



Institute
and Faculty
of Actuaries

Peer Review

Proposals for the introduction of an Actuarial Professional Standard on Actuarial Quality and Peer Review (APS X2) and a Peer Review Guide

by the Regulation Board

Exposure Draft ED32
Consultation paper

November 2013

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1. Introduction and Background

I invite you to participate in this consultation about the Institute and Faculty of Actuaries' (IFoA) proposal to introduce a standard on peer review (APS X2: Actuarial Quality and Peer Review), along with a Peer Review Guide for members should the standard be introduced. If approved, it is intended that the proposals (or any amended version of the proposals) will come into effect in late 2014.

Peer review is a process employed by professionals to ensure quality in relation to their work. It can be an effective method of managing risk and assuring quality, thus helping to ensure that work has been carried out to appropriate technical and ethical standards. Essentially it involves the quality of a piece of work being confirmed by another appropriately experienced and qualified person or persons.

Such a process not only helps to improve the quality of work produced but offers valuable reassurance to users of actuarial work and the public that work is being produced to appropriate standards and that quality assurance processes are in place.

The Cross Practice Working Party (a working party set up by the Regulation Board of the IFoA to consider matters affecting multiple practice areas) considers that a general, high level requirement to consider the appropriateness of, and when appropriate to apply, peer review should be introduced for members in all practice areas in relation to actuarial work that they are carrying out.

The proposed standard is principles-based and is intended to have general application for those carrying out actuarial work across all practice areas. The proposed standard does not require members to apply peer review to all actuarial work that they are responsible for, but instead obliges members to consider whether it would be appropriate to apply a peer review process, taking into account all of the relevant circumstances. It is not prescriptive in terms of the scope or method of 'peer review' to be used, and so leaves flexibility for members to determine how that process is best undertaken where peer review is deemed appropriate.

Scheme Actuaries are already subject to specific requirements in relation to a review of the quality of work, as set out in APS P2 Compliance Review: Pensions. These proposals would apply in addition to the provisions of that standard.

The proposal also takes account of the model international standard ISAP1: *General Actuarial Practice*¹ which requires consideration to be given to peer review.

Many organisations employing actuaries will already have in place systems and procedures which involve peer review. For such organisations, these proposals are likely to reinforce, rather than require significant change to, existing practices. It is hoped that the broad nature of the provisions of APS X2 would accommodate the frameworks that many organisations may already have in place.

¹ Published by the International Actuarial Association (<http://www.actuaries.org/>)

The proposals are designed, within the context of our wider regulatory framework, to help underpin our collective commitment to quality in relation to actuarial work.

We hope that you will consider these proposals and look forward to receiving your comments.

A handwritten signature in black ink, appearing to read 'Desmond Hudson', written over a horizontal line.

Desmond Hudson
Chairman of the Regulation Board
November 2013

2. Proposals

2.1 Outline of the proposals

The IFoA is considering introducing a cross practice Actuarial Profession Standard on actuarial quality and peer review (APS X2), along with a Peer Review Guide.

At present, specific provision is made for a review of the quality of certain work of pension Scheme Actuaries but not in relation to work in other practice areas. The proposals are intended to set out to members of all categories and from all practice areas, additional principles in this area.

'Peer review' in the draft APS X2 is defined as the *"Process by which a piece of work (or one or more parts of a piece of work) for which a Member is responsible is considered by at least one other individual(s), having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question"*. This definition is deliberately wide, reflecting the broad range of contexts in which it may be applied, and requires judgement as to the form it should take in different circumstances.

Views are sought on whether the use of the term 'peer review', as thus defined, is clear and appropriate, including from a public interest perspective.

Draft APS X2

The draft APS X2 is deliberately high level and principles-based. It is designed to require members who are responsible for a piece of actuarial work to consider whether peer review is appropriate and to provide some guidance on when that might be the case but without prescribing the particular method of peer review to be followed.

It calls in particular for the exercise of judgement by individual members, but also sets out some important principles and parameters designed to inform the exercise of judgement in this area.

It does not itself impose any obligations on the person(s) who peer reviews the work, nor does it create any relationship between the user of the work and the peer reviewer.

However, all members (including those carrying out peer review) are reminded of the expectations set out in the Actuaries' Code² ("the Code") and in particular, the requirements under principle 2 of the Code, which requires members to perform their professional duties with competence and care.

The key provisions which would be introduced by APS X2 are as follows:

- Members are required to consider whether it is appropriate to apply peer review in relation to actuarial work for which they are responsible and, if it is appropriate, to ensure a peer review process is applied to that work.
- 'Actuarial work' is defined in the draft APS X2 as *"work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is*

² <http://www.actuaries.org.uk/regulation/pages/actuaries-code>

entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings, or opinions”.

