



Exposure Draft

Review of Subsection 1530 of General Standards of Practice (Part 1000)

Actuarial Standards Board

May 2018

Document 218072

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Memorandum

To: All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries and other interested parties

From: Conrad Ferguson, Chair
Actuarial Standards Board
Jacqueline Friedland, Chair
Designated Group

Date: May 14, 2018

Subject: **Exposure Draft to Review Subsection 1530 of General Standards of Practice (Part 1000)**

Comment Deadline: July 15, 2018

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Introduction

This exposure draft for a revised subsection 1530 of the Standards of Practice (related to peer review) was approved for distribution by the Actuarial Standards Board (ASB) on April 24, 2018.

Background

The ASB created a designated group (DG) responsible for developing these revisions to the Standards of Practice. The DG consists of Jacqueline Friedland (Chair), Stephen Cheng, Josephine Marks, and Geoffrey Melbourne.

A [notice of intent](#) (NOI) was issued on August 31, 2017.

Comments on the NOI were received from 13 parties, including individual actuaries, four actuarial consulting firms, two regulators, and the Canadian Institute of Actuaries' Committee on Actuarial Evidence. Key aspects of the comments received are described below and were taken into account in developing this exposure draft.

Summary of Comments Received

The NOI specifically requested feedback in four areas: (i) the need to strengthen standards of practice related to peer review; (ii) the need for a peer reviewer to be independent from the actuary performing the work; (iii) differentiation among types of

work subject to peer review and (iv) detailed requirements such as qualifications of peer reviewer and reporting requirements.

Key aspects of the comments received were as follows:

- Generally, the respondents did not explicitly support strengthening of the peer review requirements in the Standards of Practice. Most respondents indicated that peer review should be principles-based and should not be mandatory.
- Most respondents did indicate support for additional guidance on peer review and for a focus on quality assurance of actuarial work. Such guidance could be practice-specific and could be differentiated based on the circumstances affecting the work.
- The perceived need for independence was greater when work was non-routine, when this was specified as part of the terms of the engagement, or at the discretion of the actuary performing the work.
- Other areas where peer review expectations would be expected to differ according to the circumstances would include the type of work, the required qualifications to perform the peer review, and the reporting requirements.
- Several respondents (including the Committee on Actuarial Evidence) expressed concern about the application of peer review standards to actuarial evidence work, given the potentially adversarial nature of this work. Issues also arise due to costs, confidentiality, conflicts of interest, and practicality challenges, given that many practitioners operate solely and independently. Peer review standards related to actuarial evidence work would need to balance the importance of quality and oversight of actuarial work against the needs of the court, which call for expert witnesses to improve the understanding and interpretation of evidence. Respondents noted that, in certain circumstances, peer review would not support the objectives of the court.

Proposed Changes

Based on the feedback received, the DG is proposing that Subsection 1530, Quality Assurance, be included in the Standards of Practice as a replacement for the current subsection 1530 entitled “Review or repeat of another actuary’s work”. As provided in this exposure draft, the new subsection 1530 would have the following attributes and content:

- Paragraph 1530.01 specifies the circumstances of actuarial work that would influence the degree of quality assurance performed, at the discretion of the actuary;
- Paragraph 1530.02 describes appropriate processes and procedures to be considered as part of a quality assurance program;
- Paragraph 1530.03 defines peer review and sets out the basis for determining that a peer reviewer would be considered qualified to perform the work;

- Paragraph 1530.04 sets out the basis for the performance of an independent peer review;
- Paragraph 1530.05 specifies the importance of clarifying roles and responsibilities for effective peer review;
- Paragraph 1530.06 notes the potential limitations on the practicality of peer review due to the circumstances affecting the work; and
- Paragraph 1530.07 specifies the importance of documentation of quality assurance processes.

In addition to these changes to the Standards of Practice, the DG recommends that consideration be given to preparing educational notes on general and practice-specific bases, as appropriate, to provide additional guidance related to quality assurance and peer review, in areas such as distinctions based on types of work, qualifications and independence of peer reviewers and reporting expectations.

Comments on the Exposure Draft

The ASB is soliciting comments on this exposure draft from members of the CIA and other stakeholders **by July 15, 2018**. Please send them to Jacqueline Friedland at Jacqueline.friedland@rsagroup.ca, with a copy to Chris Fievoli at Chris.Fievoli@cia-ica.ca.

Feedback is specifically requested on whether any practical difficulties are foreseen in complying with the proposed changes.

No specific forums for expressing comments, other than through submission of written comments, are planned regarding this exposure draft.

Due Process

The ASB's Policy on Due Process for the Adoption of Standards of Practice was followed in the development of this exposure draft.

