Institute and Faculty of Actuaries

Financial Reporting Council

July 2014

Actuarial Standards

A Statement by
The Financial Reporting Council and
The Institute and Faculty of Actuaries

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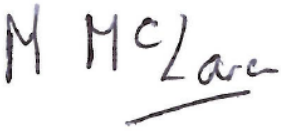
Foreword

It is now eight years since the establishment of the current framework for actuarial regulation in the UK. This statement explains how the Financial Reporting Council and the Institute and Faculty of Actuaries carry out their different functions and responsibilities in relation to the setting of standards for actuaries and sets out how each intends to develop these. Its audience is the actuaries who are subject to the standards we set, users of their work and other stakeholders interested in high quality actuarial information.

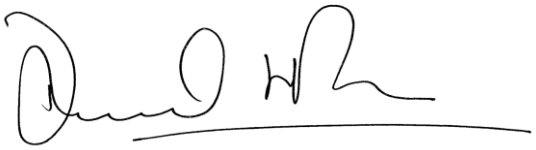
We hope that it is helpful and would welcome feedback.

Financial Reporting Council



Executive Director, Codes and Standards

Institute and Faculty of Actuaries



Chair, Regulation Board

24 July 2014

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1 Introduction

1.1 This statement on actuarial standards by the Financial Reporting Council (FRC) and the Institute and Faculty of Actuaries (IFoA) follows a review of actuarial regulation conducted by the FRC in 2013, in which the IFoA participated.

1.2 The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

1.3 The IFoA is a professional membership body incorporated by Royal Charter. Its object is, in the public interest, to advance all matters relevant to actuarial science and its application and to regulate and promote the actuarial profession.

1.4 The purpose of this document is to:

- provide an update on the conclusions of the 2013 review relating to actuarial standards (section 2);
- set out common principles which the FRC and IFoA follow in setting actuarial standards (section 3);
- explain how more flexibility will be introduced into the standard-setting framework (section 4);
- recognise international developments (section 5); and
- set out the next steps we envisage in the development of actuarial standards (section 6).

Related consultations

1.5 The FRC intends to consult on a set of high-level principles to cover all actuarial work, and revisions to its technical actuarial standards for specific work.

1.6 The IFoA is currently consulting on proposals for a new Actuarial Profession Standard (APS), *APS X1: Applying standards to actuarial work*, which will set out how members should apply standards to their work both in the UK and internationally. This will be an important aspect of the IFoA's strategy for ensuring the international coherence of its regulatory framework.

1.7 The IFoA is also carrying out a review of its standards framework and intends to issue a consultation paper seeking input. It will take into account comments received in response to this statement and will highlight and invite views on areas where further work may be required. That consultation paper will be issued in Autumn 2014.

2 2013 Review of Actuarial Regulation

Background

2.1 Within the UK the IFoA sets ethical standards for its members, subject to FRC oversight, and the FRC sets technical actuarial standards (TASs) for certain actuarial work. The IFoA requires its members to observe the TASs under the terms of a Memorandum of Understanding (MoU) between the IFoA and the FRC. This arrangement was established following the Morris Review in 2005 (an explanation of that review is set out in Appendix A).

2.2 The IFoA retains responsibility for setting professional standards (both ethical and technical) for its members' activities where the work falls outside the geographic scope of the TASs ie in broad terms, outside the UK. In this statement the geographic scope of the TASs is referred to as the UK Geographic Scope.

2.3 In 2013 the FRC carried out a review of actuarial regulation with the participation of the IFoA. The review considered whether the framework for the regulation of actuaries and actuarial work in the UK public interest remained appropriate and adequately addressed the risks of poor quality actuarial work.

2.4 The review concluded that the current model provided by the Morris Review in terms of standard-setting remained sensible, and identified ways in which the current arrangements might be improved.

