Preliminary Exposure Draft

International Actuarial Standard of Practice
A Practice Guideline*

Actuarial Practice When Providing Professional Services to Reporting Entities Concerning Financial Reporting of Insurance Contracts, Financial Instruments, and Service Contracts Under International Financial Reporting Standards

Preliminary Exposure Draft of the
Subcommittee on Actuarial Standards of the Committee on Insurance Accounting
International Actuarial Association / Association Actuarielle Internationale

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**Practice Guidelines are educational and non-binding in nature. They represent a statement of appropriate practices, although not necessarily defining uniquely practices that would be adopted by all actuaries. They are intended to familiarise the actuary with approaches that might appropriately be taken in the area in question. They also serve to demonstrate to clients and other stakeholders and to non-actuaries who carry out similar work how the actuarial profession expects to approach the subject matter.*

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1. Scope

The purpose of this PRACTICE GUIDELINE (PG) is to give advisory, non-binding guidance that ACTUARIES may wish to take into account when providing PROFESSIONAL SERVICES related to the FINANCIAL REPORTING of INSURANCE CONTRACTS, FINANCIAL INSTRUMENTS or SERVICE CONTRACTS issued by a REPORTING ENTITY in accordance with applicable INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs). This PG applies where the professional services required of the actuary by the PRINCIPAL relate to a part or all of the related financial reporting of the reporting entity. This PG applies where the reporting entity is an INSURER, a CEDANT under a REINSURANCE CONTRACT, an ISSUER of a financial instrument, or the provider of applicable services.

An actuary who provides these professional services may be acting in the capacity of an employee, officer, director, or external adviser of the reporting entity.

These guidelines are not a substitute for meeting the requirements of the relevant IFRSs. Actuaries are therefore directed to the relevant IFRSs (see Appendix B) for authoritative requirements.

2. Publication Date

This PG was published on [date approved by the Council of the International Actuarial Association].

3. Background

Prior to March 31, 2004, many IFRSs have excluded insurance contracts. The INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) decided to develop an IFRS on insurance contracts and amend a number of the other existing standards to include insurance contracts. The IASB published IFRS 4 to implement Phase 1of the project. The actual effective date for adoption of IFRS 4 and other existing standards varies by reporting entity.

With the new definition of insurance contracts in IFRS 4, the reporting entity might also have existing “non-insurance” contracts that may now be classified as financial instruments and service contracts and be reported on, with various aspects affected by, IFRS amendments through the effective date of this PG. The most frequently applicable IFRSs are outlined in Appendix B.

This PG provides the actuary with non-binding guidance on RECOGNISED ACTUARIAL PRACTICE under IFRSs, separate from technical guidance. The IFRSs contain requirements for issuers of FINANCIAL STATEMENTS that are issued in conformity with the IFRSs. This PG addresses recognised actuarial practice and provides a bridge between the actuarial technical guidance and the related professional services performed by the actuary in conjunction with financial reporting under IFRSs.

4. Practice Guideline

In this PG, the requirements of IASB standards and non-binding guidance are specifically referred to as such. This PG describes current non-binding guidelines to recognised actuarial practice in accordance with IFRSs. Recognised actuarial practice also includes other practices commonly applied by actuaries in performing professional services. The paragraphs, other than those in Appendix A (Basis for Conclusions), have equal authority in the PG.

4.1 Specific requirements

4.1.1 Disclosure regarding professional services

The actuary should consider disclosing, in a REPORT or other suitable communication, when the actuary is providing professional services in compliance with this PG, the Code(s) of Professional Conduct, or other rule(s).

4.1.2 Clarity of nature and scope of the professional services to be performed

When providing professional services under this PG, the actuary should consider confirming with the principal the nature and scope of professional services to be provided, including any limitations or additional requirements that the actuary must satisfy to comply with this PG, and should consider documenting the confirmation in a letter of engagement, a memorandum of understanding, the report, or other appropriate communication to the principal.

4.1.3 Determining adequacy of the scope of work

When providing professional services within the scope of this PG, the actuary should consider whether the scope of the professional services requested by the principal, and the information available in relation to the assignment, are adequate to enable the actuary to perform the requested professional services in accordance with this PG. If either the scope or the available information is inadequate, the actuary should consider advising the principal of what additional professional services or information are necessary, and:

1. Seek to obtain the additional information needed or change the scope of the assignment and obtain permission from the principal to perform such additional professional services as may be necessary to apply this PG;
2. Subject to there being a sound and defensible reason to do so, perform the requested professional services, but state in a report or other appropriate communication that, in the actuary's professional judgment, the information provided or the requested professional services were not sufficiently broad in scope to permit the actuary to perform the professional services in compliance with this PG; or
3. Decline the assignment.

4.1.4 Financial reporting requirements

To satisfy the requirements of those IFRSs relevant to the professional services to be provided by the actuary, the actuary should consider the following when appropriate:

1. Determine whether CONTRACTS issued by the reporting entity during this accounting period (and earlier, if applicable) have been examined and have been reviewed with respect to whether the requirements under IFRS have been met as to the treatment in whole or in part as insurance contracts, financial instruments or service contracts. Where a standard contract is issued, the actuary may rely on an examination or determination that has been performed in advance if the actuary is satisfied that appropriate controls were used;
2. Determine whether contracts are to be UNBUNDLED, and whether EMBEDDED DERIVATIVES, if any, are to be separated;
3. Determine the appropriate UNIT OF ACCOUNT(S) and measurement bases for such contracts and their COMPONENT or parts, as applicable;
4. Determine how DISCRETIONARY PARTICIPATION FEATURES have been treated;
5. Determine the manner in which LIABILITY ADEQUACY TESTING, the impairment of reinsurance asset test, recovery of deferred transaction costs, or testing for onerous contracts could be performed; and
6. Determine the information needed to comply with accounting disclosure requirements.

