

EXPLANATORY MEMORANDUM

UPDATED VERSIONS OF PRACTICE GUIDELINE 1 (GENERAL ACTUARIAL PRACTICE) AND GLOSSARY OF GENERAL DEFINED TERMS USED IN PRACTICE GUIDELINES

March 2020

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Professional Standards Committee (PSC) to explain the changes to Practice Guideline 1 (General Actuarial Practice) (PG 1) and to the Glossary of General Defined Terms Used in Practice Guidelines (Glossary).

2. Background

PG 1 is the Australian adaptation of ISAP 1 issued by the International Actuarial Association (IAA), PG 1 is an important Practice Guideline as it applies to all Services that are designated as Applicable Services (i.e. most of the Services covered by the Institute's suite of Professional Standards and a number of the Services covered by Institute Practice Guidelines).

PG 1 was first issued by the Institute in June 2017. At that time the PSC assessed that there was "strong convergence" between PG 1 and ISAP 1 i.e. it was considered that PG 1 materially conforms to the requirements of the IAA, with allowance for local modification to fit local conditions.

Since then, the IAA has updated ISAP 1 and has merged ISAP 1A (Governance of Models) into ISAP 1. In light of these changes, the PSC has reviewed and updated PG 1 and the Glossary where considered appropriate. In addition, a number of changes have been made to align PG 1 and the Glossary with the Institute's new Code of Conduct which takes effect on 31 March 2020.

3. Changes to PG 1 and the Glossary

The key changes to PG 1 and the Glossary are outlined below:

- (a) The changes to ISAP 1 to incorporate the requirements of ISAP 1A (Governance of Models) have been adopted in PG 1 – see new Section 2.10 - Model Governance. This change has also necessitated updating the Glossary with a number of related definitions ("Model", "Model Governance" and "Model Risk").

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(b) A number of new definitions have been introduced for consistency with the new Code:

- “Applicable Professional Services” has been changed to “Applicable Services” and is defined as: “Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services”.
- A new definition of “Services” has been added: “Any engagement, work, findings, advice or act of a Member as an actuary and includes services that are provided on a pro-bono basis”.
- The definition of “Actuarial Services” has been removed, as PG 1 now uses the term “Applicable Services” in its place.

(c) A new definition of “Applicable Professional Practice Document” (Applicable PPD) has been added: “A Professional Standard or Practice Guideline that covers Applicable Services”.

(d) New definitions of “Data”, “Material” and “record” have been added.

(e) Section 1.3 – a new paragraph has been included for consistency with other professional regulation documents, stating that the PG does not constitute legal advice.

(f) Section 5 – Applicability has been expanded to clarify that:

- PG 1 provides guidance to Members on general actuarial practice when performing Applicable Services.
- Other Applicable PPDs do not necessarily repeat the general guidance provided in PG 1.
- Compliance with PG 1 is a prerequisite to compliance with all other Applicable PPDs.

In support of these changes, references in PG 1 to “this PG” have been changed to “the Applicable PPD” or “all Applicable PPDs” as appropriate. This means that the relevant requirements in PG 1 are to be read as applying to all other Applicable PPDs. As an example, the wording in Section 1.6 – Reasonable Judgement has been changed from: “The Member should exercise reasonable judgement in applying this PG” to: “The Member should exercise reasonable judgement in applying any Applicable PPD”.

A number of other changes have been made to PG 1 in line with changes to ISAP 1, to streamline wording and clarify requirements.

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4. Feedback on Updated PG 1 and Glossary

The updated PG 1 and Glossary were exposed to Members in January 2020. No Member feedback was received.

5. Degree of Convergence between PG 1 and ISAP 1

Despite there being a few differences between PG 1 and ISAP 1, the PSC has assessed that, based on the nature and extent of these differences, there continues to be “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.

6. Commencement Date

The updated versions of PG 1 and the Glossary will take effect for Applicable Services performed on or after 31 March 2020.

END OF EXPLANATORY MEMORANDUM