

International Actuarial Standards of Practice

Suggestions or Requirements?

IN JUNE OF 2006, THE INTERNATIONAL ACTUARIAL ASSOCIATION (IAA) formally adopted a series of seven International Actuarial Standards of Practice for actuaries to use when providing professional services under international financial reporting standards issued by the International Accounting Standards Board (IASB). The IAA standards were designated as practice guidelines, and bore the following explanatory statement on their covers:

“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 familiarize 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.”



Actuaries’ practice councils.

Like the Academy’s practice notes, the IAA’s practice guidelines educate and describe practices that their authors believe actuaries will most likely use when practicing under international accounting requirements. They don’t set binding requirements that actuaries must follow to satisfy Precept 3 of the Code.

The analysis becomes somewhat more complex, however, when Precept 1 of the Code is taken into account. Precept 1 requires, in broad terms, that the

actuary provide professional services with integrity and competence.

There are many ways in which an actuary could breach the requirements of Precept 1, depending on the circumstances of a particular professional assignment. One way might be for the actuary to represent to a client, employer, regulator, or other interested party that the actuary had complied with the IAA’s practice guidelines while performing work under international accounting standards when, in fact, the actuary had not done so.

Such a misrepresentation wouldn’t breach the non-binding practice guidelines of the IAA, but it very likely would breach the requirements of Precept 1 of the Code. Consequently, the IAA practice guidelines would effectively become binding by virtue of the actuary’s representation of compliance when they otherwise wouldn’t be. Therefore, actuaries who practice under international financial reporting standards will likely be well advised to represent that they’ve complied with the IAA’s practice guidelines only if they have, in fact, done so.

Other circumstances might also require that the actuary comply with the IAA’s practice guidelines. Particularly in countries that have adopted the IASB’s financial reporting standards, there might be laws, regulations, or other legally binding authorities that require the actuary to comply with the IAA’s practice guidelines. Such a requirement hasn’t

U.S. actuaries have raised questions concerning how the IAA’s practice guidelines apply to their work and, in particular, how they interact with the Actuarial Standards of Practice published by the Actuarial Standards Board.

To answer these questions, it may be helpful to begin by examining Precepts 3 and 1 of the Code of Professional Conduct. Precept 3 of the Code requires the actuary, when providing professional services, to ensure that work prepared by the actuary or under the actuary’s oversight meets the requirements of applicable standards of practice. It’s Precept 3 that requires actuaries to comply with the ASB’s standards, which are intended to be binding for purposes of U.S. practice.

The IAA’s practice guidelines, by contrast, are expressly designated as “educational and non-binding in nature.” Although they’re intended to provide actuaries with a description of practices that might be used in a particular situation, actuaries are not required to comply with them. Thus, the IAA’s practice guidelines appear to be less akin to the ASB’s Actuarial Standards of Practice than they are to the practice notes published by the American Academy of

LAUREN BLOOM is the former general counsel and director of professionalism for the American Academy of Actuaries in Washington.

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been put into place in the United States, but before practicing in another jurisdiction, a U.S. actuary may want to consult local legal counsel to determine whether local law requires compliance with the IAA's practice guidelines.

It might also be that an actuary's client or employer—or a regulator or other interested party—would ask an actuary to comply with the IAA's practice guidelines when performing an assignment. In that case, the practice guidelines could become mandatory by virtue of the request. Before agreeing to comply with the IAA's practice guidelines, the actuary would usually be prudent to review them and determine that such compliance would be appropriate.

The IAA has also anticipated that national actuarial organizations might choose to endorse, adopt, or adapt the practice guidelines. Any such action by a national organization could change the

status of the practice guidelines, making them mandatory rather than advisory. (The IAA's Professionalism Committee is currently considering exactly what endorsement, adoption, or adaptation of the IAA's practice guidelines would entail, and may issue clarifying advice for national organizations to consider.)

At this time, none of the U.S.-based actuarial organizations has endorsed, adopted, or adapted the IAA's practice guidelines, nor has the Actuarial Standards Board done so. At some future date, however, one of the U.S.-based actuarial organizations may endorse, adopt, or adapt the IAA's practice guidelines, or the IAA may seek to elevate the practice guidelines to binding status. In either event, the U.S.-based actuarial organizations and the ASB would need to consider carefully how the IAA's practice guidelines fit within the structure of U.S. professional standards of

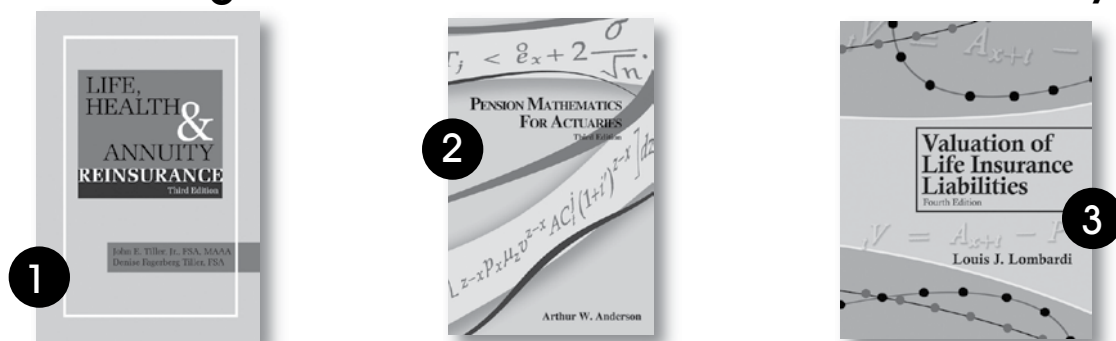
practice, conduct, and qualification.

The IAA's practice guidelines were written by experienced practitioners who sought to provide good advice to actuaries practicing under new international financial reporting standards. They explain the requirements of the IASB's accounting standards and offer descriptions of practices that actuaries are expected to use to meet those requirements.

Although most U.S. actuaries don't practice internationally, the growing number of U.S. practitioners who are engaged in international practice, or whose clients and employers operate internationally, may find the IAA's practice guidelines helpful as they work in the international arena.

The IAA's practice guidelines are readily available online at the IAA's website, www.actuaries.org, for actuaries to review and use as they work in the increasingly international financial services industry.

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