Subject to addressing material inconsistencies as outlined in 4.1.6, the actuary should consider conferring with the actuary's principal on the categorisation and measurement of the contracts, treatment of discretionary participation features, liability adequacy and other tests, and disclosure requirements for financial statement purposes.

Where the professional services required are narrower in scope, the actuary would apply professional judgment as to the specific nature and requirements appropriate for the assignment.

4.1.5 Knowledge of relevant circumstances

The actuary should consider becoming familiar with the applicable aspects of the history, processes, procedures and nature of the business operations of the reporting entity and its products, where needed, and apply the accounting measurement associated with the contracts of the reporting entity in accordance with its ACCOUNTING POLICY. In addition, the actuary should consider the extent to which the reporting entity has adopted IFRSs, the timing of such adoption, the accounting options selected, and the valuation date.

4.1.6 Material inconsistencies

If, while performing professional services or gaining knowledge of the relevant circumstances for completion of the professional services, the actuary becomes aware that information provided in the financial statement of the reporting entity contains material errors, omissions or double counting, or fails in another material manner to conform to the reporting entity's accounting policy, the actuary should inform the principal and, if the information in the financial statement has not been corrected, disclose that fact in the report or other appropriate communication.

In addition, where in the performance of the professional services the information is available, the actuary should consider whether the selection of the measurement bases for FINANCIAL ASSETS, FINANCIAL LIABILITIES or other items in the balance sheet from among those permitted under the IFRSs could result in materially misleading reported income or equity during the period. In such an event, the actuary should consider disclosing that information and its effect on income or equity in the report or other appropriate communication to the principal.

4.2 General requirements

4.2.1 Requirements of practice

In meeting the actuary's professional responsibility, the actuary indicates:

1. Whether the professional services provided by the actuary complied with applicable legal and regulatory requirements in the REPORTING JURISDICTION; and
2. Whether the actuary has kept current regarding applicable legal and regulatory requirements, recognised actuarial practice and financial reporting principles and standards of conduct, practice, and qualification in the applicable jurisdiction(s).

The applicable jurisdictions may include the jurisdiction of the Code(s) of Professional Conduct or other rule(s) under which the actuary is providing the professional services; the entity's reporting jurisdiction; and, if different, the jurisdictions in which the reporting entity's applicable business is located. For example, in a jurisdiction where the law requires a public OPINION of the actuary, the actuary needs to satisfy the requirements to sign such an opinion.

4.2.2 Qualifications

The actuary should consider not providing professional services if he or she does not have the appropriate qualification, relevant knowledge gained through basic and continuing education, and appropriate experience to successfully complete the assignment.

4.2.3 Communication of the actuary's role

Unless it is apparent from the circumstances, when providing professional services the actuary should consider communicating to the principal whether he or she is acting as an actuary in providing advice in accordance with statute, regulations, accounting guidance or actuarial professional guidance, rather than providing advice or expressing an opinion while acting in the capacity of an employee, officer, director or external adviser, as the case may be.

4.2.4 Deviation from standard of practice for purposes of compliance with law

When an applicable law conflicts with a PG, complying with such applicable law shall not be deemed a deviation from a PG, provided the actuary discloses in an appropriate communication that the professional services provided under the PG were performed in accordance with the requirements of such applicable law and identifies the way in which the actuary's professional services do not comply with the PG.

4.2.5 Deviation from standard of practice for other reasons

It is not considered a deviation from a PG if the effect of the deviation is not material. The actuary, in exercising professional judgment when determining the materiality of a deviation, should consider taking into account the level of materiality to the reporting entity.

An actuary who deviates from a PG for a sound and defensible reason other than described in 4.2.4 should consider explaining in an appropriate communication why the actuary chose to deviate from the PG and disclosing the effect of such deviation.

4.2.6 Preparation and performance of professional services

In performing professional services under a PG, the actuary should consider performing the following:

1. Requesting from the principal and review relevant information concerning the relevant circumstances surrounding the reporting entity and its financial statements;
2. Requesting from the principal relevant data and reviewing the data for sufficiency and reasonableness;
3. Selecting and using appropriate assumptions and methods;
4. Performing, or take responsibility for performing, the necessary calculations and examining the reasonableness of the results;
5. Making appropriate use of other persons' work, consistent with 4.2.9 and disclosing if the actuary is not taking responsibility for such work ; and
6. Formulating an appropriate opinion, if requested or required, and accompanying recommendations, if any.

In order to complete the above, the actuary may need to develop a documented work plan and timetable for the professional services.

4.2.7 Sufficient and reliable data

As part of providing professional services under a PG, the actuary would:

1. Identify the data needed, which includes determining the appropriate level of categorisation and stratification;
2. Obtain such data from the reporting entity's management;
3. Review the data obtained for completeness; and
4. Assess the reliability and sufficiency of the data obtained.

