



Institute of Actuaries of Australia

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## **PRACTICE GUIDELINE 199.01**

### **PRESCRIBED ACTUARIAL ADVICE REPORTING**

**December 2009**

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## **1 INTRODUCTION**

### **1.1 Application**

1.1.1 This Practice Guideline applies to a Member providing Prescribed Actuarial Advice.

1.1.2 Although this Practice Guideline does not apply to a Member providing a Professional Service which does not constitute Prescribed Actuarial Advice, Members providing such services are encouraged to consider the guidance provided in this Practice Guideline, if appropriate, when preparing a report in respect of such Professional Services.

### **1.2 Classification**

1.2.1 This Practice Guideline has been prepared in accordance with Council's Policy for Drafting and Developing Practice Guidelines, as varied from time to time. It must be applied in the context of the Institute's Code of Professional Conduct.

1.2.2 This Practice Guideline is not mandatory.

1.2.3 Nevertheless, a Member providing Prescribed Actuarial Advice should consider explaining any significant departure from this Practice Guideline to the Principal, and document such explanation.

### **1.3 Background**

Much of the material in this Practice Guideline was previously contained in the Code. However, as the material was not of a conduct nature and, as such, was inconsistent with the balance of the provisions in the Code, it was considered more appropriate to carve out that material into a new Practice Guideline.

### **1.4 Purpose**

The purpose of this Practice Guideline is to provide guidance to Members with respect to Actuarial Reports prepared in connection with any work falling within the application of this Practice Guideline, as set out in clause 1.1.1.

### **1.5 Previous versions**

There are no previous versions of this Practice Guideline.

### **1.6 Legislation and other requirements**

There is no specific legislation applicable to this Practice Guideline. However, if there is a conflict between this Practice Guideline and any



legislation, then the legislation takes precedence, and best practice is to document any differences in the Actuarial Report. In this context, legislation includes regulations, prudential standards, subordinate standards, accounting standards, rules issued by government authorities, and standards issued by professional bodies which have the force of law.

## 2 COMMENCEMENT DATE

This Practice Guideline takes effect from 1 January 2010.

## 3 DEFINITIONS

**'Actuarial Report'** means a formal document conveying Prescribed Actuarial Advice and includes transmission of Prescribed Actuarial Advice by electronic means.

**'Code'** means the Code of Professional Conduct of the Institute.

**'Institute'** means The Institute of Actuaries of Australia (ABN 69 000 423 656).

**'Material'** means important or essential in the opinion of the Member. For this purpose, 'Material' does not have the same meaning as in Australian accounting standards. 'Materiality' has a consistent meaning to 'Material'.

**'Member'** has the same meaning as set out in the Code.

**'Prescribed Actuarial Advice'** has the same meaning as set out in the Code.

**'Principal'** has the same meaning as set out in the Code.

**'Professional Service'** has the same meaning as set out in the Code.

**'Professional Standard'** has the same meaning as set out in the Code.

## 4 ADHERENCE TO PROFESSIONAL STANDARDS

When providing Prescribed Actuarial Advice, accepted practice is to identify the particular Professional Standard applying to such Prescribed Actuarial Advice in any Actuarial Report and confirm that the Prescribed Actuarial Advice has been prepared in accordance with the Professional Standard.



## 5 CONTENT OF ACTUARIAL REPORTS

- 5.1 Where an Actuarial Report is provided, accepted practice is to state therein:
- (a) the purpose and scope of the Actuarial Report;
  - (b) the terms of reference provided to the Member and any instructions agreed with the Principal;
  - (c) the use for which the Prescribed Actuarial Advice is intended;
  - (d) the date of the Actuarial Report; and
  - (e) the name of the Member responsible for the Actuarial Report.
- 5.2 Accepted practice is for a Member to include in any Actuarial Report prepared by the Member a statement or statements:
- (a) indicating to whom the report is addressed;
  - (b) describing or clearly identifying the Material data and the actuarial methods and assumptions used;
  - (c) describing Material risks and uncertainties; and
  - (d) drawing attention to any Material implications of the results.
- 5.3 An Actuarial Report is consistent with accepted practice if it contains sufficient information and discussion to enable the Member who prepared the Actuarial Report to reasonably believe that the Principal or a Member reviewing the Actuarial Report will be able to form a view on the appropriateness and implications of the Member's recommendations.
- 5.4 Subject to clause 5.5, in preparing an Actuarial Report, accepted practice is for a Member to:
- (a) exercise his or her professional judgment on all Material matters;
  - (b) ensure that the Actuarial Report is based on the available data, on appropriate assumptions, and on actuarial principles; and
  - (c) disclose in the Actuarial Report the nature and source of all Material information on which he or she has placed reliance and the extent to which he or she has verified and assumed responsibility for such information.
- 5.5 If a Member provides Prescribed Actuarial Advice that departs from the guidance set out in clause 5.4, including accepting constraints on scope



and assumptions, accepted practice in respect of any resulting Actuarial Report or certificate provided by the Member is to:

- (a) include an appropriate and prominent qualification that explains and justifies the departure; and
- (b) explain any implications of such departure (including, where relevant, the implications that arise as a result of the scope or assumptions being constrained).