- Guidance is provided as to the type of factors that will be relevant to, and which members will require to take into account in relation to, a decision about whether peer review is appropriate. These include matters such as the significance of the piece of work and the reasonable expectations of users.
- Where work involves a material element of judgement or analysis and the consequences of that work are expected to be significant for the recipient of the work, then peer review should be applied. This provision, in effect, introduces a presumption that peer review will be applied in such circumstances.
- Clear agreement should be reached amongst those involved as to the nature and extent of each person’s role in the peer review.
- The member responsible for the work should ensure that individuals taking part in peer review have the appropriate skills and experience and are able to act (and be seen to act) objectively.
- APS X2 is applicable to all members, including student members. The definition of ‘Actuarial Work’ therefore refers to “*a person with actuarial skills*” to ensure that it is applicable to both qualified actuaries and actuarial students.

It is recognised that the firms for which many members work will already have in place sophisticated systems of peer review, therefore the proposals are not intended unnecessarily to impose an additional burden but to set out a clear principles-based approach of general application which will help members and their employers to reinforce the quality of actuarial work.

The letter ‘X’ has been used in the title of the APS to denote its applicability to all practice areas. The Cross Practice Working Party has also developed another cross practice standard (APS X1) which will be consulted upon shortly.

Draft Peer Review Guide

The Peer Review Guide is intended to supplement APS X2 and provides more detailed, practical guidance on the application of peer review to actuarial work.

It expands upon the purpose and aims of the requirements of the standard and provides guidance to members and others on what is meant by ‘peer review’ in this context. It is intended to provide a record of what the Cross Practice Working Party considers to be a current good practice interpretation of APS X2.

The Peer Review Guide is non mandatory resource material and imposes no obligations upon members over and above those embodied in APS X2. It is hoped that the Peer Review Guide will assist not only members but also users of actuarial work and others with an interest in the work of actuaries to understand how peer review is used by them.

As APS X2 is intended to be principles-based and to apply across a very broad range of circumstances, the guide does not include much guidance for the peer reviewer on how he or she might undertake the review in practice, such as a suggested checklist of matters that might typically be considered. However, Question 21 below provides an opportunity to comment on whether such guidance could be helpful.

Interaction between APS X2 and APS P2 Compliance Review: Pensions

APS X2 requires peer review to be carried out at a point in time such as to be capable of influencing the conclusions and outputs of the work. However APS P2 Compliance Review: Pensions (APS P2), which is applicable to Scheme Actuary work, allows for either a Type 1 Review or a Type 2 Review to be carried out in relation to Scheme Actuary work. Type 1 Review is undertaken at a time that enables the outcome of the review to influence the decisions that flow from the work, while Type 2 Review allows for a review to be carried out after the piece of work has been provided to the user.

Section 11 of the Peer Review Guide provides guidance regarding the interaction of these two APSs and confirms that Scheme Actuaries may continue to have their work subject to Type 2 Reviews in order to comply with the requirements of APS P2. However, APS X2 introduces a requirement to consider whether it is appropriate to carry out a review at a time at which it can influence the conclusions and outputs of the work, which would therefore have to be in addition to the Type 2 Review. If such a review is appropriate, the scope and extent of the peer review should be decided by the Scheme Actuary. In particular, they are not required to follow all the requirements of Type 1 Review in order to fulfil the requirements of APS X2.

It is intended that a full review of APS P2 will be carried out following this consultation. Comments on APS P2 and suggested amendments are sought at Question 29 below.

2.2 Consultation Documentation

This consultation package includes the following documents:

- A draft **Actuarial Profession Standard** (APS X2: Actuarial Quality and Peer Review) placing requirements on members in relation to 'peer review'.
- A draft **Peer Review Guide** to support APS X2 and provide more detailed guidance on its requirements and on the application of 'peer review' generally.

3. Questions

We invite your comments on the proposals relating to peer review for actuaries and the proposed introduction of APS X2 and the Peer Review Guide. It would be helpful if you would offer them by responding to the following questions.

An online version of the questionnaire can be found on the IFoA's website at <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>.

1. About you

Name:	
Position held:	

2. Are you a member?

Yes		No	
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3. If yes, which category of membership?

Student		Fellow	
Affiliate		Honorary Fellow	
Associate			

4. What is your practice area? (Answer one option only)

Life Assurance		Health and Care	
General Insurance		Education	
Pensions		Retired	
Finance and Investment		Other	
Enterprise Risk Management			

If other, please specify:

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5. About your organisation

Name:	
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6. Type of organisation (Answer one option only)

Actuarial consultancy		Investment Firm	
Insurance company		Other	
Bank			

If other, please specify:

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7. How many Fellows or Associates are there in your organisation?

1 Fellow or Associate		26-40 Fellows or Associates	
2-10 Fellows or Associates		40+ Fellows or Associates	
11-25 Fellows or Associates			

8. Do you want your name to remain confidential?

Yes		No	
-----	--	----	--

9. Do you want the name of your organisation to remain confidential?

Yes		No	
-----	--	----	--

10. Do you want your comments to remain confidential?

Yes		No	
-----	--	----	--

11. Do these comments represent your own personal views or your organisation's views?

Personal views		Organisation's views	
Both personal views and organisation's views			

We would be particularly interested in hearing your views on the following:

12. Do you agree that it is appropriate to introduce principles-based requirements for members in all practice areas to consider the appropriateness of actuarial quality control processes (referred to as 'peer review' in this consultation), and if appropriate to ensure that a suitable review/process is applied?