4.2.8 MODEL and assumptions

The actuary would:

1. Select models that are sufficiently comprehensive to reasonably represent known existing circumstances affecting the reporting entity;
2. Select assumptions to adjust for known material insufficiency or unreliability in the obtainable data if appropriate; and
3. Select other assumptions that may involve the legal, economic, demographic, and social environment on which the model and assumptions depend.

To the extent the actuary selects or takes responsibility for assumptions, the actuary should consider determining whether those assumptions are reasonable in the aggregate, including assumptions supplied by the reporting entity or mandated requirements.

The actuary should consider documenting the appropriateness of assumptions that he or she has selected or reviewed. Such documentation may include:

1. The basis for selection of the assumptions and any market calibration, loadings, or adjustments made in consideration of risk and uncertainty;
2. Available supporting data upon which the actuary relied in selecting the assumptions, for example, experience studies, pricing surveys, market surveys, and recent transactions; and
3. An assessment of the sufficiency and reliability of the supporting data and such assumptions selected by the actuary in reliance upon the data.

4.2.9 Use of the work of others, including other actuaries

In providing professional services under a PG, the actuary may rely upon the work of others, including that of other actuaries. The actuary should consider whether appropriate procedures are in place for the supervision or review of work not performed by the actuary but upon which the actuary intends to rely. Provided that using another person's work, and assumption of responsibility for it, does not constitute unauthorised practice in relation to the other person's profession, the actuary can rely upon the work of another if, in the actuary's professional judgment, such reliance is appropriate.

In determining whether to rely upon the work of another, the actuary should consider:

1. That person's qualifications;
2. That person's apparent competence, integrity, and objectivity;
3. That person's apparent awareness of how the work is expected to be used;
4. Communications between the actuary and that person regarding known information that is likely to have a material effect upon the other person's work;
5. The actuary's review of the person's report or available working papers; and
6. Satisfaction that the other person's work has been completed in accordance with relevant PGs.

If the work involves multiple jurisdictions, the actuary should consider differences in the law or recognised actuarial practice in the reporting jurisdiction compared to the requirements of the jurisdiction to which the other person satisfied when conducting the work.

If the actuary uses the other person's work but does not take responsibility for it, then the actuary should consider disclosing that fact in a report or other appropriate communication to the principal.

If an actuary is relying upon the work of another actuary for a portion of the WORK PRODUCT, for the purpose of applying a PG it is the responsibility of the actuary who issues the work product, and not the actuary who is relied upon, to determine whether the work product conforms to recognised actuarial practice and appropriate PG.

4.2.10 Materiality

The actuary should consider, based on his or her professional judgment, what is material for actuarial purposes from the perspective of the reporting entity and the INTENDED USERS of the work product, taking into account the purpose of the work product and the accounting policy of the reporting entity with regard to accounting materiality. The actuary typically should consider discussing the level of actuarial materiality with the reporting entity's management and the auditor before reaching this determination. The actuary should consider disclosing what is material for actuarial purposes in the report or other appropriate communication.

4.2.11 Controls

The actuary should consider the design and implementation of an appropriate control environment so that the professional services are performed as agreed in the engagement letter, memorandum of understanding or other communication and that calculations are done appropriately and in a timely manner. In particular, the actuary should consider if such control procedures include as applicable:

1. Appropriate tests of the completeness of the contract inventory of exposures, the determination of the adequacy of the required data, subdivision and tests of consistency with other data, and financial records of the reporting entity;
2. Appropriate approval by the actuary, and, where appropriate, the principal, of the selection of the models, data, and other assumptions, and confirmation of their application to the various blocks of business, with respect to reliability, completeness, and compliance with the PGs;
3. Appropriate validation of the calculations performed, including confirmation that appropriate data files have been used; and
4. Appropriate testing for reasonableness and comparisons with prior years have been completed and explained.

4.3 Report of the actuary's work

4.3.1 Requirement for a report

The actuary should consider providing the principal, or any person or entity designated by the principal, with a report or other appropriate communication describing the professional services provided. Where there is a requirement for an external report, the actuary should consider incorporating standard reporting language applicable to the work product in the reporting jurisdiction.

4.3.2 Coverage of the report

In the report the actuary would:

1. Identify the principal and the reporting entity;
2. Describe the scope of the assignment and the work product, the purpose, the intended users, and the actuary's role, if any, in the preparation of the reporting entity's financial statements;
3. Include a statement of findings;
4. Indicate whether the work has been performed in accordance with recognised actuarial practice and applicable PGs, and, if not, disclose material deviations from them;
5. Disclose those material aspects of the work product for which the actuary does not take responsibility;
6. Disclose the methods and assumptions used and known material changes in methods or assumptions, including the financial effect, if readily estimable, of such changes;

7. Disclose known material inconsistencies between the methods and assumptions of the current and immediately prior report;
8. Disclose known material events occurring during the period addressed in the work product that, in the actuary's professional judgment, had an unusual impact on the work product;
9. Describe known material subsequent events which have not been taken into account in the work product but that, in the actuary's professional judgment, could be considered and taken into account when reviewing the work product;
10. Disclose any material reservations regarding the work product;
11. Present other disclosures required by a PG;
12. Express an opinion on the results of the work if requested to do so by the principal or required to do so by law;
13. Include the identity of the actuary responsible for the work product and her or his signature if the work product is a written communication; and
14. Date the report.

