engagement is not regarded as an appropriate issue for the US. They will not declare substantial consistency due to litigation concerns. Canada has 5 areas that need attention for consistency. 3 are not substantial. Expressing no opinion is currently
an option that needs to be closed. Japan will take time to consider ISAP 1.

ISAP 2 is likely to be much less widely used than ISAP1. The duty of actuaries in this area to express a view on sustainability differs between US and Canada, with UK's position in between. The AAE has used ISAP2 in a reference to the European Commission urging greater transparency. Canada will have a standard in 18 months. US and Australia do not believe they have a need.

ISAP 3 was thought by some, in their responses to consultation, to be too detailed, but it was generally supported by associations represented at the meeting.

ISAP 4 The SoI was thought unnecessary and inadequate by FRC. The role of the IAA to remove inconsistencies in the IAIS standards was questioned. However IAIS wish actuaries to assist here and many thought actuaries should be involved here and not leave these aspects to accountants to set. Some thought aspects should be covered instead by IANs. It is rather early to decide how to proceed at this early stage. There is a new US proposed standard on Principle Based Reserves sent by the regulator to all states to decide.

A standard on ORSA was discussed. One issue to consider is the large difference between what ORSA means between regions eg between Europe and US. The use of an IAN for this was discussed.

The re-emergence of proposed ISAPs for ERM was for a number of reasons. The new proposals are for standards much narrower in scope than before.

Advice for the ASC included asking for more detail in SoIs - setting out what the problem is, what could be solved by having a standard, what areas it would cover and a very minimal amount of the detail, as it should not be a first draft of the standard. John Maroney of IAIS wanted IAA recognition and assistance in a standard related to the new capital standards.

Topics for future SSRT meetings included Practice certificates (relevant for Solvency II) and relationships between actuaries and accountants.

A working group led by David Martin had produced for the Professionalism Committee a final version of a paper on Principles of International Governance (attached). This was accepted and will be presented to the IAA executive committee with the objective of presenting it to IAA Council in London in September for endorsement as a formal IAA paper.

There was support for a survey regarding what associations did about regulating actuaries beyond their geographic borders. The working group will proceed with that and a short paper on the issues. The way cross border issues are dealt with and the required agreement of members for sharing of information between associations for CERA qualified actuaries was thought to be of interest. Also work will proceed to explore what changes to code and regulations might be needed to enshrine the principles in the paper.

Members from this working group and the AAA Professionalism team ran a session with case studies on cross border work at the International Congress of Actuaries in Washington in the week after the IAA meetings. The session was well attended and appeared to be well received by participants.

A survey of other professions worldwide will be carried out by the Business Ethics and Public Interest task force, and this and recommendations should be prepared for the London meeting in September.

There was a discussion of the role of the Professionalism Committee in the production of International Actuarial Notes (IANs). There was need for a list of IANs under development. A comparison of the glossaries for ISAPs and for IANs (the former IASPs) had revealed the need for consistency and recommendations had been made. It was clear continuous vigilance would be needed to ensure continuing consistency as the ISAP glossary changed and new IANs and ISAPs were written.

At the Accreditation Committee, the association in Republican Srpska (a Serb speaking enclave in Bosnia Herzegovina) was recommended for associate membership of the IAA. This recommendation was accepted at Council. In fact they met most requirements for full membership. Their relationship with the association in Bosnia Herzegovina seems to be good with some actuaries members of both.

The only other European Associations applying for IAA membership which were discussed were Romania's association and the UK's Association of Consulting Actuaries. In both cases questions were to be raised and matters resolved before the matter could be taken any further.

David Martin

April 2014.

Principles in relation to the Governance of International Actuarial Work

This paper has been prepared by the IAA Professionalism Committee for information to assist Member Associations in this increasingly important area. It is not a model standard, nor is any change to associations' codes of conduct expected at the time of writing. This paper may also be of interest to individual actuaries undertaking International Actuarial Work.

1. Definition of "International Actuarial Work"

1.1 International Actuarial Work is defined as work that is under the jurisdiction or regulation of one country, but is carried out by an actuary whose principal jurisdiction of practice or the jurisdiction of their professional membership is in a different country.