Timeline and Effective Date

It is the responsibility of the ASB to make final decisions regarding the revised standards of practice. The ASB hopes to adopt final standards in the third quarter of 2018, to be effective no later than December 31, 2018. Early adoption would likely be recommended.

CF, JF

1530 ~~Review or repeat of another actuary's work~~ Quality Assurance

- .01 The actuary should ensure that reasonable processes are implemented to ensure that the work is of appropriate quality.

In deciding what quality assurance processes are appropriate and proportionate, whether different processes are suitable for different elements of the work, and when the processes should be carried out, the actuary should consider the relevant circumstances, including the following:

- The degree of difficulty of the various elements of the work, the extent to which professional judgment is required, and the overall complexity of the work;
- The purpose of the work and the extent (if any) to which the intended users may reasonably be expected to challenge it;
- The significance of the work, including any financial, reputational, or other consequences for the intended users;
- The reasonable expectations of the intended users;
- Whether the way in which the work is carried out makes it vulnerable to errors;
- The novelty of the work and the actuary's experience in performing similar engagements;
- Whether there are legislative or regulatory requirements for the work to be peer reviewed; and
- The desirability of assuring public confidence in the quality of the work.

This list is not necessarily exhaustive. [Effective Month XX, 201X]

- .02 Quality assurance processes may include self-checking of the work, internal review or repetition of the work, peer review, whether instigated by the actuary or a user, and other quality control procedures. Depending on the circumstances, appropriate review and control procedures may differ for selected components of the work. When reporting on the results of the quality assurance process, the actuary would seek to avoid highlighting a difference that is not material and would seek to provide an explanation of any material difference.
- .03 Peer review is often an important component of the quality assurance process for an actuary's work. Peer review is a process by which one or more components of an actuary's work are considered by at least one other individual to provide assurance as to the quality of the work in question. Where the work is subject to peer review at the instigation of the actuary, the actuary would take steps to ensure that the peer reviewer has the appropriate experience and expertise to perform the peer review. If the peer reviewer is qualified to perform the work, then that is prima facie evidence that the peer reviewer is qualified to perform the peer review.

.04 Depending on the circumstances, the actuary would consider to what extent any peer review instigated by the actuary should be in the form of independent peer review, whereby one or more components of an actuary's work are considered by at least one other individual who is not otherwise involved in the work in question and who has the appropriate experience and expertise to take responsibility for the work. The perceived objectivity of a reviewer is enhanced if the reviewer is independent of the actuary performing the work. [Effective Month XX, 201X]

.05 Where one or more individuals is involved in the review of the work, the actuary would take steps to ensure that there is clarity regarding each person's role and responsibilities.

.06 For some types of work, particularly some engagements of actuarial evidence work, peer review may not be practical due to the circumstances affecting the work. The absence of the application of peer review to an actuary's work would not necessarily be considered as an indication of the quality of the work.

.07 The actuary should ensure that the completion of quality assurance processes is suitably documented. [Effective Month XX, 201X]

~~.07 Repealed~~In this subsection 1530,

~~.08 "first actuary" means an actuary whose work is reviewed or repeated,~~

~~.09 "review engagement" means an engagement to review the first actuary's work,~~

~~.010 "reviewer" means the actuary engaged to review or repeat the first actuary's work, and~~

~~.011~~.07 "repeat engagement" means an engagement to repeat all or part of the first actuary's work.

~~.012~~.08 RepealedThe standards in this subsection 1530 apply to a review engagement that is at the instigation of a user. They do not apply to quality control in the first actuary's firm or employer (sometimes referred to as "internal peer review" or "internal audit"), even if the reviewer is external to the first actuary's firm or employer. The standards for a review engagement also apply, mutatis mutandis, to a repeat engagement.

~~.03 Repealed~~ If the terms of the first actuary's engagement so permit, then the first actuary should cooperate with the reviewer. [Effective February 1, 2018]

~~.04 Repealed~~ If the terms of the review engagement so permit, then the reviewer should, as soon as practical, discuss the review with the first actuary (unless the reviewer's agreement with the first actuary's work makes such discussion superfluous), and should attempt to resolve any difference between them. The reviewer should report the result of such discussion. [Effective February 1, 2018]

~~.05 Repealed~~ If the reviewer reports disagreement with the first actuary's work but that work is within the range of accepted actuarial practice, then the reviewer should so report. [Effective February 1, 2018]

- ~~.06 Repealed If a limitation in time, information, data, or resources constrained the quality of the first actuary's work, then the reviewer should so report. [Effective February 1, 2018]~~
- ~~.07 Repealed If discussion between the two actuaries results in improvement to the first actuary's work or, in the case of periodic reporting, to the work expected for the subsequent report, then the reviewer should so report. [Effective February 1, 2018]~~
- ~~.08 Repealed If the first actuary's work is not within the range of accepted actuarial practice, then the reviewer should so report. [Effective February 1, 2018]~~