Where standard reporting language is used in the work product, the descriptions or disclosures referred to above may be included in material referred to in the report, such as notes in the financial statements.

4.3.3 Documentation

The actuary's report may be supported by appropriate documentation in the form of work papers. The actuary's documentation may include not only the actuary's conclusions, but also a description of the process followed by the actuary to apply the requirements of a PG. As appropriate in relation to the scope of the professional services completed, such documentation may include:

1. A summary of the actuary's review of contracts;
2. Measurement basis used;
3. Treatment of discretionary participation features;
4. Liability adequacy or other tests;
5. Asset impairments;
6. The supporting information and criteria used to assess the appropriateness of the methods and assumptions and the calculation procedures used;
7. The controls that have been applied or reviewed by the actuary; and
8. Reliances used.

The actuary would, for a reasonable period of time, retain or maintain access to such documentation so that another appropriately qualified actuary could evaluate the reasonableness of the actuary's process of analysis under a PG.

4.3.4 Distribution to third parties

The actuary should consider what restrictions would be appropriate to place on the distribution of the report or extracts from the report to parties other than intended users or for purposes other than the stated purpose.

Appendix A – Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the International Actuarial Association's (IAA) draft PG, "Actuarial Practice When Providing Professional Services to Reporting Entities Concerning Financial Reporting of Insurance Contracts, Financial Instruments, and Service Contracts Under IFRSs." (*Actuarial Practice*)

Introduction

This Basis of Conclusions summarises the considerations of the IAA Subcommittee on Actuarial Standards of the Committee on Insurance Accounting in reaching the conclusions on the *Actuarial Practice* PG. Certain members of the committee gave greater weight to some of the factors than others.

Background

1. Prior to the widespread introduction of International Financial Reporting Standards (IFRSs), accounting practices for insurance contracts on an international basis have been diverse and have often differed from practices in other sectors. With the demutualisation of a number of insurance companies, consequent additional trading in insurance stocks, combined with a desire by the European Union to have a comprehensive set of standards for financial reporting for financial entities, securities commissions have pressed for an international basis to be developed.

2. IFRSs have historically excluded insurance contracts. The International Accounting Standards Board (IASB) decided to develop an IFRS on insurance contracts and amend a number of the other existing standards to include insurance contracts. Adopted March 31, 2004, the IASB published IFRS 4 to implement Phase 1 of its insurance contract project. The actual effective date for adoption of IFRS 4 and other existing standards has varied by reporting entity.

3. In light of these developments, the IAA established the Committee on Insurance Accounting's Subcommittee on Actuarial Standards to develop recommendations regarding PGs to assist members practicing in this field. This PG is part of the initial recommendations of the Subcommittee.

4. The PG provides the actuary with a practice guideline with respect to recognised actuarial practice under IFRSs, separate from technical guidance. The IFRSs provide guidance to issuers of financial statements that are issued in conformity with IFRSs. The PG addresses actuarial practice and provides a bridge between the actuarial technical guidance and the related professional services performed by the actuary in financial reporting under IFRSs.

The PG provides the link to the actuarial profession's professional standards and expected practice for its members.

5. IAA practice guidelines are educational in character.

6. The word "should" when used by itself has been used to indicate expected practice and would normally only appear in a Recommended Practice. (It has only been used in this PG in section 4.1.6 regarding material errors, etc. that do not conform to the reporting entity's accounting policy.) On all other occasions in this PG we have used the words "should consider" consistent with its educational nature.

7. Small capitalised letters are used when a defined term (in the Glossary) is first given.

8. It should be noted that the Subcommittee has recommended that the *Actuarial Practice* International Actuarial Standard of Practice (IASP) be classified as a class 4 IASP under the IAA international actuarial standards hierarchy, although it is currently the intention of the Subcommittee to re-evaluate this classification within two years from its adoption date as whether to recommend that the IAA should consider it to become a class 3 IASP It is important to note that a class 3 (Recommended Practice) status implies that the standard would then become recommended practice on an international basis. ("Actuaries would be expected to follow a recommended practice unless there were sound and defensible reasons for not doing so. Actuaries who do not follow the recommended practice should be prepared to give good account as to why it was felt appropriate not to follow the standard and should disclose the material aspects where they have departed from it. An IAA Member Association may choose to raise the recommended practice to a stronger type of standard in the local context.")

Title

1. The title has been selected to make it clear that it is not the intention of this PG to address IAS 19 requirements regarding employee benefits, although the IAA Pensions and Employee Benefits Committee is exploring the development of a similar PG for application to IAS 19.

The following provides more detailed bases for conclusions on some of the issues discussed in this PG. Reference to the specific paragraph is included in parentheses.

Interaction with local rules of professional conduct and local actuarial standards

Interaction of local rules of professional conduct and local actuarial standards with this PG is governed by the IAA Statues, the IAA "due process for international actuarial standards," the local rules of professional conduct, and local standards of practice.

1. In practice, when an actuary is asked to perform professional services, he or she will do so in the context of a reporting entity preparing a financial statement. It is instructive to consider a number of examples.