Yes		No	
Comments:			

13. The definition of 'peer review' in the draft APS X2 is deliberately wide and requires judgement as to the form it should take in different circumstances. Do you consider that the definition of 'peer review', as used in the Standard and Guide, is clear and appropriate?

Yes		No	
Comments:			

14. Do you agree that the factors for consideration set out in 1.3 of the draft APS X2 are adequate and appropriate?

Yes		No	
Comments:			

15. Do you agree that it is appropriate to introduce a presumption (as provided by 1.4 of the draft APS) that peer review will be appropriate where the work involves a material element of judgement or analysis and the consequences of the work for its recipient are likely to be significant?

Yes		No	
Comments:			

16. Sub paragraph 1.5 of the draft APS X2 requires members to *“ensure that they are in a position to justify the approach which they have taken to the application of Peer Review for the purposes of this APS, if reasonably called upon to do so.”*

Sub-paragraph 3.3 of the draft Peer Review Guide states as follows:

“Members must be in a position to explain and justify the approach they have taken and therefore may wish to document their decisions (and the reasoning supporting those decisions) and the outcomes of peer review under APS X2 with reasons.”

Do you consider that this principle should be strengthened?

Yes - members should be required to document the decision and its reasons.	
Yes - there should be a presumption that members should document the decision and its reasons, unless there are circumstances in which they are able to justify not doing so.	
No, the requirement in paragraph 1.5 is sufficient - members must ensure that they are in a position to justify the decision, if reasonably called upon to do so.	
Other (please specify)	
Comments:	

17. Sub-paragraph 7.3 of the draft Peer Review Guide states as follows:

“There may be circumstances in which it may be appropriate for two or more individuals of suitable experience to carry out a piece of work together, but members should consider the benefits of involving a ‘fresh pair of eyes’ in the process.”

Do you consider that the individual(s) who are themselves jointly engaged in carrying out the piece of work can provide appropriate quality assurance controls? Please also comment on circumstances in which you consider that a ‘fresh pair of eyes’ may nonetheless be required.

Yes		No	
Comments:			

18. Section 8 of the draft Peer Review Guide recognises that the intended recipient of actuarial work may be capable of contributing to the scrutiny and challenge of the work, which may be a relevant consideration in determining whether further quality assurance is appropriate/necessary. However, it also recognises the limitations of this form of scrutiny - in particular, because it may lack objectivity - and that it may be appropriate for the work in question to be subject to additional peer review. Do you agree with this assessment of the possible role of the recipient in relation to the quality assurance process?

Yes		No	
Comments:			

19. Section 10 of the draft Peer Review Guide provides some guidance in relation to the output of peer review, however there is no mandatory requirement to document the outputs. Do you think that the APS should include a mandatory requirement to document the outputs of the review?

Yes		No	
Comments:			

20. Although the Peer Review Guide makes reference to the expectations of individuals taking part in peer review, the draft APS X2 focuses on the role of the member responsible for the piece of work and places obligations on only that individual. Do you think that the APS should contain express obligations in relation to the individuals taking part in the peer review, noting that in some circumstances they may not be Members and therefore not within the scope of the APS?

Yes, there should be express obligations in relation to the individuals taking part in the peer review	
No, there should not be express obligations in relation to the individuals taking part in the peer review	
Comments:	

21. **APS X2 is intended to be principles-based and to apply across a very broad range of circumstances. As such, the Working Party currently considers that it would not be practicable, appropriate or necessarily helpful to provide checklists, pro-formas or similar very detailed guidance as to the specific form peer review might be expected to take in different circumstances. Do you agree? If not, please suggest the sort of further detailed practical guidance which you consider might be appropriate and useful.**

Yes, I agree	No, I disagree	
Comments:		

22. **To what extent do you agree that the draft Peer Review Guide provides helpful guidance on APS X2 and the use of peer review by actuaries more generally?**

Strongly disagree				Strongly agree
1	2	3	4	5
Comments:				

23. **Do you have any other comments on the requirements and provisions of the draft APS X2: Actuarial Quality and Peer Review?**

Yes	No	
Comments (please specify):		

24. **Do you have any other comments on the content of the draft Peer Review Guide?**

Yes	No	
Comments (please specify):		

25. Do you have any other general comments or suggestions in relation to the proposals?

Comments:

26. Do you currently use peer review (in the wide sense defined in the draft of APS X2) in relation to actuarial work that you do?

Yes, for all or nearly all work	Yes, for some work	
Yes, for most work	Rarely or never	
Comments:		

27. If you do currently use peer review in relation to actuarial work that you do, do you think that the introduction of APS X2 would require you to materially change the peer review process (or processes) that you currently have in place, and/or its application?

Yes, significant changes required	Little or no changes required	
Yes, some changes required	Not applicable	
Comments (please specify):		

28. We would be grateful for any other comments you may have on the likely practical impact of the proposals, including the implications for work by members in fields which are not largely or wholly the preserve of actuaries and for work in firms where there is only one actuary.