1.2 The "governance" of International Actuarial Work refers to the regulation and supervision of the actuary's conduct and work by member associations of the International Actuarial Association (IAA).

1.3 International Actuarial Work is broadly therefore actuarial work in relation to which the law/ standards/regulatory frameworks of more than one country are relevant and material. More specifically, it is taken to include 'actuarial work'[1] in relation to which the legal/ regulatory requirements of more than one legal jurisdiction or IAA member association[2] are relevant and material.

1.4 The following are a set of principles that might be applied by IAA member associations, with a view to avoiding or addressing the potential for inconsistency, duplication or gaps in relation to the governance of International Actuarial Work.

2. Proposed Principles

2.1 Qualification, Codes and Standards

2.1.1 Adherence to Codes of Conduct helps to ensure that actuaries are competent to undertake work for which they are responsible, and have an appropriate understanding of relevant legal and regulatory requirements applicable to them and to that work.

2.1.2 Except to the extent that they are inconsistent with relevant mandatory legal or regulatory requirements, actuaries therefore apply the code and standards and satisfy the educational and qualification standards[3] and requirements, where applicable, of each of the full IAA

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[1] 'Actuarial work' is assumed in this context to be defined broadly, to include any work done by members of IAA associations in their capacity as actuaries, including work done for the purposes of providing 'Actuarial Services', as defined in ISAP 1.

[2] It is recognised that the regulatory jurisdiction of IAA member associations will usually arise from membership, and may not necessarily or primarily depend upon geographic/ territorial considerations. Equally, it is recognised that in certain geographic territories there may be more than one IAA body which has jurisdiction. It is envisaged that the principles set out in this paper might, according to the circumstances, also be relevant in that context i.e where there is more than one relevant legal or regulatory framework operating within a single geographic area or territory.

[3] By 'qualification standards' we mean the standards or requirements, imposed by a body of appropriate authority, which actuaries are required to satisfy in order to be considered qualified to perform the work in question. These may include initial educational requirements required to obtain sufficient knowledge to practice (broadly or in a particular practice area), CPD requirements and/or experience requirements. In some jurisdictions these may include, for example, practising certificates.

member bodies of which they are a member. Where appropriate, actuaries also follow any applicable local qualification standards and standards of practice.

2.1.3 Where there is material inconsistency between the codes, qualification standards and/or practice standards which an actuary would otherwise be required to apply to a piece of work, or between those standards and others which are more relevant to the work in question, reasonable judgement is exercised in determining which code, qualification standards and practice standards to apply, and the extent to which they apply, having regard to all of the relevant circumstances, including the following considerations:-

2.1.3.1 The context in which, and purpose for which, the work is being provided;

2.1.3.2 Relevant market expectations and norms in the context in question; and

2.1.3.3 The need to safeguard the interests of the client and of the public in relation to the work in question.

2.1.4 It may be appropriate for actuaries to advise and/or justify to their clients as to the code and standards that have been applied to their work.

2.1.5 Associations are encouraged to include consideration of international and cross-border practice in the development and maintenance of their code, qualification standards and (where applicable) standards of practice. Ideally this is done so as to reduce or avoid situations of direct conflict with applicable codes and standards applied to their members and the members of other IAA associations.

2.2 Continuing Professional Development (CPD)

2.2.1 Many actuarial organizations or other actuarial authorities include a requirement for continuing professional development in their requirements for membership or in their qualification standards. These requirements may range from highly prescriptive requirements with numerous rules, to general principle-based requirements.

2.2.2 In general, compliance is expected with the CPD regimes of every full IAA member association of which the actuary is a member. The actuary may also be required to fulfill an organization's CPD requirement in order to fully meet a local qualification standard. This may create difficulties to the extent CPD undertaken to fulfill one organization's requirement cannot be used to help fulfill another organization's CPD requirement.

2.2.3 Associations are therefore encouraged where appropriate to recognise CPD undertaken in fulfilment of the requirements of another full IAA member association and to recognise compliance with the CPD regime of that other association as fulfilling their own requirements, including any such requirement incorporated into qualification standards. This suggestion is not meant to imply that an association should lower the level of acceptable actuarial practice.