5.6 Accepted practice is for an Actuarial Report to adequately address any uncertainties inherent in the use of assumptions and actuarial methodologies. Where a single estimate of uncertain outcomes is provided, accepted practice is to prominently state in the Actuarial Report the intended nature of the estimate and any relevant limitations that apply to that estimate. In circumstances where outcomes are subject to Material uncertainty, accepted practice is for the Actuarial Report to convey this uncertainty, its sources and implications, and the steps, if any, taken by the Member to quantify or allow for this uncertainty.

5.7 Accepted practice is to ensure that sufficient working papers and records are retained to support the conclusions and opinions expressed in an Actuarial Report.

## **6 OTHER FORMS OF CONVEYING PRESCRIBED ACTUARIAL ADVICE**

6.1 Where a form other than an Actuarial Report is used to convey Prescribed Actuarial Advice, accepted practice is for a Member to decide whether or not the Prescribed Actuarial Advice is potentially Material in its impact, and if the Member decides that it is, to also provide an Actuarial Report. Where the circumstances are not clear to the Member, accepted practice is to provide an Actuarial Report.

6.2 Where Prescribed Actuarial Advice on a particular matter has been provided in a piecemeal fashion over a period of time, accepted practice is for the Member to consider whether the advice makes sufficient reference to previous advice, and whether it is necessary to prepare and provide an Actuarial Report that draws together the various pieces of Prescribed Actuarial Advice provided.

6.3 Accepted practice is to include, in any draft Actuarial Report, a prominent indication that the Actuarial Report is in draft form. If a draft Actuarial Report is provided to the Principal, an acceptable form of such wording is:

"This draft report is provisional, provided for discussion purposes only, and should not be relied upon for making commercial decisions."



## **7 RELATIONSHIP BETWEEN ACTUARIAL REPORTS**

7.1 Where a Member has prepared:

- (a) a précis of or an addendum to an Actuarial Report of either that Member or another Member; or
- (b) a new Actuarial Report that relates to a previous such report,

accepted practice is for the Member to clearly identify the previous report and identify any Material differences, including differences in advice, between the précis, addendum or new report and the previous report.

7.2 Where relevant, it is also accepted practice for the Member to state that the précis, addendum or new report must be read in conjunction with the previous report, and for the Member to restate, make reference to or, if necessary, revise, any limitations or qualifications that were present in the previous report.

7.3 Accepted practice is for a Member to take reasonable steps to ensure that any third parties who have been provided with a précis, addendum, new report or previous report are made aware of the status of these documents and how they relate to each other.

## **8 OUTDATED ACTUARIAL REPORTS**

In circumstances where a Member becomes aware that an Actuarial Report prepared by him or her is no longer relevant or applicable and the Member:

- (a) reasonably believes that that Actuarial Report continues to be relied upon by a Principal; or
- (b) knows that that Actuarial Report has been provided to third parties who may rely on and be Materially affected by any Prescribed Actuarial Advice in it,

then accepted practice is to notify the Principal and any relevant third parties that the Actuarial Report is no longer relevant or applicable.

## **9 SHORT FORM ACTUARIAL REPORTS**

9.1 In certain circumstances, it is considered acceptable for a Member to use his or her professional judgment and exercise discretion in determining what needs to be included in an Actuarial Report, having regard to:

- (a) the Code;



- (b) the guidance set out in this Practice Guideline; and
  - (c) normal commercial practice in those circumstances.
- 9.2 In such circumstances, it is considered acceptable for a Member to prepare a short form of an Actuarial Report, provided that such short form report:
  - (a) complies with any reporting requirements for short form reports stipulated in the relevant Professional Standard applicable to the Prescribed Actuarial Advice being given; and
  - (b) is accurate, not misleading and contains sufficient information to enable its subject matter to be put into proper context by its intended audience.
- 9.3 Examples of circumstances which may fall within the scope of clause 9.1 include:
  - (a) where it is not practicable to include the level of detail otherwise contemplated by this Practice Guideline;
  - (b) providing a preliminary report to the Board of an entity regarding the results of a valuation;
  - (c) providing an executive summary of a financial condition report to a ratings agency; and
  - (d) providing an expert report for inclusion within a prospectus, information memorandum or similar document.

**END OF PRACTICE GUIDELINE 199.01**