Conclusions

Standard-setting responsibilities

2.5 The conclusions of the review relating to the two bodies' respective standard-setting responsibilities were that:

- the FRC should continue to set TASs for actuarial work carried out within the UK Geographic Scope;
- the IFoA should continue to be responsible for setting ethical standards for all of its members, and for technical standards to be applied by its members carrying out work outside the UK Geographic Scope; and
- there should be mechanisms to permit more flexibility in relation to the IFoA's and FRC's respective standard-setting roles so that, in appropriate circumstances, the FRC can, with the IFoA's agreement, include ethical material in its TASs and the IFoA can, with the FRC's agreement, produce technical guidance.

FRC's reserve ability to issue ethical standards

2.6 It was agreed that further steps would be taken to implement the recommendation of the Morris Review that the FRC should have a reserve ability to issue ethical standards in certain circumstances.

2.7 It was agreed that the FRC would only use this ability when it reasonably considers that action is necessary in the public interest and after it has consulted with the IFoA and given the IFoA reasonable opportunity to address the matter. It was further agreed that this would be set out in the MoU between the FRC and IFoA (as explained in paragraph 4.14).

Technical Actuarial Standards

2.8 The FRC should develop proposals to restructure the TASs so that there are:

- high-level principles which are recognised as applicable across actuarial work; and
- more narrowly focused specific standards where there is a need for additional requirements in the public interest beyond the high-level principles and the requirements of the IFoA and the statutory regulators.

Joint Forum on Actuarial Regulation (JFAR)

2.9 The FRC should establish a Joint Forum on Actuarial Regulation (JFAR) to enhance senior management collaboration between the FRC, IFoA, Prudential Regulation Authority, Financial Conduct Authority and the Pensions Regulator concerning actuarial matters.

2.10 The JFAR was established in 2013 with a remit to coordinate regulatory responses to public interest risks relating to actuaries and/or actuarial work, and will amongst other things:

- seek to identify known and emerging risks relevant to the public interest and agree how to respond to them; and
- provide input to and comment on the need for and content of changes to relevant ethical and technical standards.

International Developments

2.11 As an international membership body and member of the International Actuarial Association and the Actuarial Association of Europe the IFoA is closely involved in the development of model international actuarial standards.

2.12 These model international actuarial standards have the potential to affect actuarial practice in the UK and the framework for actuarial standards that supports it. The FRC therefore also wants to influence their development consistent with the principles and vision for actuarial standard-setting as set out in Section 3. The FRC will also assess against those principles each model standard after its publication considering whether a change is required to the FRC's actuarial standards and if necessary how best to implement that change.

2.13 It was agreed that the FRC and the IFoA would work closely together to influence the development of international standards. International developments and the IFoA's and FRC's position in relation to international standards are considered in section 5.

3 Principles and vision for actuarial standard-setting

3.1 In this section, we describe the principles that the FRC and IFoA apply when setting standards, in the public interest; both in terms of deciding to introduce standards or amend existing standards and in determining their form and content.

Shared principles

3.2 The FRC and the IFoA are committed to implementing outcome-focused regulation and consider that regulatory intervention should be targeted primarily at areas where the risk to the public interest is greatest.

3.3 Both the FRC and the IFoA have regard to the principles of good regulation (known sometimes as the Hampton Principles)[1].

3.4 The principles that guide FRC decisions about when to introduce, amend or withdraw a code, standard, guidance or other similar material are described in its *Principles for the development of Codes, Standards and Guidance*[2].

3.5 In determining whether to take regulatory measures and, having decided to implement measures, how such measures should be developed the IFoA follows the objectives, principles and criteria set out in its *Regulatory Strategy*[3].

Shared Objectives

3.6 The FRC and IFoA have also agreed that there are particular shared objectives that should be considered when issuing codes, standards and guidance. These are intended to enhance the accessibility of the standards for members and users, and to ensure appropriate integration and cohesion between our respective standards frameworks, from a practical perspective.

3.7 Those objectives are that codes, standards and guidance will be:

- **consistent** – the IFoA and FRC will, where practicable, seek to use a consistent style and lexicon across their codes, standards and guidance;
- **clear** – they will follow a simple, coherent and understandable structure and form; and
- **concise** – they will avoid unnecessary words and duplication.

