

Revised Exposure Draft

Revisions to Sections 1400 and 1500 of General Standards of Practice (Part 1000)

Actuarial Standards Board

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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: December 12, 2018

Subject: **Revised Exposure Draft – Revisions to Sections 1400 and 1500 of General Standards of Practice (Part 1000)**

Comment Deadline: February 15, 2019

Introduction

This revised exposure draft (ED), revising sections 1400 and 1500 of the General Standards of Practice to address the areas of quality assurance, peer review and work review, was approved for distribution by the Actuarial Standards Board (ASB) on December 4, 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 \(NOI\)](#) on these revisions was issued on August 31, 2017, requesting feedback in four areas:

- the need to strengthen standards of practice related to peer review;
- the need for a peer reviewer to be independent from the actuary performing the work;
- differentiation among types of work subject to peer review; and
- detailed requirements such as qualifications of peer reviewer and reporting requirements.

Following consideration of the comments received, an [exposure draft \(ED\)](#) on these revisions was issued on May 4, 2018, in respect of which the DG received 15 submissions.

Significant representation was made in the submissions that the existing subsection 1530, Review or repeat of another actuary's work, should be retained. Accordingly, the DG proposes to retain this subsection, with suitable refinements. Furthermore, the proposed standards on quality assurance are now included in section 1400, including a new subsection 1460.

A more detailed summary of the comments received and the DG's responses appears in the appendix. The nature of the DG's responses is such that re-exposure of the proposed revisions would be appropriate.

Timeline

It is the responsibility of the ASB to make final decisions regarding the revised standards of practice. It is anticipated that the ASB would adopt final standards with an effective date on or after July 1, 2019. Early implementation would likely be encouraged.

Your Feedback

The ASB is soliciting feedback on this ED from members of the CIA and other stakeholders. Comments on the proposed revisions are invited **by February 15, 2019**. Please send them, preferably in an electronic format, to Jacqueline Friedland at jacque.friedland@gmail.com, with a copy to Chris Fievoli at chris.fievoli@cia-ica.ca. No other forums for the receipt of comments are currently contemplated.

Due Process

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

CF, JF

Appendix

Revised Exposure Draft – Revisions to Sections 1400 and 1500 of General Standards of Practice (Part 1000)

Summary of the comments received on the exposure draft (ED) and the DG’s responses

Comments Received

The DG received 15 submissions on the ED from 11 individual members, one pension consulting firm, the Actuarial Evidence Committee, the Appointed Actuary Committee and the Board Task Force on P&C Issues.

Summary of Main Issues Raised and the DG’s responses

| Issue | Additional Details / DG Response |
|---|---|
| Existing subsection 1530, Review or repeat of another actuary’s work, should be retained. | <ul style="list-style-type: none">▪ Notwithstanding the ASB’s initial preference to cover those provisions in educational notes rather than standards, the DG believes that the representation made on this issue is significant enough that the subsection should be retained, with suitable refinements.▪ The proposed standards on quality assurance are now included in section 1400, including a new subsection 1460. |
| Various suggested wording changes were accepted, including: <ul style="list-style-type: none">▪ Remove reference to “often” in 1530.03.▪ Defined term “users” should be used instead of “intended users”.▪ Delete wording “This list is not necessarily exhaustive” in 1530.01. | <ul style="list-style-type: none">▪ The DG has accepted the suggestions, with refinements where considered appropriate. |
| Some suggested wording changes were not accepted, including: <ul style="list-style-type: none">▪ Disproportionate wording describing peer review. | <ul style="list-style-type: none">▪ The DG does not wish to understate the importance of peer review as a component of quality assurance, while noting that it may not always be practical. It was also |