~~.09 Repealed A repeat engagement is an appropriate engagement if its purpose is to identify or reduce uncertainty in the matter on which the first actuary reported. [Effective February 1, 2018]~~

Selection of reviewer

~~.10 Repealed The reviewer may be engaged by a user of the first actuary's work or by the first actuary. The latter may not be appropriate if the interests of that user and the first actuary's client or employer are opposed, but otherwise has the merit of~~

~~.10 facilitating compliance with this subsection 1530;~~

~~.11 helping to assure selection of a qualified reviewer; and~~

~~.12.10 avoiding unnecessary duplication by the reviewer of the first actuary's work.~~

~~.11 Repealed~~

~~.13 In selecting a reviewer or agreeing the terms of the engagement, then the first actuary would have regard to the user's objective for the review and would consult with the user as appropriate.~~

~~.14.12 Repealed If an actuary is qualified to perform the work of the first actuary, then that is prima facie evidence that the actuary is qualified to be the reviewer.~~

~~.13 Repealed~~

~~The perceived objectivity of the reviewer is enhanced if the reviewer is independent of the first actuary.~~

Terms of the engagement

~~.14 Repealed~~

~~The review may take place prior to the release of the first actuary's report ("pre-release review") or after such release ("post-release review"). A pre-release review provides the opportunity for the reviewer to suggest improvement to the work. A post-release review allows such improvement to be implemented only in future work and in some cases might require a withdrawal of the report and revision to the work. A post-release review would therefore be avoided unless the circumstances of the case require it.~~

~~.15 Repealed It is desirable that the terms of the engagement permit timely open discussion between the two actuaries. Such discussion~~

~~facilitates the review,~~

~~lessens the possibility of reviewer misunderstanding or of unwarranted damage to the first actuary's reputation,~~

~~reveals possible improvement to the first actuary's work, even if the work is in accordance with accepted actuarial practice, and~~

~~contributes to the professional development of both actuaries.~~

Difference between the two actuaries.16 Repealed

~~.16 It is possible for two actuaries properly to arrive at different results. Avoidance of a dispute about a difference which is not material, or explanation of a difference which is material, serves users and helps to preserve the reputation of the profession.~~

.17 Repealed

~~.17 If the reviewer has access to different data, information, or resources, or has different time constraints, then the reviewer would so report.~~

~~.18 Repealed Insufficiency or unreliability in the data creates uncertainty for both actuaries and increases the likelihood of reviewer disagreement with the first actuary's work. If better data are likely to narrow the range of the disagreement, then the reviewer would so report.~~

~~.19 Repealed Discussion between the two actuaries is educational to both and may reveal possible improvements to the first actuary's work. The reviewer's report of those improvements assists the user to assess the utility of the review engagement. It may not be possible to identify those improvements that result from early discussion on matters which the first actuary had not yet decided.~~

~~.20 Repealed Review by a third actuary of the reviewer's tentative disagreement with the first actuary's work may help to put the difference between them in perspective.~~

Review engagement which precludes discussion between the two actuaries

~~.21 Repealed The reviewer would consider the appropriateness of a review engagement that precludes discussion with the first actuary, especially if the first actuary will not be apprised that the review is to take place. The engagement may be an appropriate engagement, for example, where~~

~~.22 the interests of the first actuary's client or employer and the reviewer's client or employer are opposed, especially so in the case of actuarial evidence work involving litigation or mediation.~~

~~.23 the reviewer's client or employer is the police or regulatory authorities who are investigating the first actuary's conduct or the conduct of the first actuary's client or employer.~~

~~.24 the review is merely preliminary to a further review in which timely open discussion between the two actuaries will be possible.~~

~~.25.21 discretion by the users of the reviewer's report is assured.~~

- ~~.26~~ ~~Repealed~~ For example, in the case of actuarial evidence work involving litigation or mediation, the reviewer may be asked to report, without discussion with the first actuary,
- ~~.27~~ results based on assumptions which differ from those in the first actuary's report, or
- ~~.28.22~~ alternatives to the first actuary's reported results that are within the range of accepted actuarial practice.
- ~~.29.23~~ ~~Repealed~~ An engagement that limits or delays discussion between the two actuaries may be an appropriate engagement if the reviewer's client or employer wants to ensure that the two reports are independent of each other.

Repeat engagement

- ~~.24~~ ~~Repealed~~ In order to identify or reduce uncertainty, the first actuary's client or employer may ask a second actuary to repeat the first actuary's work. A repeat engagement usually requires more time and expense than a review engagement. The second actuary may or may not have knowledge of, or access to, the first actuary's work. If the second actuary knows or suspects that the engagement is a repeat engagement, then he or she would take into account the possibility that the client or employer is "opinion shopping" when determining if it is an appropriate engagement.