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[1] The good regulation principles require regulation to be:

- proportionate – undertaken only to the extent necessary and appropriate to address the risk
- accountable – justifiable and open to scrutiny;
- consistent – coherent and implemented fairly;
- targeted – focused on identified problems so as to minimise side effects; and
- transparent – clearly articulated and readily comprehensible.

[2] https://www.frc.org.uk/FRC-Documents/FRC/About-the-FRC/Principles-for-the-development-of-Codes.pdf

[3] http://www.actuaries.org.uk/research-and-resources/documents/professional-regulation-executive-committee-2012-regulatory-strat-2

4 Arrangements for standard-setting

4.1 As stated in 2.5, one of the conclusions of the 2013 Review of Actuarial Regulation was that the IFoA's and FRC's respective standard-setting responsibilities should continue as before but that there should be scope, by agreement, for more flexibility in the way in which those responsibilities are discharged. This arrangement is explained further in 4.3 – 4.11.

4.2 Separately, as stated in 2.6 – 2.7, it was agreed that further steps would be taken to implement the recommendation of the Morris Review that the FRC should have a reserve ability to issue ethical standards in certain circumstances, when it reasonably considers action to be necessary in the public interest. This arrangement is explained in 4.12 – 4.13.

Ethical content included in FRC technical standards

4.3 One conclusion of the review was that there should be a mechanism so that, in appropriate circumstances, the FRC could, with the agreement of the IFoA, include ethical material in its TASs.

4.4 Circumstances in which the IFoA may agree that ethical material should be included in FRC TASs might include (but are not limited to):

- when the FRC is producing a Specific TAS for a category of actuarial work for which the IFoA does not propose to issue a standard;
- when the FRC is producing a Specific TAS in response to an international standard which contains ethical matters; and
- when the FRC is producing a Specific TAS in respect of actuarial work which may or may not be undertaken by IFoA members, and it is important to have a standard with broader applicability.

4.5 Such circumstances would be subject to the agreement of the IFoA, recognising its responsibility for setting ethical standards and guidance. It would also only apply in relation to work carried out within UK Geographic Scope (the IFoA being responsible for setting technical standards for its members in relation to work carried on outside UK Geographic Scope).

Technical guidance issued by the IFoA

4.6 Another conclusion was that there should be a mechanism so that the IFoA could, with the agreement of the FRC, issue technical guidance.

4.7 Circumstances in which the FRC may agree that the IFoA should develop technical guidance for its members might include (but are not limited to):

- where the introduction of additional technical guidance from the IFoA is an appropriate way to address the needs of users;
- where there is a need to supplement a Specific TAS and other legal and regulatory requirements in light of special factors prevailing in a particular area of actuarial work that are not addressed in the Specific TAS; and
- additional guidance on matters that are covered by a Specific TAS is considered necessary and preferable to amending the Specific TAS.

4.8 Such circumstances would be subject to the agreement of the FRC and it being satisfied that the guidance will support practitioners in following the TASs.

4.9 The IFoA remains responsible for issuing technical guidance for members carrying out work outside the UK Geographic Scope.

Processes in relation to flexibility in standard-setting

4.10 The FRC and IFoA will establish processes to enable the FRC to include ethical material in its TASs and for the IFoA to issue technical guidance.

4.11 Both bodies recognise that these arrangements have the potential to lead to conflicts between standards, a lack of coherence between standards, and areas of overlap or risks of gaps. However the FRC and IFoA consider that the risk of exercise of the increased flexibility leading to any of these issues is minimal because:

- the arrangements will only apply where there is good reason either for including ethical content in a TAS issued by the FRC rather than in a standard issued by the IFoA, or for the issue of technical guidance by the IFoA rather than the FRC;
- the arrangements would only apply when the other organisation agrees it to be appropriate; and
- there will continue to be good communication between the organisations on the content and nature of the standard or guidance.

FRC's reserve ability to issue ethical standards

4.12 One further conclusion of the review was that further steps would be taken to implement the recommendation of the Morris Review that the FRC should have a reserve ability to issue ethical standards in certain circumstances.

4.13 It was agreed that the FRC would only use this ability when it reasonably considers that action is necessary in the public interest and after it has consulted with the IFoA and given the IFoA reasonable opportunity to address the matter.