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|---|--|
| <ul style="list-style-type: none"> ▪ In 1530.06, adding the qualifier “a lack of” to the reference to “quality” in the second sentence. ▪ Making reference to the materiality standards of the user in 1530.01. ▪ The standards should be more prescriptive regarding the disclosures about any peer review ▪ The standards should mandate that independent peer reviewers be external to the actuary’s employer. | <p>thought to be appropriate to describe what peer review and independent peer review entail given the involvement of other individuals in the processes.</p> <ul style="list-style-type: none"> ▪ The DG believes that the intention is clear enough without adding the qualifier. ▪ The DG does not believe that the inclusion of this example is necessary. ▪ The DG believes that the quality assurance processes should be documented internally. However, disclosure should be more a function of the circumstances of the work. ▪ Noting that independence in this context is with respect to involvement of the work in question, the DG does not believe that independent peer reviewers must be external. Other actuarial standards outside of Canada such as ISAP 1 and APS X2 use a similar threshold as the ED to establish independence. Nonetheless, additional wording has been included on the expectation that the independent peer reviewer be “in a position to effectively challenge the work”. |
| <p>Care needs to be exercised that peer review not impair the perceived independence of the expert.</p> | <ul style="list-style-type: none"> ▪ Although the DG believes that the draft standards already acknowledge this issue, supplementary wording has been added in subsection 1460.08. |
| <p>Standards should provide criteria to guide the evaluation of whether a particular user request not to obtain peer review is an appropriate engagement.</p> | <ul style="list-style-type: none"> ▪ The DG believes that judgment must always be exercised in evaluating whether an engagement is appropriate, and that subsection 1310 is a suitable reference for this consideration. |
| <p>The standards do not address how the actuary should treat peer review comments.</p> | <ul style="list-style-type: none"> ▪ The DG believes that this is a matter of professional judgment, with the actuary remaining in control of the work (consistent with the views expressed in the submission), and does not require explicit reference in the standards. |

A standard actuarial method used within a model in its proper context would be considered appropriate without further justification; for example, actuarial present value method for a pension valuation and the chain ladder method and Bornhuetter-Ferguson method for unpaid claims liabilities.

1460 Quality Assurance

.01 This subsection 1460 applies to quality assurance processes that are at the instigation of the actuary. Such processes include quality control in the actuary's firm or employer as well as review by persons external to the actuary's firm or employer.

.02 The actuary should implement reasonable processes to perform the work with appropriate quality prior to the release to its users. [Effective Month XX, 201X]

.03 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 would be carried out, the actuary would consider the relevant circumstances, including:

- 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 users may reasonably be expected to challenge it;
- The significance of the work, including any financial, reputational or other consequences for the users;
- The reasonable expectations of the 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
- Assuring public confidence in the quality of the work.

.04 Quality assurance processes include calculation control procedures and model validation, as described in subsection 1470, calculation result examination as described in subsection 1480, self-checking of the work, repetition of the work and peer review. Depending on the circumstances, appropriate quality assurance processes may differ for selected components of the work.

.05 Peer review can be 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 for the purpose of providing assurance as to the quality of the work in question. The actuary should select a peer reviewer with the appropriate experience and expertise to perform the peer review. If a person is qualified to have performed the work to be reviewed, then that is prima facie evidence that the person is also qualified to perform the peer review. [Effective Month XX, 201X]

.06 Depending on the circumstances, the actuary would consider to what extent any peer review 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, who has the appropriate experience and expertise to perform the peer review, and is in a position to effectively challenge the work. The perceived objectivity of a reviewer is enhanced if the reviewer is independent of the actuary performing the work.

.07 Where one or more individuals is involved in the quality assurance processes of the work, the actuary would clarify each person's role and responsibilities.

.08 For some types of work, particularly some engagements of actuarial evidence work, peer review may not be required due to the circumstances affecting the work. The absence of peer review of an actuary's work would not necessarily be considered as an indication of a weakness in the quality of assurance processes applied to the work. Where the actuary is expected or required to be independent in performing the work, the scope of the peer review would be defined so as not to impair such independence.

14601470 Control

.01 Control procedures that detect errors and decrease the effect of errors should be performed for calculations. [Effective February 1, 2018]

.02 To mitigate model risk, the actuary should perform model validation and employ other strategies appropriate for the financial significance of the results and the complexity of the model. [Effective January 1, 2018]

.03 A calculation that is data-intensive, that is complex, that involves physically separate steps like manual and data processing steps or parallel data processing steps, or especially, a combination of them, is prone to error that appropriate control procedures may prevent or, failing prevention, detect. Appropriate control procedures also help to meet the need for consistency between the actuary's work and other related work; for example, a uniform cut-off date in the preparation of financial statements.