Comments (please specify):

29. **APS P2 Compliance Review: Pensions (APS P2) requires members with a Scheme Actuary certificate to ensure that most written work that they provide in their capacity as a Scheme Actuary is subject to review. What, if any, changes do you consider should be made to APS P2 in light of the proposed APS X2?**

Comments (please specify):

30. **Are there other areas of practice (in addition to Scheme Actuary work in pensions) in relation to which specific more detailed regulation or guidance regarding peer review would be appropriate?**

Yes

No

Comments (please specify):

4. How to Respond to this Consultation

4.1 The deadline for responses is 21 February 2014.

Responses should be sent to peer.review@actuaries.org.uk

A link to an online version of the questionnaire can be found on the IFoA's website at <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>

You can also send a response by post to:

Cross Practice Standards Working Party - Peer Review
The Institute and Faculty of Actuaries
Maclaurin House
18 Dublin Street
EDINBURGH
EH1 3PP

Please indicate whether you wish any of the information you supply in your response to be treated confidentially. Unless you so indicate, we may make responses to this paper available on our website at www.actuaries.org.uk.

4.2 Consultation meetings

We are encouraging members and interested stakeholders to attend one or other of the following two consultation meetings to discuss and comment on these proposals:

- The first will be held at Maclaurin House, 18 Dublin Street, Edinburgh EH1 3PP from 17:00 hours on Wednesday 11 December 2013. Refreshments will be served from 16:30 hours; and
- The second will be held at Staple Inn, High Holborn, London, WC1V 7QJ at 17:00 hours on Wednesday 22 January 2014. Refreshments will be served from 16:30 hours.

In order for us to gauge participant numbers, we should be grateful if you could please inform us via email to karen.cross@actuaries.org.uk if you are planning to attend either of these meetings.

4.3 CPD

Members of the IFoA are entitled to claim up to one hour's private study CPD time for reading this consultation paper and completing the relevant questionnaire, provided that the topic can be shown to be personally relevant and developmental. Please remember to record your learning outcome within your online CPD record.

Thank you for your time and interest.



Institute
and Faculty
of Actuaries

Peer Review Guide

Guidance for APS X2: Actuarial Quality and
Peer Review

by the Regulation Board

November 2013

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1. Introduction

- 1.1. Peer review is one of a number of means that professionals use to maintain the quality of the work that they perform. Actuaries have developed a practice of making significant use of peer review in their work. This serves to provide reassurance to actuaries and the users of actuarial work that the work has been performed to relevant technical and ethical standards, and in so doing to reduce the risk that users of actuarial work make poor decisions as a consequence of the actuarial work.
- 1.2. What is peer review? At its simplest, peer review is the use of a second pair of eyes to review and challenge some or all of the work of the person who performed that work. More generally, peer review provides a mechanism to test work and the decisions taken. Peer Review is defined in APS X2 Actuarial Quality and Peer Review (APS X2) as a:

“Process by which a piece of work (or one or more parts of a piece of work) for which a Member is responsible is considered by at least one other individual(s), having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question.”
- 1.3. This definition of ‘peer review’ is a wide one, reflecting the broad range of contexts in which it may be applied, and requires judgement as to the form it should take in different circumstances. The guide discusses a variety of forms that ‘peer review’ may take, considered as an adaptable quality assurance process.
- 1.4. To what does peer review apply? Peer review may take a number of forms, including checking calculations, considering compliance with appropriate standards, evaluating the assumptions used and reviewing the clarity of communications.¹
- 1.5. The nature of actuarial work is such that users of the work will often need to place a high degree of reliance on it. Frequently the circumstances will permit the actuary to take an approach and make assumptions that can give rise to a wide spectrum of results. Peer review can help the actuary to provide assurance about the quality of the work and about the reliability of the resulting advice and information and continue to provide output that meets the Financial Reporting Council’s (FRC) Reliability Objective.²
- 1.6. The Institute and Faculty of Actuaries (IFoA) places general requirements on members which call for the exercise of judgement in relation to peer review. The provisions of APS X2 are of general application and build on the existing principles set out in the Actuaries’ Code. Peer review is a means of providing assurance as to the quality of actuarial work and may also assist in mitigating risk to the member, their firm and the client.

¹ Further discussion regarding the various activities that may be involved in the peer review process can be found at section 4.3 of this guide

² “Reliability Objective means the objective that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.” Financial Reporting Council; Scope & Authority of Technical Actuarial Standards; Version 4; August 2012.