Revised Memorandum of Understanding

4.14 The FRC and IFoA have updated their MoU to reflect these conclusions of the review. The following has been inserted into the MoU:

The FRC may include ethical requirements in its technical actuarial standards, or set its own ethical standards, where:-

(i) it is acting with the agreement of the IFoA; or

(ii) the FRC reasonably concludes that the IFoA's existing and proposed ethical standards will not adequately address the public interest, or any aspect thereof, in the United Kingdom. Before proceeding upon the basis of this paragraph, the FRC will notify the IFoA of its reasons and give the IFoA a reasonable opportunity to address the concern (including, for example, through proposed changes to its standards) and to make representations.

The IFoA is committed to publicising standards issued by the FRC in accordance with this Memorandum of Understanding and requiring those members to whom such standards are intended to apply to observe them.

The IFoA may, with the agreement of the FRC, issue non-mandatory technical guidance for its members. The FRC may require the IFoA to demonstrate that the technical guidance will support its members' compliance with FRC standards.

5 International Developments

5.1 The International Actuarial Association (IAA) is the worldwide association for professional actuarial associations and the Actuarial Association of Europe (AAE) is the European association for such associations. The IFoA is a full member of both associations.

5.2 The IAA and AAE are developing international model standards, which cover both ethical and technical matters, for consideration and possible adoption or endorsement by actuarial standard-setting bodies and national associations. The aim is to promote high quality, consistent actuarial practice across national borders.

5.3 The IFoA has a direct interest in these model standards in its capacity as an international membership body and as a member body of the IAA and the AAE. The FRC, although not a member of either of these international associations, has an interest in their standard-setting work in terms of its standard-setting role in relation to UK actuarial work and its oversight role in relation to the IFoA.

5.4 Both the IFoA and the FRC are committed to engaging with the IAA and AAE in relation to their work developing model actuarial standards.

5.5 A more detailed explanation of the IAA's and AAE's objectives and of their model standards is set out in Appendix B.

ISAP 1: Statement of Substantial Consistency of UK Actuarial Standards

5.6 The first model standard issued by the IAA is *International Standard of Actuarial Practice 1: General Actuarial Practice*. It is a model standard which covers both ethical and technical matters; therefore, for the purposes of actuarial work in the UK, it falls to both the IFoA and FRC to consider the position in relation to that international standard. For work outside the UK it falls solely to the IFoA to consider its position.

5.7 The position of the IFoA and FRC is that, subject to the implementation of a number of current proposals in relation to their respective existing standards, the existing UK actuarial standards frameworks will be substantially consistent with ISAP 1, and that UK actuarial work which complies with those standards can be treated as substantially complying with ISAP 1.

5.8 The current proposals that should ensure this substantial consistency are the IFoA's proposal to introduce a standard on peer review (*APS X2: Actuarial Quality and Peer Review*) and the FRC's proposal to introduce high-level principles applicable to all actuarial work.

5.9 This means that, subject to the implementation of these proposals, members of the IFoA who apply IFoA and FRC standards will, in the opinion of the IFoA and FRC, be substantially compliant with ISAP 1.

5.10 The IFoA is separately publishing proposals designed to address the position of IFoA members not subject to the FRC's standards (because they are working outside UK Geographic Scope). It proposes that all members should be required to carry out work in a way that complies with ISAP 1, but that this may be achieved in a number of different ways, including by the application of ISAP 1 itself, or by the application of other relevant professional standards which, considered collectively, are substantially consistent with ISAP 1 such as the combination of the Actuaries' Code and the FRC's high-level principles. The IFoA proposes to introduce a new standard on this subject

(*APS X1: Applying standards to actuarial work*) which is discussed in paragraphs 6.9 – 6.14.

Other international developments

5.11 The AAE is planning to introduce a number of model actuarial standards that would apply to actuarial work concerning matters that apply in Europe.

5.12 Both the IFoA, as a member of the AAE, and the FRC, as the body with responsibility for setting technical actuarial standards in the UK, are also engaging with the AAE in relation to the development of those standards.

