

Memorandum

To: All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

From: Jim Christie, Chair
Actuarial Standards Board
Michael Banks, Chair
Designated Group

Date: December 9, 2014

Subject: **Final Standards – Revisions to the General and Practice-Specific Standards – Consistency of Reporting and Conformance with International Standard of Actuarial Practice 1**

Document 214128

INTRODUCTION

The attached final standards were approved by the Actuarial Standards Board (ASB) on December 2, 2014. These changes revise the general and practice-specific standards to improve consistency both in the reporting of actuarial work between practice areas and with International Standard of Actuarial Practice 1 (ISAP 1), as described in more detail below.

BACKGROUND

The ASB created a designated group (DG) responsible for developing these revisions to the Standards of Practice. The DG consists of Michael Banks (Chair), Christiane Bourassa, Conrad Ferguson, Jay Jeffery, Isabelle Périgny, and Jacques Tremblay.

A [notice of intent](#), Reporting of Assumptions, Margins, Methods, and Related Rationales, was issued on June 4, 2012.

A [notice of intent](#), International Standard of Actuarial Practice 1 and Reporting of Assumptions, Margins, Methods, and Related Rationales, was issued on August 14, 2013.

An [exposure draft](#) (the ED), Revisions to the General and Practice-Specific Standards – Consistency of Reporting and Conformance with International Standard of Actuarial Practice 1, was issued on April 23, 2014.

CHANGES INCORPORATED

The revisions to standards incorporate the following changes:

- Revision of paragraph 1810.04 (Standard Reporting Language) to clarify that an actuary's opinion may be incorporated in an employer or client's report, such as financial statements, without such report being subject to the requirements of the standards for external user reports;
- Revisions to subsection 1820 (Reporting: External User Report) of the General Standards to incorporate the following requirements:
 - A description of the assumptions used for the work, including the extent of any related margins for adverse deviations;
 - A description of the rationale for each assumption that is material to the actuary's work;
 - A description of the methods used for the work;
 - In the case of a periodic report, a description of the rationale for any inconsistency in assumptions or methods since the prior report;
 - An opinion as to the appropriateness of assumptions and methods used for the work;
 - To specify that the actuary would consider and address the sensitivity of the results to the effect of variations in key assumptions where practical, useful, and consistent with the terms of engagement;
 - To clarify that assumptions, margins for adverse deviations, and methods specified by the terms of an engagement or mandated by law would be described as such and that would constitute sufficient rationale for their use;
 - To specify that where an assumption or method is mandated by law, the actuary would, if relevant, disclose that use of the report may not be appropriate for purposes other than that for which the report was prepared;
 - To specify that the actuary would opine that assumptions or methods specified by the actuary's terms of engagement are appropriate if they fall within the range of accepted actuarial practice. Otherwise the actuary would report that particular assumptions or methods are not in accordance with accepted actuarial practice or that the actuary is unable to judge whether particular assumptions or methods are in accordance with accepted actuarial practice without performing substantial work. An exception to these requirements is provided for actuarial evidence (AE) work; and
 - To specify that the actuary would issue his or her report within a reasonable time period with regard to the actuary's terms of engagement and the needs of report users.

- Revision of paragraph 1830.02 to clarify the circumstances under which an abbreviated internal user report may be appropriate;
- Revision of the reporting requirements in the practice-specific standards to eliminate requirements covered by the revised General Standards and provide greater consistency (there are no changes required in part 2000 – insurance-specific standards); and
- Revisions that incorporate minor adjustments and formatting for consistency with current standards development practices.

SUMMARY OF COMMENTS ON EXPOSURE DRAFT AND DG RESPONSE

A total of nine written submissions on the ED were received: six from individual actuaries, two from actuarial consulting firms, and one from the Actuarial Evidence Committee of the Canadian Institute of Actuaries. The comments received, and the DG responses to them are summarized as follows:

Peer Review

A significant number of comments were received regarding the proposed addition of requirements regarding peer review. For example:

- *Peer review* is not a defined term, and what it entails could be interpreted differently.
- The proposed wording could put the actuary on the defensive if they have not conducted a peer review and are questioned about it (i.e., in litigation).
- By inference, lack of a review implies lower quality of work.
- For AE practitioners, it is not clear whether this provision will require the peer reviewer to testify as well.
- It is also not clear whether the standards apply only to peer reviews that are performed independently. If so, then the wording should be modified.
- The wording also implies that a peer review is required in all cases, unless it can be shown that it is clearly inappropriate.
- It may also be perceived that the work underlying the report is to be peer reviewed as well. If this is the case, then the membership as a whole needs to opine on this topic.
- The ISAP requirements contemplate a peer reviewer who may not be an actuary, whereas the proposed standard only considers an actuary as the reviewer.
- The addition of this subsection should be to address existing concerns over peer reviews that are not happening, and not solely to comply with the ISAP.
- Language on peer review should be left out of the standards, or included in other types of guidance. Subsection 1850 should be deleted, and the wording in subsection 1640 should be used instead.