14801490 Documentation

- .01 The actuary should use his or her best efforts to compile and secure the retention of appropriate documentation. [Effective February 1, 2018]
- .02 Documentation consists of letters of engagement, working papers, meeting notes, memoranda, correspondence, reports, copies or excerpts of company or plan data and documents, and work plans. Appropriate documentation describes the course of the work and its conformity with accepted actuarial practice.
- .03 Both professional and legal needs may affect the length of time during which documentation is to be retained.
- .04 The actuary's documentation for a model, if required, would typically include
- the intended purpose of the model;
 - the appropriateness of the model specification for the intended purpose;
 - the limitations of the model specification relevant to the model's intended purpose;
 - the testing of the model implementation; and
 - the presence of appropriate mitigating strategies for model risk.
- .05 Model documentation would typically be sufficiently detailed to enable another actuary knowledgeable in the matters at hand to form an assessment of the judgments made and of the reasonableness of the model run.
- .06 When a model is based in whole or in part on a model developed by a third party, the actuary would document how the actuary assessed the model as being appropriate for the purpose.
- .07 The actuary should document the quality assurance processes that were followed in performing the work. [Effective Month XX, 201X]

1530 Review or repeat of another actuary's work

- .01 In this subsection 1530,
- “first actuary” means an actuary whose work is reviewed or repeated,
 - “review engagement” means an engagement to review the first actuary's work,
 - “reviewer” means the actuary engaged to review or repeat the first actuary's work, and
 - “repeat engagement” means an engagement to repeat all or part of the first actuary's work.
- .02 The 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 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 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 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 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 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 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 The reviewer may be ~~engaged~~ **selected** by a user of the first actuary's work or by the first actuary. The latter ~~may would~~ not be appropriate if ~~the it gives rise to a potential conflict of interest (e.g., where the~~ interests of the ~~eat~~ user and the first actuary's client or employer are opposed), but ~~may~~ otherwise ~~has the merit of~~ **be appropriate if it serves to**
- ~~facilitating~~ compliance with this subsection 1530; ~~and~~
 - ~~helping to~~ assure selection of a qualified reviewer; ~~and~~
 - ~~avoiding unnecessary duplication by the reviewer of the first actuary's work.~~
- .11 In selecting a reviewer ~~or agreeing the terms of the engagement, then~~ the first actuary would ~~take into consideration~~ **have regard to** the user's objective for the review and would consult with the user as appropriate.
- .12 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 The perceived objectivity of the reviewer is enhanced if the reviewer is independent of the first actuary.

~~Terms of the engagement~~ **Timing of the review**

- .14 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~~
- ~~.16 facilitates the review;~~
- ~~.17 lessens the possibility of reviewer misunderstanding or of unwarranted damage to the first actuary's reputation;~~
- ~~.18 reveals possible improvement to the first actuary's work, even if the work is in accordance with accepted actuarial practice, and~~
- ~~.19.15 contributes to the professional development of both actuaries.~~

Difference between the two actuaries

- .16 ~~If the reviewer identifies findings for~~ It is possible for two actuaries properly to arrive at different results. Avoidance of a dispute about a difference which that is not material, or the reviewer would so report, along with an explanation of the reason for the difference ~~which is material, serves users and helps to preserve the reputation of the profession.~~
- .17 If the reviewer identifies findings for a difference that is not material, the reviewer would avoid reporting such a difference if it would lead to an unnecessary dispute with the first actuary. If the reviewer has access to different data, information, or resources, or has different time constraints than the first actuary had at the time of initial preparation of the report, then the reviewer would so report.
- .18 ~~If the reviewer believes that access to different data, information or resources would serve to reduce uncertainty in the interpretation of the work~~ 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.

Appropriate Rreview engagement ~~which precludes discussion between the two actuaries~~

- .21 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~~ Nevertheless, such an engagement may be an appropriate engagement, where, for example, ~~where~~
- 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.
 - the reviewer's client or employer is the policea judicial, legal or regulatory authority ies who are-is investigating the first actuary's conduct or the conduct of the first actuary's client or employer.
 - ~~the review is merely preliminary to a further review in which timely open discussion between the two actuaries will be possible.~~
 - ~~discretion by the users of the reviewer's report is assured.~~

.22 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.

~~.22.23~~ ~~For example, i~~n the case of actuarial evidence work involving litigation or mediation, the reviewer may be asked to report, without discussion with the first actuary,

- results based on assumptions which differ from those in the first actuary's report, or
- alternatives to the first actuary's reported results that are within the range of accepted actuarial practice.

Such an engagement would be an appropriate review engagement.

~~.23.24~~ ~~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

.25 A repeat engagement would be an appropriate engagement if its purpose~~in order~~ to identify or reduce uncertainty in the interpretation of the first actuary's work,~~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.~~

~~.24.26~~ ~~-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.~~ Such an engagement may not be an appropriate engagement.