2. About this guide

- 2.1. This guide addresses a number of issues that may assist members when deciding (a) whether peer review should be applied to a piece of work; and (b) how the peer review should be carried out. The issues considered in this guide are:
- Section 3: Application of peer review
 - Section 4: Scope of peer review and clarity of roles for those involved
 - Section 5: Timing of peer review
 - Section 6: Skills and experience of individual(s) taking part in the peer review
 - Section 7: Objectivity
 - Section 8: The role of challenge by the recipient or the member responsible for the work
 - Section 9: Resolution of peer review issues
 - Section 10: Output of peer review
 - Section 11: Relationship between APS X2 and APS P2 Compliance Review: Pensions
- 2.2. This guide has been prepared by the Cross Practice Standards Working Party and issued by the Regulation Board of the IFoA for the use and benefit of members. This is a high level guide which supports APS X2 and is intended to assist members in deciding when and how to apply peer review by serving the following purposes:
- to standardise the terminology used relating to peer review;
 - to provide a means of communicating to external stakeholders how actuaries use peer review to enhance the quality of their work; and
 - to help identify the situations that can give rise to ambiguity regarding responsibility for the quality of actuarial work, and to indicate how they can be addressed.
- 2.3. The material in this guide may be helpful to firms in developing quality assurance arrangements for the purpose of meeting the requirements in APS Q1: Organisations and Employers of Actuaries.³
- 2.4. Members are encouraged to use this guide as a starting point for developing their own practice relating to peer review. The authors recognise that this is an area that requires the exercise of a significant degree of judgement. In addition, a number of possible forms of peer review are referred to in this guide; however, we do not explore all of them in depth.
- 2.5. This guide imposes no obligations upon members over and above those embodied in APS X2. Members are additionally reminded of the obligations imposed on all members by the Actuaries' Code and APS P2 Compliance Review: Pensions (APS P2), which contains specific provision in relation to compliance review relevant to the pensions area. The guide does not constitute legal advice, nor does it necessarily provide a defence to allegations of misconduct. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA will not accept any legal liability in relation to its contents. The defined terms used in APS X2 apply to this guide.
- 2.6. This guide has taken significant inspiration from the discussion paper in the American Academy of Actuaries 2005 Professionalism Series No 1-A Peer Review – Concepts on Professionalism. It has been guided by the FRC's Actuarial Quality Framework and it has drawn on the experience of members practising in a wide variety of areas served by the profession.

³ Currently subject to consultation. APS Q1 is expected to be published in 2014.

3. Application of peer review

- 3.1. The decision as to whether a peer review process should be applied will often depend on the consequences and implications of the piece of work in question. Peer review should normally be used where a piece of actuarial work requires a material element of judgement or analysis, the consequences of which are reasonably expected to be significant for the person for whom the work is being produced. The person for whom the work is produced may not necessarily be restricted to the person to whom the work is addressed and may include other persons who may reasonably be expected to use the work.
- 3.2. Often these factors will not be clear-cut and members will have to make reasonable judgements about when and how peer review should be applied in the circumstances. The IFoA requires members to consider the use of peer review where some form of additional assurance about the quality of work is appropriate. This is intended to apply, in particular, where risk management frameworks in respect of peer review and challenge are not already in place or if, given the significance of a piece or pieces of work, they were incomplete or inadequate for the circumstances. It is not intended to place additional burdens on members where sufficient, and appropriately sophisticated, systems are already in place.
- 3.3. APS X2 requires members to consider the appropriateness of peer review and, where appropriate, to ensure that it is applied to actuarial work for which they are responsible. APS X2 is applicable to all members, including students. Members must be in a position to explain and justify the approach they have taken and therefore may wish to document their decisions (and the reasoning supporting those decisions) and the outcomes of peer review under APS X2 with reasons.
- 3.4. APS X2 also requires members to take the following into account when deciding whether and to what extent peer review should be carried out:
 - the significance of the piece of work;
 - the reasonable expectations of the person(s) for whom the work is produced;
 - the difficulty or complexity of the piece of work;
 - the application of other quality assurance controls to the piece of work; and
 - the desirability of assuring public confidence in the quality of the work in question.
- 3.5. The rationale for taking these considerations into account includes the following:
 - the greater the significance of a piece of work, the greater the potential impact of a shortcoming in the work on those who will rely upon the work: greater significance will therefore imply a greater need for peer review;
 - the greater the reliance on the quality of the work, the greater the need for peer review;
 - the nature of the peer review to be undertaken depends upon the difficulty or complexity of the work involved. For example, work involving difficult concepts may require a higher degree of analysis via peer review, whilst complex work involving many separate steps may require peer review of each step;

- other quality assurance controls which may be in place will provide further scrutiny of the work which would then not need to be duplicated by peer review. Examples include where the work is subject to effective challenge by the client or by third parties, such as auditors (and their reviewing actuaries). Other quality controls affecting the work may also be stipulated by other regulators, based on the regulatory context in which the deliverer or recipient of the work operates. For example, the firm may be subject to separate regulatory oversight because it provides other regulated financial services e.g. investment advice;
- where the work is significant from a public interest perspective, this will also tend to require a greater level of peer review.

3.6. The term ‘actuarial work’ has a broad meaning in this context and the definition provided by APS X2 is “work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings or opinions”.

4. Scope of peer review and clarity of roles for those involved

4.1. Where peer review is carried out, it is important that all of those involved in the process understand their particular role and what is expected of them. It is also important that this is addressed early on in the process.

4.2. The individual(s) taking part in the peer review will need to be provided with all the information regarding the work, and the context in which it is being undertaken, that is necessary to enable them to carry out the peer review in accordance with the agreed scope.