5.13 The AAE model standards are explained further in Appendix B.

6 Next Steps

6.1 There are a number of steps which the IFoA and FRC will take in relation to the matters described in this statement, both jointly and separately.

Financial Reporting Council

6.2 The FRC intends to consult on changes to its standards framework which include:

- high-level principles which are recognised as applicable to all actuarial work; and
- more narrowly focused specific TASs where there is a need for additional requirements in the public interest beyond the high level principles and the requirements of the IFoA and the statutory regulators.

6.3 These changes will simplify and improve the structure of the TASs. Applying the high-level principles to all actuarial work will help to ensure that users can be confident that actuarial work meets minimum quality standards.

6.4 The FRC intends to use the output from the JFAR's work on risk identification to support its development of the specific TASs.

Institute and Faculty of Actuaries

Standards Framework Review

6.5 The IFoA is reviewing its standards framework and intends to issue in the autumn a detailed consultation paper on that review and the areas where further work is proposed.

6.6 The review will involve:

- clarifying and mapping the existing standards framework for the IFoA;
- reviewing that framework and measuring it against (1) principles that guide regulatory decision making by the IFoA and (2) input from practitioners and others;
- clarifying the approach of the IFoA to presentation and form of its regulation;
- identifying areas where there might be further work required in order to address any gaps, overlap or unnecessary regulation; and
- consulting with members on that review and the area identified for further work.

6.7 It is not proposed that any draft standards are included as part of the identification of gaps. Instead, where there are gaps identified those would be passed to appropriate committees/working parties to consider the matter further and develop specific measures.

6.8 It is also intended that there will be clarification about the form and structure of the IFoA's regulatory framework and about areas where there might be improvement in that regard.

Proposed APS X1: Applying standards to actuarial work

6.9 The IFoA is separately consulting on proposals to introduce a new APS relating to the regulatory requirements that are applicable to members carrying out actuarial work, both in the UK and overseas (to be known as APS X1).

6.10 The proposals aim to set out a range of principles for members to apply to assist with determining which set of standards they ought to apply in their particular circumstances and would be accompanied by a guide.

6.11 The APS is intended to apply an equivalent standard of regulatory requirements to all of the IFoA's members regardless of where they are located.

6.12 For those who are carrying out work which is outside the UK Geographic Scope (and therefore outside the scope of the FRC's TASs) the APS proposes particular requirements that those members carry out work in a way that complies with ISAP 1. The APS also introduces requirements relating to the application of local 'Recognised Standards' (those issued by full IAA members) which are consistent with ISAP 1 and a duty to exercise reasonable judgement to consider any other relevant standards that might apply.

6.13 The aim is that all members will be working to the same equivalent minimum level of standards: whether they are applying the frameworks of standards applicable in the UK (so the IFoA's standards framework and the FRC's technical standards framework) which are substantially consistent with ISAP 1, or complying with ISAP 1 directly, or an overseas standards framework which is substantially consistent with ISAP 1.

6.14 The proposals on APS X1 are set out in the consultation package which is available at http://www.actuaries.org.uk/research-and-resources/documents/aps-x1-applying-standards-actuarial-work-consultation-package.

7 Invitation to Comment

7.1 The FRC and IFoA would welcome views on the contents of this document.

7.2 In order to simplify the process, the FRC will provide a single point of contact for responses on behalf of the FRC and IFoA and any feedback received will be shared with both organisations.

7.3 Feedback should be sent by email to FRC-IFoA.standards@frc.org.uk

or in writing to:

Statement on Actuarial Standards
c/o Faye Dyce
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8th Floor
125 London Wall
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A ROLES OF THE FRC AND IFOA

Morris Review

A.1 In March 2004, the Government asked Sir Derek Morris to undertake an independent review of the actuarial profession. This followed Lord Penrose's Inquiry into the Equitable Life, which highlighted a number of concerns with the profession.