   - In the first and simplest example the reporting entity is incorporated within a specific jurisdiction, the reporting entity has no business outside that jurisdiction, the jurisdiction has accepted IFRSs without amendment, and the IAA Full Member association in that jurisdiction has not issued its own standard. In such a simple case the PG applies.

   - In a second, more complex example, the reporting entity has a number of subsidiaries, and the actuary deals with the consolidated financial statements of a number of related entities with business in numerous jurisdictions. The financial statements are being prepared under IFRS so the reporting entity can raise capital in numerous jurisdictions. It is noted that, because IFRS allows the use of many aspects of national accounting standards for insurance contracts under Phase 1, this implies there potentially are multiple approaches being consolidated. In relation to which actuarial standard applies, the involvement of multiple national methods would imply national standards would apply to the development of these national values but is not relevant to the reporting entity's overall financial statements. It can serve to make the matter more confusing if the IAA Full Member association in whose jurisdiction the reporting entity was incorporated has issued their own standard. However, as the financial statements have been prepared in accordance with IFRSs and there is no jurisdiction applicable in terms of its accounting policy, the PG would apply.

   - However, in a third example using the same situation as in the second example but in preparing the statements under IFRSs, the accounting policy elects to be bound by the laws and regulations in the jurisdiction in which it was incorporated. Assuming that the jurisdiction has accepted IFRSs without amendment and that jurisdiction had an IAA Full Member association that had issued a stronger standard, then the local actuarial standard would apply to the reporting entity. Note that different situations may apply to the subsidiary entities that may be preparing financial statements.

2. Given the multiple potential options, the PG has been designed to be applicable where the IFRS standard has not been amended and the PG not replaced in accordance with the due process by a stronger standard in the applicable jurisdiction. The PG is silent on this matter as it is governed by other documents.

3. The question arose as to how it would be determined whether an IAA Full Member association has implemented a stronger standard than the PG. There was concern regarding how a comparison of the PG with local standards would be performed. It was envisaged that the standards may be stronger or weaker in different ways, and, in any case, who is to say what constitutes strength or weakness in a standard? They may just be different. The IAA's Professionalism Committee, given the nature of the IAA, recommended that this judgment be left to the member association. It was thought that it would be unacceptable for an IAA Full

Member association to develop a standard that would prevent an individual member of that association from being able to comply with a PG, unless it was a matter of local law. Given that the PG provides for a law overriding the PG (section 4.2.4), this should not be an issue. If the local association has produced a standard that required something more than the PG, it is understood that the actuary would still be in compliance with the PG. The question of whether the actuary might have to comply with additional standards is a matter for the local association and the local standard, and not for the IAA and the PG.

4. A question arose as to if the actuary did not disclose that he or she had complied with the PG or a local standard. In the example, the actuary states that he or she has conformed to IFRS. Presumably someone would make a complaint to the national association to which the actuary is a member. That national association would make a determination as to which standard its member should have followed and if the member had appropriately conformed to that standard.

5. A further question arose as to the jurisdiction that the IAA Full Member association's standard applies to. It was thought that if this question arose in practice, it would be beyond the scope of the PG and would be addressed by the Professionalism Committee or another designated IAA body.

Scope (1)

1. The PG has been designed to apply to actuaries. It was recognised that an actuary may not be the only provider of these professional services in some jurisdictions. Although it was the view that the guidance would be appropriate for all practitioners, it was determined that specific reference to *practitioner* as opposed to *actuary* in this PG, which would provide guidance on the expected conduct of actuaries when practicing in this area, was not appropriate. *Practitioner* has been used in the technical standards.

2. In performing professional services, the actuary who is a member of one or more actuarial associations that are Full Members of the IAA, would in addition be bound by professional Code(s) of Professional Conduct or other rule(s) of those actuarial associations. The actuary could therefore be exposed to discipline by his or her IAA association(s) if its Code(s) of Professional Conduct or other rule(s) are not followed.

3. While the IAA believes this PG should be considered by whomever performs the professional services (actuary or not), it recognises that the professional requirements may not apply in all cases.

4. The scope of the PG has been structured to relate only to practice with respect to IFRSs. This includes applicable IASB-published international standards (IFRSs and IASs). The PG is not intended to relate to a specific applicable jurisdiction. For a reporting entity whose financial statement is subject to a specific jurisdiction, the IASB-published international standard could be amended by legislation or regulation in that jurisdiction. If such is the case and the

amended version applies to the reporting entity, then it would be expected that its accounting policy would identify that the financial statements have been prepared in accordance with a particular jurisdiction's standards and not IFRSs. In such a situation, this PG would not therefore be expected to apply in full. In addition, in accordance with the IAA Statutes and due process, this PG may be superseded where an IAA Full Member association has issued its standard.

5. *Professional services*, *financial reporting*, and *reporting entity* are defined terms. They have been chosen with the intended purpose to clarify the application of the PG. The term *professional services* is intended to restrict the application of this PG to work within the domain of recognised actuarial practice. The PG-defined term, *financial reporting,* is intended to cover professional services related to the preparation of financial statements and to cover related advisory or audit-related work, but exclude from its application such services as merger and acquisition work. The professional services to be performed will be determined by the nature and extent of the assignment. This has been reflected in the scope by reference to "part or all." *Reporting entity* is intended to relate the work to the entity for which the financial statement is being prepared. This could be a consolidated entity or could be a single company within a group.

