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27 February 2014

Dear Michael

Exposure Draft GCASP 1 – General Actuarial Practice

I am pleased to provide comments from the Financial Reporting Council (the FRC) on the exposure draft of *GCASP 1 General Actuarial Practice*. We have shared our comments with the Institute and Faculty of Actuaries (IFoA) and the UK Forum on International Actuarial Standards.

The FRC sets technical actuarial standards (TASs) in the UK and oversees the setting of ethical and conduct standards (and other regulatory activities) by the IFoA. Our work is supported by an Actuarial Quality Framework.

As a member of the Standard-Setters Round Table we support efforts to develop a set of model standards which national standard-setters can consider adopting. However, as the IAA has already issued a model standard, ISAP 1, which provides guidance to actuaries when performing actuarial services, we do not consider that it is necessary for the Actuarial Association of Europe (AAE) to produce an essentially identical model standard for its members to consider for the following reasons.

User confusion

Our main concern is that we consider that it is likely to confuse users of actuarial services. For example, consider a user presented with work from one actuary that states compliance with ISAP 1 and work from another actuary that states compliance with GCASP 1. What are they to think about the quality of the work they are using?

Burden on national standard-setters

It also is a concern to us as a national standard-setter. We have been asked by the IAA to consider either:

- Adopting ISAP 1 as a standard with appropriate modification, where items covered in ISAP 1 are not currently contained in existing actuarial standards, or where such portions of existing actuarial standards are to be withdrawn;
- Endorsing ISAP 1 as a standard as an alternative to existing standards;
- Modifying existing standards to obtain substantial consistency with this ISAP 1; or
- Confirming that existing standards are already substantially consistent with this ISAP 1.

The Institute and Faculty of Actuaries (IFoA) has consulted on a new Actuarial Practice Standard APS X2 that will require its members to consider whether reports should be peer reviewed. We will shortly be consulting on a new framework for FRC's actuarial standards including extending the scope to cover all actuarial work. If both these changes are implemented, a by-product will be that the FRC will be able to confirm that UK actuarial standards are substantially consistent with ISAP 1. However, to justify this confirmation is not a trivial task. We are prepared to incur this cost because we recognise that this has the benefit that members of the IFoA following UK actuarial standards can give assurance to the users of their work that it meets international standards for general actuarial practice.

While we see that the AAE's intention is that GCASP 1 is substantially identical to ISAP 1, we consider that the need to also justify substantial consistency with GCASP 1 is an unnecessary overhead. This overhead is increased because GCASP 1 as currently set out is in fact not identical to ISAP 1 due to the inclusion of the Section 2 Definitions.

Maintenance burden on the AAE

There is no guarantee that ISAP 1 will remain unchanged. Indeed it has been changed once already with the removal of the definitions section. We are aware that the IAA's Actuarial Standards Committee already has a list of minor editorial changes that might lead to amendments being made at a future date.

Every time a change is made to ISAP 1, the AAE will have to go through the process of amending GCASP 1. Making changes is always costly for standard-setters, for practitioners who have to follow standards, and ultimately for users. We consider having to replicate changes in ISAP 1 into GCASP 1 is a waste of effort for the AAE, its executive, the volunteers and its members.

Developments in ISAPs

The IAA issued *ISAP 2 Financial Analyses of Social Security Programs* in October 2013. The IAA is consulting on ISAP 3 which covers actuarial work required for reporting under IAS 19. It is also considering developing an ISAP for actuarial work required under an IFRS for insurance contracts.

The Government Actuary analyses the UK National Insurance Fund and we would not be surprised if actuaries carry out similar work in other EU member states. IAS 19 is applicable to listed entities in Europe and the IFRS for insurance contracts is also likely to apply at some future date.

We consider that having GCASP 1 creates an unhelpful precedent as it may suggest that the AAE will have to produce GCASPs to replicate ISAP 2, ISAP 3 and any insurance contracts IFRS ISAP.

Subsidiarity

We consider that the AAE's standard-setting should normally be restricted to actuarial work which has EU specificities. For example, we consider that the AAE might be a body that could develop model specific standards to be considered by national standard-setters if specific standards are required to support high quality actuarial work in:

- supporting Solvency II;
- producing Key Information Documents for Packaged Retail Investment Products; or
- risk management of occupational pensions schemes under IORP II.

An alternative approach

Rather than preparing a substantially identical standard, we suggest that the AAE consider endorsing ISAP 1 as a model standard to be considered by its member associations and other standard-setting bodies in Europe. This appears to us to be a much simpler approach for all concerned. With only one international standard for general actuarial practice, users are less likely to be confused, it reduces the burden on your members and other European standard-setting bodies, and reduces the AAE's work load.

The endorsement instrument could address any specific issues relevant to European standard-setters. For example, it might wish to indicate which of the requirements in ISAP 1 are already included in the AAE's *Code of Professional Conduct*.

This endorsement approach might also be used for other standards produced by the IAA that have applicability in the EU such as *ISAP 3: Actuarial Practice under IAS 19 Employee Benefits*.

The public interest

Alternatively, the AAE might consider that it is in the public interest that actuarial work for European users should be performed to a higher standard than that required by ISAP 1. In this instance there may be a rationale for developing GCASP 1 from ISAP 1 by including the necessary additional requirements to protect the public interest.

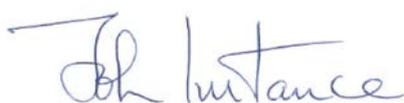
For example, it might be considered that ISAP 1 does not require sufficient information to be provided concerning risk and uncertainty. Paragraph 2.7.7 requires consideration and addressing of the sensitivity of a methodology to the effect of variations in key assumptions which might indicate a requirement for some sensitivity testing. Paragraph 3.2.1.b just requires the report to include at least an indication of the potential variability in results.

Another example might be the lack of consideration in ISAP 1 of the suitability of the models used to develop the actuarial information given that modelling is such a fundamental part of actuarial work.

We consider that there may be a rationale for developing an enhanced GCASP 1 based on ISAP 1. We would be happy to work with the AAE to develop it.

We would be happy to discuss our comments with you.

Yours sincerely



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