A.2 The Morris recommendations in terms of standard-setting[4] provided that:

- *the Financial Reporting Council (FRC), in consultation with the Institute and Faculty of Actuaries, should establish an Actuarial Standards Board;*
- *the remit of the Actuarial Standards Board should be to set technical standards, which are broadly equivalent to the Profession's existing guidance notes and largely relate to specific actuarial roles and functions;*
- *the Profession should continue to set ethical standards, which are broadly equivalent to the existing Professional Conduct Standards (PCS), subject to oversight by the Professional Oversight Board for Accountancy[5] (POBA);*
- *the Actuarial Standards Board should have reserve power to issue ethical standards if either:*
  - *(i) POBA has concerns about the quality of the Profession's ethical standards; or*
  - *(ii) the Actuarial Standards Board believes it to be appropriate.*

A.3 Following the Morris Review, in 2005 HM Treasury asked the FRC to assume responsibility for independent oversight of the actuarial profession and setting technical actuarial standards.

A.4 The FRC has exercised these functions since 2006 on the basis of voluntary arrangements with the IFoA, the insurance and pensions industries and the sectoral statutory regulators, underpinned by statutory recognition of the FRC's functions in the Companies (Audit, Investigations and Community Enterprises) Act 2004 and in other regulatory requirements.

A.5 Under arrangements, set out in a MoU, the FRC and the IFoA seek to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession – to the benefit of all those who rely on actuarial advice or who are affected by actuarial advice. The arrangements also support mutual efforts to enhance public respect for, and confidence in, the IFoA and its members.[6]

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[4] *Morris Review of the Actuarial Profession: Final Report* Chapter 6.

[5] Also part of the FRC.

[6] There is a separate agreement between the FRC and the IFoA in relation to arrangements for investigation and discipline in public interest cases. The IFoA remain responsible for disciplinary cases which do not raise matters affecting the public interest.

The role of the FRC

A.6 The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. In fulfilling this responsibility it seeks to promote market, investor and public confidence in the integrity, competence and transparency of the actuarial profession in the UK.

A.7 This is delivered through:

- setting technical actuarial standards for actuarial work that apply within the FRC's jurisdiction;
- oversight of the way in which the IFoA exercises its regulatory responsibilities in relation to its members in the UK – the FRC undertakes an annual programme of work to discharge its oversight responsibilities, established in consultation with the IFoA, and may initiate additional action if necessary; and
- an investigation and discipline scheme in relation to matters involving members of the IFoA which raise or appear to raise important issues affecting the public interest in the UK.

A.8 Recognising the Morris Review's final recommendation concerning standard-setting and as explained at paragraphs 2.6 – 2.7, the FRC and IFoA have updated the MoU and have agreed to establish procedures to enable the FRC to exercise a reserve ability to issue ethical standards in certain circumstances.

The role of the IFoA

A.9 The IFoA is a professional membership body incorporated by Royal Charter. Its object is, in the public interest, to advance all matters relevant to actuarial science and its application and to regulate and promote the actuarial profession.

A.10 Its regulatory role includes:

- setting ethical standards with which its members must comply including the Actuaries' Code and Actuarial Profession Standards (APSs);
- maintaining a practising certificate regime for its members holding "reserved roles" demonstrating that an actuary who holds a certificate is fit and proper and has the necessary skills and experience to carry out reserved work, thereby protecting the public interest; and
- operating a discipline scheme to consider matters involving misconduct by its members (other than public interest cases dealt with under the FRC Scheme).

B THE IAA'S AND AAE'S INTERNATIONAL STANDARDS OF ACTUARIAL PRACTICE

IAA

B.1 The IAA's objective[7] in developing model actuarial standards is to promote high quality actuarial practice globally.

B.2 In setting its priorities it is responding to international regulatory and legal developments such as:

- International Association of Insurance Supervisors (IAIS) – Insurance Core Principles and Base Capital Requirements; and
- International Accounting Standards Board (IASB) – international Financial Reporting Standards for insurance and pensions.

B.3 The IAA approved the first International Standard of Actuarial Practice (ISAP), *ISAP 1 General Actuarial Practice*, on 18 November 2012. ISAP 1 is a general standard intended to apply to all actuarial services performed by an actuary.