6. The focus of this PG was naturally intended to be on insurance entities (who would normally issue insurance contracts), but would also be applicable in certain other cases in which IFRS is applied and on similar contracts issued by other entities, provided that the actuary has been requested to perform the professional services. For example, if a bank issued an investment contract, insurance contract or service contract for which an actuary was asked to perform relevant professional services, then that actuary would be expected to conform to this PG.

7. The actuary can perform professional services under the PG while acting in a number of different roles for the reporting entity. It is intended that this PG should apply irrespective of the status of the actuary in regard to the reporting entity. In this regard the actuary could be an employee, officer, director or an external adviser.

8. The need for separate sections in the PG regarding when an actuary is providing professional services in a reviewing role was discussed, such as when the actuary is serving in an auditor or peer review function. It was concluded that the same PG should apply in all situations and therefore no such provisions were included. However, within the scope and description of practice and requirements it has been recognised that the work to be performed may be a review of part or all of a financial statement as opposed to its preparation. The focus, however, is on the situation of the actuary as a preparer of a financial statement.

9. Recognised actuarial practice can have different meanings in different jurisdictions. For the purpose of the PG and the contemplated professional services to be provided, it was considered important that this should be clear. We have chosen to define a hierarchy that would constitute recognised actuarial practice for this purpose as outlined in the Glossary.

The intent is that the actuary would know what recognised actuarial practice is and when to disclose an approach that has not been performed in accordance with such practice.

10. There was a question as to whether *actuary* should be a defined term or defined by the IAA Code of Professional Conduct. It was determined that IAA observer/associate members will not necessarily have a Code of Professional Conduct, discipline process or their own standards of practice. In addition, some individuals have been grandfathered as individual members. As a result, it was decided to have *actuary* be a defined term and restrict it to IAA Full Members of associations that are Full Member associations of the IAA.

Specific requirements (4.1)

1. In discussing the question regarding potential conflicts with this PG, there was an expressed desire to subdivide this PG between what may be classified as general practice standards that would apply in other practice areas and specific requirements that would be related to IFRSs. It was recognised that the scope of some of the general practice standards would have to be narrowed when an actuary was working in this area and these should be included in this section as well.

2. The introduction of standards on international accounting raises some new questions for the IAA. On the one hand, the IAA Statute III *Principle of Subsidiarity* would have the local associations establish standards for their members to apply. On the other hand, there is a desire that the actuary's work be recognised in international arenas that might be enhanced if there were more consistency of practice on an international basis.

3. The expansion of the specific insurance requirements has been included in separate guidance. The guidance to specific insurance requirements is relatively new and anticipated to develop further over time.

Disclosure regarding professional services (4.1.1)

1. Given the varied circumstances outlined above as to when the PG would apply, the approach taken is to require the actuary to document which standard applies to the professional services being performed. In this case, it would be the PG.

2. The PG takes the approach that the actuary performing the professional services should disclose, in a report or other suitable communication, the Code(s) of Professional Conduct or other rule(s) under which the actuary is providing the professional services. The reason this approach was taken is that any complaint regarding an actuary would be the responsibility of the national association that the actuary is a member and his or her applicable Code(s) of Professional Conduct or rule(s). Usually a national association operates in a particular jurisdiction. The applicable jurisdiction for the professional services can vary as outlined in the prior section above regarding the application of the PG. In addition, the actuary performing the professional services may be performing outside the actuary's national

organisation's jurisdiction. Some actuaries are also members of more than one national organisations. Given this additional complexity, the approach selected was to require the actuary to disclose the Code(s) of Professional Conduct or other rule(s) such that if the principal had a concern regarding the professionalism of the member, the principal would know which organisation(s) might best be contacted.

3. One of the options considered was to require the actuary, in performing professional services under the PG, to be subject to the Code(s) of Professional Conduct or other rule(s) of the IAA member association in the reporting entity's reporting jurisdiction where applicable. In the case where no jurisdiction would apply and the actuary is a member of an IAA Full Member association, then in the absence of such applicable Code(s) of Professional Conduct or other rule(s), the actuary should comply with the Code(s) of Professional Conduct or other rule(s) of the actuary's primary IAA member association. This approach was not followed because of the difficulty in certain situations to be sure of the applicable jurisdiction and that this would address only IAA Full Member associations. In addition, the view was expressed that actuaries who are members of more than one association may have to comply with all such Codes of Professional Conduct.

4. Some are of the opinion that the reference to the Code of Professional Conduct is redundant, as any Full Member association of the IAA will automatically have a Code or rule that covers the actuary's conduct. Others are of the view that, because a number of the members of the IAA are not members of IAA Full Member associations and the intent is to establish international standards, they are subject to the IAA standards as a minimum international basis.

Clarity of nature and scope of the professional services to be performed (4.1.2)

1. It is considered recognised actuarial practice for the nature of the work to be clearly defined in an early state in providing professional services. Some questioned if this practice needs to be included here. Some have expressed the concern that this PG requires the actuary to complete certain activities when performing professional services that could involve additional work that the principal may not have considered in outlining the scope for those intended professional services. It has been included in part so that the actuary will be supported by the PG when such discussions are required. This paragraph should be read in conjunction with section 4.1.3 in determining the adequacy of the scope of work.