2.2.4 Where possible and appropriate, member associations are encouraged to avoid duplicative requirements, either in relation to the undertaking of the substantive CPD itself, or in relation to the compliance burden associated with the regulation of CPD.

2.3 Disciplinary Investigation and Enforcement

2.3.1 Actuaries are subject to the professional disciplinary jurisdiction of those IAA member association(s) of which they are a member. Each association retains its jurisdiction to deal with disciplinary matters in relation to its members.

2.3.2 Member associations are however encouraged to take appropriate steps in order to facilitate the sharing of relevant information with other IAA associations in relation to disciplinary proceedings, and to cooperate where appropriate in relation to the disciplinary investigations and/or proceedings of other member associations.

2.3.3 Member associations might in particular seek to coordinate their disciplinary arrangements in a number of ways:

2.3.3.1 They might put in place a formal cross-border discipline arrangement with another association or associations. This envisages in effect that one association (Association 1) assumes, in specific circumstances, some defined formal (legal) responsibility for undertaking investigations as to violation of actuarial standards in its relevant jurisdiction and/ or disciplinary proceedings in relation to the members of another association (Association 2). (For example, and most obviously, where the proceedings relate to the conduct of the member of Association 2, whilst practising in the geographic jurisdiction associated with Association 1). A version of this approach is currently adopted, for example, by the North American actuarial associations[4].

2.3.3.2 A similar, but less formal, arrangement would not involve the conferral of actual legal jurisdiction on Association 1. Instead, Associations 1 and 2 might instead agree simply to provide mutual assistance in relation to disciplinary matters, including the sharing of relevant information, and support in the gathering of evidence for the purposes of disciplinary investigations. This would not necessarily however envisage the conferral of any formal decision-making authority on Association 1, in relation to the members of Association 2. Arrangements of this sort are known to exist between a number of associations, and might be effected for example by some form of Memorandum of Understanding.

2.3.3.3 In certain circumstances, more than one association may have jurisdiction and be required to undertake separate disciplinary proceedings. It may in these circumstances be appropriate to consider the coordination of disciplinary investigations and/ or proceedings (so as to avoid unnecessary duplication from a practical perspective). It may be appropriate for one association to take the lead in relation to any substantive investigation/ proceedings. This may, for example, be the most relevant association, having regard to the alleged conduct and to the related evidence in the case. Member associations are encouraged to enter into a dialogue with other relevant association(s), where applicable, at the outset of such a case, in order appropriately to co-ordinate the investigation and proceedings, having regard to all of the circumstances.

2.3.3.4 Member associations will also wish to consider what weight or recognition they can appropriately give to the disciplinary findings or determination of another association. So, for example, certain European associations are known to have in place provisions which permit a degree of weight or reliance to be placed on the formal findings of another association, thereby avoiding to some extent the need for a further potentially duplicative inquiry into the

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[4] For example, the Bylaws of the American Academy of Actuaries provide that, when Academy members practice in Canada, complaints and questions concerning their practice are referred to the Canadian Institute of Actuaries (CIA) for investigation. The Academy (as well as its U.S.- based sister organisations) has entered into a cross-border discipline arrangement with the CIA that provides, in essence, that if an Academy member is accused of breaching Canadian professional standards of conduct, practice, or qualification when practising in Canada, the CIA will investigate the matter and, if the CIA finds that the Academy member has committed such a breach warranting discipline, the CIA will so notify the Academy. The Academy then determines whether the breach found by the CIA constitutes a material breach of the Academy's Code and, if so, what disciplinary action (if any) to take.

relevant factual circumstances.

2.3.3.5 A further variant would envisage arrangements by which a joint disciplinary panel or committee is convened, comprising appropriate representatives or appointees from each of the associations involved. This could enable a single hearing by a jointly recognised panel, the decision of which is formally recognised (and enforced) by each association. This model has again been adopted for certain purposes in North America and avoids the necessity for multiple hearings in relation to the same member and conduct.

2.3.4 In the longer term, there may be value in reviewing the scope for a greater level of consistency/ harmonisation between the specific tests/ thresholds applied by associations in establishing the necessity for disciplinary action.

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