
EXPLANATORY MEMORANDUM PRACTICE GUIDELINE 1: GENERAL ACTUARIAL PRACTICE

June 2017

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Professional Standards Committee ("PSC") to advise Members of the release of Practice Guideline 1: General Actuarial Practice ("PG 1").

PG 1 is the Australian adaptation of International Standard of Actuarial Practice 1: General Actuarial Practice ("ISAP 1") as approved by the International Actuarial Association ("IAA") Council on 18 November 2012 and reformatted in October 2013. We have also released an associated Glossary, being the Australian adaptation of the Glossary issued by the IAA.

The intention of ISAP 1 is to promote a greater consistency of approach to actuarial practice internationally in a given situation, so as to increase the confidence of clients and the public in the actuarial work product, but without unnecessarily constraining the exercise of actuarial judgment or creativity.

B. Background

An Exposure Draft of PG 1 was released for Member comment in December 2016. Three submissions were received and we thank these Members for their input. We comment below on the matters raised:

- ▶ One Member highlighted that PG 1 does not fit cleanly into the Institute's hierarchy of professional practice documents as it has some of the characteristics of a Practice Guideline and some of a Professional Standard. The PSC debated at length whether PG 1 should be adopted as a Professional Standard or a Practice Guideline (or whether a new category of practice document should be introduced). Based on strong feedback from Practice Committees it was decided that it should be a Practice Guideline. Nevertheless, in spite of its non-mandatory status, we strongly encourage Members to consider its requirements in all circumstances.
- ▶ One submission suggested alternative wording for clause 2.11 to clarify the requirement for a peer reviewer to be independent, and some suitable alternate wording was adopted.
- ▶ One submission queried an aspect of the disclosure requirements, however the point raised was already addressed in another section of the Practice Guideline.

C. Development of International Standards of Actuarial Practice (ISAPs)

ISAPs are model standards of practice issued by the IAA. An ISAP is a statement of actuarial practice expected of actuaries operating within a specified context. It sets minimum expectations on matters such as the methodology to be employed, the approach to be used in setting assumptions, the contents of the resulting report or opinion, and the way in which the report or opinion should be presented.

The IAA encourages its member associations (of which the Institute is one) to have in place professional practice documents that are substantially consistent with the ISAPs, bearing in mind the needs of their members. In September 2014, Council confirmed the intention of the Institute to achieve a degree of “congruence”, as far as is appropriate to the circumstances of Members, between ISAPs issued by the IAA and the professional practice documents issued by the Institute. In adapting ISAP 1 to create PG 1 for application by Members, the aim has therefore been to follow ISAP 1 as far as is appropriate given local circumstances.

D. ISAP 1 and PG 1

The Actuaries Institute has an established hierarchy of professional practice documents. Among other such documents, there are Professional Standards (“PSs”), which set out what must be done by Members, and Practice Guidelines (“PGs”), which are intended to assist Members in providing professional services. PSs cover Members’ obligations while PGs describe generally accepted actuarial practice. The wording in a PS therefore uses ‘must’, while the wording in a PG uses ‘should’.

The Australian adaptation of ISAP 1 has been released as a Practice Guideline (PG 1). This reflects the following:

- ▶ Most of the practices in ISAP 1 are expressed as ‘should’, consistent with the language in PGs; and
- ▶ If ISAP 1 were adopted as a PS, this would impose stronger requirements on Members than apply to actuaries in other jurisdictions; this was not considered warranted.

Consistent with ISAP 1, PG 1 covers a number of general matters that are considered relevant to actuarial practice:

- ▶ Acceptance of assignment
- ▶ Knowledge of relevant circumstances
- ▶ Reliance on others
- ▶ Materiality
- ▶ Data quality
- ▶ Assumptions and methodology
- ▶ Process management

- ▶ Peer review
- ▶ Treatment of subsequent events
- ▶ Retention of documents; and
- ▶ Communication

There are a number of differences between PG 1 and ISAP 1. Two of these differences are material and are discussed below (scope of PG 1 and relationship to PG 199.01). Other differences are minor in nature and have arisen principally to ensure consistency with local conditions and for clarification purposes. A full tabulation of the differences is set out in the Appendix to PG 1.

E. Scope of PG 1

PG 1 applies to all Members when they are performing Applicable Professional Services, being:

- ▶ Prescribed Actuarial Advice; or
- ▶ Professional Services that are designated in an Institute PS or PG as being Applicable Professional Services.

At this time, the only Professional Services (other than Prescribed Actuarial Advice) that are to be designated as being Applicable Professional Services are those covered by other ISAPs that are adopted by the Institute (with or without amendment). Other ISAPs tend to cross-reference ISAP 1 quite extensively; hence from a practical perspective, it will be necessary for PG 1 to apply to the Professional Services covered by such ISAPs.

By contrast with the scope of PG 1, ISAP 1 applies to Actuarial Services, defined as “services based upon actuarial considerations...”. The scope of PG 1 is narrower than the scope of ISAP 1, and was favoured for the following reasons:

- ▶ The definition of Actuarial Services in ISAP 1 is subject to interpretation, whereas the definition of Applicable Professional Services is unambiguous.
- ▶ Applicable Professional Services does not include work performed by actuaries in non-traditional fields. Hence, PG 1 will not place any unnecessary burden on actuaries practicing in such areas.

Members are nevertheless encouraged to consider the guidance provided in PG 1 when performing Professional Services not covered by the scope of PG 1.

F. PG 1 and PG 199.01

In developing PG 1, the PSC reviewed ISAP 1 for consistency with Practice Guide 199.01: Prescribed Actuarial Advice Reporting (“PG 199.01”).

Given that ISAP 1 covers communication of results, there is considerable overlap with PG 199.01. However, while PG 199.01 relates only to the communication of Prescribed Actuarial Advice, ISAP 1 effectively covers the communication of results for other areas of actuarial practice as previously discussed under scope.

In order to avoid the overlap with PG 199.01 the PSC has incorporated the requirements of PG 199.01 into PG 1 and, at the same time, extended these requirements to other areas of actuarial practice, consistent with the scope of PG 1. On this basis, PG 199.01 has become redundant and will be withdrawn on the commencement of PG 1.

G. Subsidiarity

If any requirement of PG 1 conflicts with legislation or the Code or a PS, then that legislation, the Code or PS takes precedence with respect to the conflict. In such cases, the remaining requirements of PG 1 which are not in conflict continue to apply.

H. Degree of Convergence between PG 1 and ISAP 1

Despite there being a few differences in scope and expected practice between PG 1 and ISAP 1, the PSC has assessed that, based on the nature and extent of these differences, there is “strong convergence” between PG 1 and ISAP 1 i.e. PG 1 materially conforms to the requirements of the IAA, with allowance for local modification to fit local conditions.

However, given the differences, it should be noted that compliance with PG 1 will not necessarily result in compliance with ISAP 1. Therefore, where a Member is required to perform work in conformity with ISAP 1 (e.g. because the work is being undertaken in an overseas jurisdiction) the Member should refer to the specific requirements of ISAP 1.

I. Commencement Date

PG 1 takes effect for Applicable Professional Services performed on or after 1 July 2017.

J. Future Developments

It is expected that some changes may be made in due course to the Code and other professional practice documents, as a result of the introduction of PG 1 (e.g. to improve consistency between documents in the area of communication / reporting). It is also expected that the IAA will introduce further ISAPs in due course and that other new professional practice documents, or changes to existing professional documents issued by the Institute, will be needed as a result.

END OF EXPLANATORY MEMORANDUM