2. Situations were considered where the actuary's scope of work is limited to, for example, a single line of business or part of the calculation process. This paragraph should be read in conjunction with section 4.2.9 on the use of the work of others, especially the last paragraph, which addresses this issue.

3. Concern was raised with regard to whether documentation of the professional service is required if the actuary is in an employee situation of the reporting entity. The position taken

was that the actuary had this responsibility—whatever his or her relationship with the principal.

4. However, it was recognised that the documentation necessary can be far less formal than a letter of engagement. In order to address the situation where the nature of the scope is very narrow, this requirement needed flexibility. Rather than requiring the documentation be provided before the commencement of the professional services, which continues to be viewed as good practice, it was broadened to allow documentation to be provided with the report.

Determining adequacy of the scope of work (4.1.3)

1. This has been included to ensure that appropriate professional services are provided so that the quality of the work product will meet applicable IFRS rules and professional codes and standards.

2. This section is included particularly to implement section 4.1.2. There were differing views on the position that should be taken if the principal resists the actuary from including the additional work necessary to assure compliance with the PG.

3. The approach adopted was to leave to the actuary's judgment the best way of addressing any problems that may arise. The actuary is not required to withdraw but is required to document any limitation on the work performed and the subsequent result. This places an obligation on the actuary to be specific about how the potential inadequacy and its potential effects are expected to be when including such a limitation in the report.

Financial reporting requirements (4.1.4)

1. When considering the specific requirements, the context of the professional services arose. These are areas where the actuary generally has specific expertise and to perform the role adequately needs to ensure that the terms of the scope of the assignment would not be limited in a way that would prejudice his or her ability to complete work to an appropriate professional standard.

2. While the requirements appear appropriate in the context of the full financial statement, they could prove to be onerous if the scope of the project was narrower than that. This was overcome by providing the context based on the full scope of the PG and providing relief subject to the actuary's professional judgment when the scope was narrower or the nature of the scope was different, such as in the case of audit work.

3. Concern still arose with regard to the examination of all contracts issued in the period covered. The wording was not changed, as the PG provides for delegation of work in section 4.2.9 and covers a deviation that is not material in section 4.2.5.

Material inconsistencies (4.1.6)

1. The obligations of the actuary to identify if material inconsistencies exist when he or she reviews the material to perform the professional services within the scope of the services have been discussed. This matter has been particularly problematic given the potential for inconsistent measurement of assets and liabilities under IFRS during Phase 1.

2. The approach adopted has been to require the actuary on becoming aware of an inconsistency to inform the principal of it. However, this has been constrained in that it must be material and the actuary is not expected to go on a fishing expedition and step outside the scope of the professional services for which he or she has been engaged.

3. Some have questioned, given the fact that IFRSs have gone through the IASB due process, whether the actuary should be placed in the position to identify situations that would result in materially misleading income or equity if the reporting entity is in compliance with the IFRSs. The intent is not to question the IFRSs. However, the IFRSs have provided management with certain options, as it has incorporated a mixed measurement approach to assets and liabilities. If management selections result in creating materially misleading income or equity, this needs to be drawn to the attention of the principal. In addition, there may be other issues that the actuary may identify which without her or his expertise would not be apparent to the principal.

General requirements (4.2)

1. The approach adopted for this section has been to separate the general requirements of the actuary from those that apply to the specific accounting requirements involved. The purpose of this was to facilitate the potential of including other areas at a later time.

2. Expansion of the general requirements has been included in this PG. The expansion of the general guidance in some countries is well developed while in other countries it is not as well developed.

3. Additional discussion of special issues on these sections is included below.

Requirements of practice and qualifications (4.2.1 and 4.2.2)

1. In the purpose section, reference is made to the PG providing guidance for all applicable preparers. While it would be expected that Full Member associations would cover these requirements in their Code(s) of Professional Conduct or other rule(s) for a non-actuary or possibly the members of some IAA associations that are not yet Full Member associations, they may not. Given the desire to ensure that the quality of work meets expectations, these two sections have been included.

2. Another reason for including this reference was to position the PG so that this PG could be the only additional guidance within the IASB approach. The IASB may wish this guidance to be followed by all those preparing applicable financial statements.

3. It was questioned whether in the context of the PG the actuary has to be familiar with all IFRSs and IAS documents or only those that are directly relevant to the professional services provided. This has been structured as a general requirement to better ensure that the actuary should have the knowledge needed to perform the professional services he or she has accepted as an assignment. The concern raised was how does the actuary determine what is relevant to the situation if he or she is not aware of all relevant IFRSs. The selected approach was to leave the judgment of relevance to the actuary.

Communication of the actuary's role (4.2.3)

1. It is considered recognised actuarial practice that, when the actuary is providing professional services in accordance with the PG, it should be clear whether the advice is being provided in accordance with the PG or if the actuary is providing the advice in another capacity. Some questioned if this needs to be included. The position taken was that it should be included but if obvious it does not have to be re-emphasised.

Deviation from standard of practice for purposes of compliance with law (4.2.4)

1. The position taken with regard to the situation in which a jurisdiction's applicable law was in conflict with the accounting standard is that the financial statement has not been completed in accordance with IFRSs. Because the PG operates only in conjunction with IFRSs, this situation is not addressed in the PG. However, the situation may arise that there is no conflict with IFRSs, but the applicable law may conflict with the PG.