DG Response

The DG has concluded that the ED-proposed new sub-section 1850 regarding peer review which mirrors provisions of ISAP 1 should not be implemented. While in many circumstances peer review may be beneficial, inclusion of such a requirement in actuarial standards of practice is problematic.

The ED proposed recommendation indicates that:

The actuary should consider to what extent, if at all, it is appropriate for a report to be independently peer reviewed, in full or in part, prior to the delivery of the report.

While this does not expressly require any particular work to be peer reviewed, it strongly suggests that some work needs to be peer reviewed. As there are no criteria provided as to which work should be peer reviewed (and it is highly problematic that clear guidance could be developed as to which work does or does not need peer review) application of the provision is not practical. Also, inclusion of this provision opens the possibility of litigation when something goes wrong as to whether particular work should have been peer reviewed—again with no obvious criteria for determination.

The U.S. and UK practice standards do not currently reference peer review. As a result, maintaining this difference from ISAP 1 does not seem unreasonable pending future developments.

Other Comments

Comments on other paragraphs of the exposure draft and the DG's response to those comments are provided in the attached table.

DUE PROCESS

The ASB's Policy on Due Process for the Adoption of Standards of Practice has been followed in the development of these revisions to the standards.

EFFECTIVE DATE AND EARLY IMPLEMENTATION

These final standards are effective on March 31, 2015. Early adoption is not permitted.

JC, MB

	Comments	DG Response
1820.01	Property and casualty (P&C) members will need guidance on what needs to be described, what is expected in terms of “rationale”, how to isolate the materiality of an assumption, and what constitutes “advice” in a contract valuation.	The requirement for rationale for material assumptions has been in effect for pensions since December 31, 2010, without any particular compliance issues, so the requirement is reasonable. If P&C practice has any particular issues, they can be addressed by educational guidance. References regarding materiality have been changed from “material to the actuary’s advice” to “material to the results of the work”.
1820.09	<p>Not clear how this differs from 1820.21. As well, it should be clarified how “key assumptions” differ from assumptions “material to the actuary’s advice”.</p> <p>The stronger imperative to include sensitivities will lead to work that clients do not want and will not pay for. This subsection should be deleted, and section 1700 amended instead.</p> <p>It should be confirmed that the intent is not to have disclosure of sensitivities to all key assumptions in all external reports (such as the Appointed Actuary report). This would be onerous.</p>	The wording of this paragraph has been clarified to include a proviso that reporting of sensitivity information would be addressed where “practical, useful and consistent with the terms of engagement”.
1820.21	Disclosure should be expanded to include rationale.	With the changes to 1820.09, described above, paragraph 1820.21 is redundant and has been deleted.
1820.21.1	As worded, this is inconsistent with 1610.12. It implies that specifying an assumption in the terms of engagement is sufficient to provide a rationale.	This paragraph is necessary to absolve the actuary from attempting to provide rationale for assumptions the actuary has not selected. No change has been made to this paragraph.
1820.21.2	There should not be special attention for stipulated assumptions. Assumptions are always chosen for a specific purpose, and may be inappropriate for other uses whether they are stipulated or not.	It is appropriate to maintain this provision in that it covers assumptions not under the control of the actuary or their employer/client. It does not preclude the actuary from specifying other limitations as appropriate to particular work.

1820.28	<p>Not clear if the actuary’s “client or employer” is intended to be distinct from the “terms of engagement”.</p> <p>As well, it is better practice to state that an assumption is or is not in accordance with accepted actuarial practice (as opposed to saying “it may not be”).</p> <p>The draft wording may require unfavourable opinions when stipulated assumptions are involved, even if the results of the valuation are within a reasonable range. This conflicts with section 3.8 of ISAP 1.</p>	<p>The paragraph has been clarified by changing “the actuary’s client or employer” to “the terms of the engagement” and by changing references to assumptions or methods “not in accordance with accepted actuarial practice” to “do not fall within the range of accepted actuarial practice”.</p>
3420.02	<p>The proposed wording requires actuaries to offer opinions on accounting matters, which is outside our expertise. As well, regarding the opinion on membership data, the actuary should not supersede the auditor’s and sponsor’s judgment on the quality of membership data. The amendments here go beyond the level of conformance required by ISAP 1. Same comments apply to 6420.02.</p>	<p>Knowledge of the relevant accounting standard is necessary to this type of work. The actuary also needs instructions from their client regarding “accounting matters” on which the actuary does not opine. The work cannot properly be completed without such instructions. Having those instructions, the certification that the work is in accordance with the actuary’s understanding of the accounting standard is reasonable and appropriate. In this regard the proposal is only to conform 3420.02 to existing 6420.02.</p> <p>Regarding the data certification, these calculations are often based on the same data as used for funding valuations where this certification is given. Therefore, the same certification is appropriate for accounting valuations. Further, the CIA/Canadian Institute of Chartered Accountants Joint Policy Statement states that “. . . the actuary is responsible for assessing the sufficiency and reliability of the data used in the valuation” (SOP 1630 5).</p> <p>No changes have been made to this paragraph.</p>