4.3. APS X2 specifically requires the member responsible for the work to ensure that everybody involved in the peer review has a clear understanding of their relevant role. The following non-exhaustive list includes some of the activities that might be carried out as part of the peer review process:

- Checking the accuracy of the calculations;
- A review of the methodology and assumptions underpinning the work;
- A review of the reasonableness of the results;
- A review of the extent to which the work has been carried out in accordance with the Actuaries’ Code, Actuarial Profession Standards, the FRC’s Technical Actuarial Standards (if/where applicable) and other applicable regulatory and/or legislative requirements;
- Assistance with professional or ethical considerations (including scoping of a piece of work, identifying or managing conflicts of interest). The IFoA Guide for Actuaries on Conflicts of Interest⁴ highlights the potential value of peer review in assisting a member in evaluating and resolving conflicts of interest;
- A review of the clarity and/or quality of communication associated with the piece of work; and/or
- A review of the extent to which the work is suitable for the needs and reasonable expectations of the user of the work or of the user of the outputs to which it gives rise.

⁴ http://www.actuaries.org.uk/Conflicts_of_Interest_Guide_for_Actuaries_version_1.1

5. Timing of peer review

- 5.1. APS X2 states that peer review should be undertaken at a time when it is capable of influencing the conclusions and outputs of the work. Peer review does not necessarily have to be undertaken at the end of a piece of work, but can form part of the ongoing process as the work is being carried out. Members should ensure that there is adequate time for the peer review to be carried out before the work is finalised.
- 5.2. Some members may also find it helpful to carry out a review after the work has been finalised or after it has been issued to the user as part of a control cycle. While such reviews do not meet the requirements of APS X2, they can still be helpful and may assist in identifying improvements in processes and procedures which can be put into practice for future pieces of work.
- 5.3. While the circumstances will often make the position obvious to the user, the member may feel that it is helpful (if he or she judges that peer review would otherwise be appropriate on the criteria set out in 1.3 and 1.4 of the APS) to stress that the advice has not been peer reviewed and that the user should exercise caution when acting or taking decisions based on the advice.

6. Skills and experience of individual(s) taking part in the peer review

- 6.1. Differing peer review roles require differing skill sets. It will be up to the member responsible for the work to determine the necessary mix of skills required. While the term 'peer review' is used in APS X2, it is recognised that the individual(s) taking part in the peer review need not be a 'peer' of the member responsible for the piece of work. However, it is important that the person has the necessary skills and experience to carry out that role. In particular, the member responsible should consider whether the individual taking part in the peer review has been involved in actuarial work of a similar nature. There may also be a number of individuals involved in the peer review process rather than one individual peer reviewer.
- 6.2. APS X2 does not specify that the individuals taking part in the peer review should be qualified actuaries, and recognises that, depending on the circumstances, many different alternatives may be suitable. It is, however, important that the individuals identified have suitable skills and experience to undertake the review sought from them in order to provide reasonable assurance about the quality of the work.
- 6.3. Members are reminded of their obligations under principle 2.2 of the Actuaries' Code: "Members will not act unless they have an appropriate level of relevant knowledge and skill". Where the individuals taking part in the peer review are members, they must be satisfied that they are competent to do so. The individual responsible for the piece of work should keep in mind that individuals who are not members may be subject to different regulatory regimes and that the regulations and standards that apply to them might be less comprehensive than those applying to members.

- 6.4. Some types of work may require specialist skills, for which the supply of available reviewers is limited. It may be the case that only a small group of individuals have the necessary skills and experience to carry out the review. In identifying a suitable person to be a reviewer, the individual should take reasonable steps to find someone. Where the member is unable to identify a suitable individual, they should consider what alternative arrangements can be put in place to manage risks and assure quality. The member should also ensure that the person commissioning the work is aware of these limitations as regards review of the work and is able to consider whether or not to modify his or her instructions to the member.

7. Objectivity

- 7.1. For peer review to be effective, the individuals taking part in the peer review should be able to, and be seen to, do so with appropriate objectivity and impartiality. Members should consider whether it is appropriate for the peer reviewer to be someone not involved in any aspect of the work. In some circumstances, it may be sufficient for the peer reviewer not to have been involved in the specific element of work being reviewed or, as noted in paragraph 7.3 below, it may be appropriate for the peer reviewer to have been involved in carrying out the piece of work.
- 7.2. The IFoA Guide for Actuaries on Conflicts of Interest⁵ advises that, where there is an actual or potential conflict of interest situation, for peer review to be effective the peer reviewer must himself or herself be sufficiently independent. Depending on the circumstances, this might require the reviewer to be from a different firm. Members should note that the use of peer review may not of itself cure an actual underlying conflict of interest. Further discussion on managing conflicts of interest can be found in the IFoA Guide for Actuaries on Conflicts of Interest.
- 7.3. There may be circumstances in which it may be appropriate for two or more individuals of suitable experience to carry out a piece of work together, but members should consider the benefits of involving a 'fresh pair of eyes' in the process. In some circumstances, reviewers involved in the peer review process might co-develop a solution with the individual responsible for the work. However, where the peer reviewer becomes a significant contributor to the piece of work it may then be appropriate to obtain further peer review of that part of the work.
- 7.4. Where there has been a change in the member responsible for the work, it will be important to consider whether the member previously responsible will be capable of being sufficiently objective to perform peer review. In some circumstances, however, the insights provided by such an individual may provide a more effective form of peer review.
- 7.5. Principle 3 of the Actuaries' Code requires that: "*Members will not allow bias, conflict of interest, or the undue influence of others to override their professional judgement*". This is particularly relevant where there is an inequality of status between the person responsible for the piece of work and the individuals taking part in the peer review. An inequality in status could arise from material differences in position in an organisation's managerial hierarchy or simply arise from differences in professional standing.