Deviation from standard of practice for other reasons (4.2.5)

1. The approach taken was first to define what did not constitute a deviation. It was agreed that a practice that was not material by definition would not constitute a deviation.

2. Once that was established, a concern remained that, given the particular circumstances of the situation, the actuary may determine that in her or his judgment, a deviation from the PG is justified. Given the variety of businesses and countries that exist, it was considered necessary to consider this possibility. It was determined that this was better addressed through disclosure. It should be noted that the wording used here is taken from the class 3 wording in the "due process for international standards" published by the IAA Professionalism Committee.

3. This approach is consistent with the approach taken by a number of countries with respect to such a situation.

Preparation and performance of professional services (4.2.6)

1. Concern arose regarding whether all the requirements would be too onerous for an actuary who is an employee of the reporting entity. In addition, routines are often regularly followed because financial reporting work in reality is often conducted on a monthly, quarterly, or annual basis. To address this concern, it was decided that the requirement to develop a plan and timetable should not be a requirement, but rather should reflect the needs of the situation faced.

Sufficient and reliable data (4.2.7)

1. It has been questioned whether the actuary can rely on the auditor to perform the assessment of reliability and sufficiency of the data. If the actuary selects this approach, the PG provides guidance in section 4.2.9 as to how to delegate such work and how to determine if the actuary can rely on that work. The actuary would retain the responsibility to assess if it is adequate to provide the professional services.

Model and assumptions (4.2.8)

1. The actuary is required to document the appropriateness of assumptions that he or she has selected. It is possible that management has selected a result that is within the range of what the actuary considers acceptable and the actuary may not have assumptions to support the actual number filed. The PG looks to the actuary to document the assumptions he or she selected, which presumably would span management's selected result.

2. It has been questioned whether all types of assumptions should be considered and if some priority among them should exist. The intent was not to prioritise or exclude any assumptions. Guidance on the selection of current estimates has been covered in a separate PG.

Materiality (4.2.10)

1. In performing professional services, the actuary must apply a level of materiality to items he or she is considering. While needing to be consistent with accounting material used in the preparation of a financial statement, it may well be different in amount and nature.

2. To address these issues, the approach taken was to require the actuary to determine the appropriate materiality, discuss it with the entity's management and auditor and to document the level applied.

Controls (4.2.11)

1. Actuarial practice currently differs by country as to the obligation for the actuary to take

responsibility for controls on the professional services performed. The approach adopted has been to include a section that clearly states the actuary's role in this regard.

Report of the actuary's work (4.3)

1. Actuarial practice can differ by country as to the obligation for the actuary to report and document the professional services performed. The approach adopted has been to include a section that clearly states the expectations on the actuary in this regard.

2. A concern was raised that the principal may not be the person who would receive the report. In particular, the concern raised was that the regulator in a particular jurisdiction could call for a report to be obtained by the reporting entity.

3. The identification of who are the intended users of the report has been questioned. The position expressed is that the actuary should include in his or her report a description of the scope of the assignment, the purpose of the work and its intended users. This should permit non-intended users to assess its appropriateness with respect to their needs and thereby avoid unintended use of the work product. In the case of a report intended for an internal user and not intended for other potential users, it may be appropriate to abbreviate or even provide only an oral report with respect to the work performed. Nevertheless, it is good practice to confirm an oral report in writing.

4. The approach adopted was to indicate that the intended users should be identified in the report, but not to include a suggestion that the actuary would restrict the use of the report by others.

5. The approach adopted included the disclosure of compliance with the PG. If an applicable standard of actuarial practice adopted by an IAA Full Member association has been followed, then the disclosure requirements would be included in that standard and should at least include similar disclosure. However, no requirement has been included to indicate where the local version would materially generate different amounts than the version approved by the IAA. This would have to be addressed by the IAA Full Member association standard.

6. The obligation is placed on the actuary to include the disclosures required by the PG within his or her report only.

7. The IFRSs require disclosure in the financial statement regarding the financial implications of certain significant risks and contingencies to which the reporting entity has been exposed. The obligation of the actuary in section 4.1.4 is only to determine the information needed to comply with accounting disclosure requirements. Work that the actuary would do in this regard would have to be included in the scope of her or his professional services and would be included in the statement of findings in the report.

Appendix B – Relevant IFRSs

The most relevant International Financial Reporting Standards and International Accounting Standards for this International Actuarial Practice Guideline are listed below.

- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 18 Revenue
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property
- IFRS 1 First-Time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations
- IFRS 4 Insurance Contracts

In addition, the IASB *Framework* is relevant.

Appendix C – List of terms defined in the Glossary

Accounting policy
Actuary
Cedant
Component
Contract
Discretionary participation feature
Embedded derivative
Financial asset
Financial instrument
Financial liability
Financial reporting
International Accounting Standard (IAS)
International Accounting Standards Board (IASB)
International Actuarial Association (IAA)
International Actuarial Standard of Practice (IASP)
International Financial Reporting Standard (IFRS)
International Financial Reporting Standards (IFRSs)
Insurance contract
Insurer
Intended user
Issuer
Liability adequacy testing
Model
Opinion
Practice Guideline (PG)
Principal
Professional services
Recognised actuarial practice
Reinsurance contract
Report
Reporting entity
Reporting jurisdiction
Service contract
Unbundled
Unit of account
Work product