B.4 The purpose of ISAP 1 is to provide guidance to actuaries so that the intended users of actuarial services will have confidence that:

- actuarial services are carried out professionally and with due care;
- the results are relevant to their needs, are presented clearly and understandably, and are complete; and
- the assumptions and methodology employed (including, but not limited to, models and modelling techniques) are disclosed appropriately.

B.5 On 13 October 2013 the IAA published *ISAP 2 Financial Analysis of Social Security Programs*. ISAP 2 provides guidance to actuaries performing financial analyses of Social Security Programs (SSPs), or reviewing, advising on, or opining on such analyses.

B.6 ISAPs 1 and 2 can be found on the IAA's website[8].

B.7 On 6 November 2013 the IAA published an exposure draft of *ISAP 3 Actuarial Practice under IAS 19 Employee Benefits*. ISAP 3 provides guidance to actuaries when performing actuarial services in connection with IAS 19 with a focus on actuarial services provided for a reporting entity's preparation of an actual or pro-forma IFRS report. It is expected that ISAP 3 will be published in 2015.

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[7] *http://www.actuaries.org/ABOUT/Documents/Statement_Objectives_ISAP_EN.pdf* approved by the IAA Council on 26 May 26 2012.

[8] http://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_ISAP

B.8 The IAA is considering developing further ISAPs including:

- actuarial services in connection with the proposed IFRS: Insurance Contracts;
- actuarial services in relation to capital adequacy models and stress and scenario test for solvency assessment and enterprise risk management of insurers;
- actuarial services for assessment of the compliance of enterprise risk management programs of insurance entities with regulations consistent with the IAIS' Insurance Core Principles ICP:8 Risk Management and ICP 16: Enterprise Risk Management for Solvency Purposes; and
- actuarial services concerning the assessment of a Basic Capital Requirement for Global Systemically Important Insurers, and an International Capital Standard for internationally active insurance groups.

AAE

B.9 The AAE's objectives[9] in developing model actuarial standards are:

- to contribute effectively to the development of European actuarial standards and guidelines;
- to establish, review and maintain professional and other standards to support the carrying out of actuarial activities in relation to Solvency II, with a view, in the public interest, to promoting high quality actuarial practice and convergence of practice between actuaries in the member states of the EU;
- to ensure that professional and other standards serve the needs of users of actuarial information, in particular the management and Boards of insurance and reinsurance undertakings, and give confidence to financial supervisors, policyholders, shareholders and other stakeholders that actuarial work under Solvency II has been carried out by competent professional persons in a way which is objective, operationally independent, transparent, without conflict of interest, consistent over time and from company to company, regardless of geographical location within the EU;
- to put in place professional and other standards to supplement, at a greater level of technical detail, the Level 1 and Level 2 measures relating to Solvency II, in line with the principles set out therein, bearing in mind that professional standards can be revised more readily than legal measures and updated to accommodate changing circumstances;
- to assist all actuaries within the EU to be able to operate within a common professional framework for Solvency II; and
- to promote and support actuaries in a wide range of roles under Solvency II.

B.10 The AAE is preparing a model actuarial standard, *European Standard of Actuarial Practice 1 General Actuarial Practice* (ESAP 1) that will apply to all actuarial services performed by an actuary. It is expected to be very similar to ISAP 1.

B.11 The AAE intends to develop a number of ESAPs applicable to specific actuarial work required by Solvency II.

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[9] *Statement of Objectives* approved by the General Assembly of the Groupe Consultatif on 1 October 2010.

B.12 It published a working draft of *ESAP 2 Actuarial Function Report under Directive 2009/138/EC* in June 2014. When the legal measures to implement Solvency II have been finalised by the European Commission and EIOPA, the AAE expects to prepare a new draft of ESAP 2, which will be subject to full exposure under the AAE due process for the adoption of model standards. It is expected that this will be towards the end of 2014 or early 2015.

B.13 It is also considering developing up to three further ESAPs relating to risk management in the context of Solvency II, covering:

- the role of the actuarial function in contributing to the risk management system;
- actuarial practice in relation to internal models; and
- actuarial practice in relation to the ORSA process.