⁵ http://www.actuaries.org.uk/Conflicts_of_Interest_Guide_for_Actuaries_version_1.1

- 7.6. The risk when material differences of this type arise is that the individual(s) taking part in the peer review exert too little or too much influence over the results of the analysis. The individual responsible for the piece of work should be satisfied that they have had appropriate regard to the comments of the peer reviewer.

8. The role of challenge by the recipient or the member responsible for the work

- 8.1. Some actuarial work will make use of the review and challenge by the recipient of the actuarial work. This is particularly the case for work undertaken by in-house actuaries or those in similar roles.
- 8.2. Review by the recipient of the work can represent a valuable form of quality assurance. However, the knowledge and experience of the particular recipient needs to be taken into account. Their role may be limited and there is a risk that the recipient may have particular objectives that introduce a bias into the process. Care should be taken where the inclusion of the recipient in the peer review process introduces a significant risk of bias into the actuarial work.
- 8.3. In other circumstances, the individual responsible for the delivery of the actuarial work may not have been involved in the detailed performance of the work but will review the work that has been performed before signing it out. In such circumstances it is important that the team performing the work has sufficient skills and experience to carry out the required work.
- 8.4. When this approach is adopted, the member responsible for the actuarial work will need to take particular care to ensure that, in circumstances of disagreement, suitable objectivity is maintained. Proper consideration must be given to the opinion provided and a reasoned explanation should be given for the final position adopted. It is important to be mindful of the risks arising from inequality of status described in 7.5 and 7.6 of this guide, and that where individuals involved in peer review are at different levels of seniority, this does not impact upon an individual's willingness or ability to express their views or to challenge the work of those who are more senior.
- 8.5. The member responsible for the piece of work should consider, in accordance with APS X2, whether the forms of review detailed in this section 8 provide sufficient assurance as to the quality of the work in question, or whether it is appropriate for the work in question to be subject to additional peer review, in part or in whole. This requires particular consideration of section 3 of APS X2, in addition to the relevant circumstances referred to at paragraph 1.3.

9. Resolution of peer review issues

- 9.1. Effective peer review inevitably has the potential to involve robust challenge. Differences of opinion between the member responsible for the work and the individuals involved in the peer review may therefore arise.
- 9.2. Peer review can be an iterative process which can involve the peer reviewer passing comments back to the member and the member responding to those comments until they are satisfied that the work has been suitably reviewed. Where there are differences of opinion between the member and peer reviewer, these can normally be resolved through discussion or further analysis. Throughout the process, it is important that both remember that the individual responsible for the piece of work is ultimately accountable.

- 9.3. It is acceptable for the member and individual taking part in the peer review to disagree on a point. There can be different levels of disagreement. For example, it may be the case that the individual who is not responsible for the work will be happy for the person who is responsible to make the decision as to how to resolve the disparity. Where the issue is material, it may be prudent to mitigate the risk to users of their advice by ensuring that the element of reasonable professional difference is given sufficient prominence in reports they provide to the user. In some circumstances the disagreement might be so significant that it is preferable to obtain a third opinion.

10. Output of peer review

- 10.1. There is a range of practice regarding the output of peer review. The following is a non-exhaustive list of possible outputs:
- Record of peer review taking place;
 - Record of peer review taking place and all issues having been resolved;
 - Record produced in the form of completed checklist of peer review issues considered; or
 - Detailed record of peer review feedback and resolutions arising.
- 10.2. APS X2 does not prescribe the format of peer review output; however, it is suggested by this guide that, as a minimum, a record should be made of the peer review having taken place. In particular, the date and name of the individual(s) involved in the peer review should be recorded.
- 10.3. While standard forms and checklists can ensure all relevant aspects of the review have been completed, a more superficial 'tick box' approach should be avoided. Recording of peer review can assist the member responsible for the piece of work in the event that their work is challenged, and may also be useful when reviewing the effectiveness of peer review policies and processes.

