



AMERICAN ACADEMY *of* ACTUARIES

May 15, 2009

IAIS Secretariat
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland
Via email: peter.windsor@bis.org

Re: Comments on *Draft Issues Paper on the Roles of and Relationship Between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports*

Dear Secretariat;

The Financial Reporting Committee of the American Academy of Actuaries¹ appreciates this opportunity to provide comment to the International Association of Insurance Supervisors (IAIS) on the *Draft Issues Paper on the Roles of and Relationship Between the Actuary and the External Auditor in the Preparation and Audit of Financial Reports*.

We thank the IAIS for taking the initiative in drafting this needed paper, and hope you will find our comments and observations helpful.

Thank you for the opportunity to comment.

Sincerely,

Rowen B. Bell
Chairperson, Financial Reporting Committee
American Academy of Actuaries

¹ The American Academy of Actuaries (“Academy”) is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

**Comments on IAIS Draft paper:
Issues Paper on the Roles of and Relationship between the Actuary and the External Auditor in the Preparation and
Audit of Financial Reports**

Deadline for comments 15 May 2009

Name	Paragraph reference	Comment	Resolution (for use of the Secretariat only)
American Academy of Actuaries	Paragraph 5	We believe it may be helpful to define “general purpose financial statements” in paragraph 5. That term could be taken to sweep in financials filed by public companies for requirements by public exchanges, or may be taken to include standard balance sheets/cash flow/income statements used to fulfil the requirements of supervisors. We believe this should be clarified.	
American Academy of Actuaries	Paragraphs 27, 36, and 39	We believe more consistency would help clarify management’s and the auditor’s responsibility to utilize an actuary. Paragraphs 27, 36, and 39 address the issue, but seem in some ways inconsistent. For example, paragraph 27 says it is management’s responsibility for “ensuring involvement” of the actuary in technical provisions, and paragraph 36 appears to imply that involvement of the actuary is “required” for both the auditor and management. However, paragraph 39 uses the term “usually required” with respect to the use of an auditor’s actuary. We suggest removing the apparent contradiction. If the language of paragraph 39 is the intended message, we suggest that even the highly “predictable” provisions mentioned in the second bullet may require an actuary if they are complex and that it may be appropriate to so comment. Additionally, perhaps some comment on what makes a provision “predictable” as used in this passage, or providing some examples could be helpful.	
American Academy of Actuaries	Paragraph 40	Paragraph 40 lists typical areas of involvement for actuaries in the audit. One that seems to be missing is determining whether certain contracts qualify for treatment as insurance contracts. For example, risk transfer considerations are often part of an audit, and actuaries are often involved in quantifying the extent of risk transfer.	

American Academy of Actuaries	Paragraph 41	Paragraph 41 includes a list of procedures that the auditor's actuary may perform, It might be clearer to add "evaluating the reasonableness of the resulting estimates".	
American Academy of Actuaries	Paragraph 46	We believe the wording in paragraph 46 should be re-evaluated. Auditors typically cannot allow insurer's actuary to rely upon its work to any extent.	
American Academy of Actuaries	Paragraph 48	In addition, in paragraph 48 it would be helpful to include an example of an information request an insurer's actuary might submit to the external auditor.	
American Academy of Actuaries	Paragraph 50	We believe the wording in paragraph 50 should be re-evaluated. This passage seems to give the insurer's and auditor's actuaries jointly the option to share information with management, or withhold it. We believe information should always be freely shared with management, and observe that often the insurer's actuary is considered part of management in any case.	
American Academy of Actuaries	Paragraphs 56-72	When reading about the roles of insurer's and the external auditor's actuary on paragraphs 56-72, we did not see a provision for a situation which is fairly common in some countries. In some circumstances the insurer's actuary independently sets the technical provisions, but in addition to participating in the audit, the auditor's actuary may render an opinion on those provisions to the supervisor in the role of "appointed actuary". The paper appears to imply this is permissible, but we suggest the IAIS clarify its position on this.	
American Academy of Actuaries	Overall	It is an accepted practice in the non-life insurance sector that management may evaluate the information provided by the actuary, but establish a reserve that differs somewhat from the pure actuarial estimate. This reserve is sometimes referred to as a "management reserve". We believe the paper should discuss the actuaries' role as regards management adjustments to actuarial estimates, such a "management reserve".	