11. Relationship between APS X2 and APS P2 Compliance Review: Pensions (relevant to pensions actuaries only)

- 11.1. APS P2 Compliance Review: Pensions (APS P2) requires members with a Scheme Actuary certificate to ensure that most written work that they provide in their capacity as a Scheme Actuary is subject to Type 1 Review or Type 2 Review.⁶ Type 1 Review is consistent with the requirements of APS X2, such that it must be undertaken at a time that enables the outcome of the review to influence the decisions that flow from the work. However, Type 2 Review allows for a review to be carried out after the piece of work has been provided to the user.
- 11.2. As such, a Type 2 Review will not satisfy the requirements of APS X2, although it will continue to satisfy the specific requirements of APS P2. Scheme Actuaries may therefore continue to carry out Type 2 Review in relation to their Scheme Actuary work. However, in accordance with APS X2, they should consider whether it is appropriate for a review to also be carried out at a time which is capable of influencing the conclusions and outputs of the work. Paragraphs 1.3 and 1.4 of APS X2 set out the factors that a member should consider when deciding whether and to what extent peer review should be applied to a piece of work.

⁶ The requirements of Type 1 Review and Type 2 Review are set out in full in sections 4 and 5 of APS P2

The peer review carried out in accordance with APS X2 need not necessarily comply with the Type 1 Review requirements set out in sections 2 to 4 of APS P2.

12. Other sources of guidance

- 12.1. The IFoA offers a confidential Professional Support Service⁷ to assist members with professional and ethical matters.
- 12.2. Members may also find the quality assurance sections of APS Q1: Organisations and Employers of Actuaries and the accompanying guide helpful.⁸

13. Contact us

- 13.1. The content of this guide will be kept under review and for that reason we would be pleased to receive any comments you may wish to offer on it. Any comments should be directed to:

Professional Regulation Team
The Institute and Faculty of Actuaries
Maclaurin House
18 Dublin Street
Edinburgh, EH1 3PP

or

regulation@actuaries.org.uk

⁷ <http://www.actuaries.org.uk/regulation/pages/professional-support-service-0>

⁸ Currently subject to consultation. APS Q1 is expected to be published in 2014.



Institute
and Faculty
of Actuaries

Exposure Draft ED32 of APS X2: Actuarial Quality and Peer Review

Author: The Regulation Board

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Purpose: To set out the responsibilities of all **Members** in relation to the application of **Peer Review** to promote the quality of **Actuarial Work** through appropriate review processes.

Authority: Institute and Faculty of Actuaries

Target Audience: **Members** (of all categories, including Students, Affiliates, Associates and Fellows) in all practice areas. This **APS** may also be helpful to employers of actuaries.

General Professional Obligations:

All **Members** are reminded of the Status and Purpose preamble to the **Actuaries' Code**, which states that the Code will be taken into account if a Member's conduct is called into question for the purposes of the Institute and Faculty of Actuaries' Disciplinary Scheme. Rule 1.6 of the Disciplinary Scheme states that misconduct:

"means any conduct by a Member in the course of carrying out professional duties or otherwise, constituting failure by that Member to comply with the standards of behaviour, integrity or professional judgement which other Members or the public might reasonably expect of a Member, having regard to any code, standards, advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute and Faculty of Actuaries and/or by the FRC (including by the former Board for Actuarial Standards)".

Members are required to comply with all applicable provisions of **APSS**.

In the event of any inconsistency between this **APS** and the **Actuaries' Code**, the Code prevails.

Use of the words “must” and “should”:

This **APS** uses the word “must” to mean a specific mandatory requirement.

In contrast, this **APS** uses the word “should” to indicate that, while the presumption is that **Members** comply with the provision in question, it is recognised that there will be some circumstances in which **Members** are able to justify non compliance.

1. Application of Peer Review

- 1.1. **Members** must consider whether to apply **Peer Review** to **Actuarial Work** for which they are responsible.
- 1.2. **Members** must then, to the extent appropriate, ensure that **Peer Review** is applied, either in totality or by component, to that **Actuarial Work**. **Members** are reminded in this context of their obligations under principle 2 (to perform professional duties competently and with care) of the **Actuaries' Code**.
- 1.3. In considering whether and to what extent **Peer Review** should be applied to a piece of work, **Members** should have regard to all of the relevant circumstances, including the following:
 - 1.3.1. the significance of the piece of work;
 - 1.3.2. the reasonable expectations of the person(s) for whom the work is produced;
 - 1.3.3. the difficulty or complexity of the piece of work;
 - 1.3.4. the application of other quality assurance controls to the piece of work; and
 - 1.3.5. the desirability of assuring public confidence in the quality of the work in question.
- 1.4. Without prejudice to the generality of paragraphs 1.1 to 1.3, **Members** should ensure that **Peer Review** is applied to **Actuarial Work** that involves a material element of judgement or analysis, the consequences of which are reasonably expected to be significant for the person(s) for whom the work is produced.
- 1.5. **Members** must ensure that they are in a position to justify the approach which they have taken to the application of **Peer Review** for the purposes of this **APS**, if reasonably called upon to do so.

2. Clarity amongst those involved and timing

- 2.1. Where **Peer Review** is to be undertaken in relation to **Actuarial Work** for which they are responsible, **Members** must take reasonable steps to ensure that everybody involved has a clear understanding of their relevant role.
- 2.2. **Peer Review**, where applied to meet the requirements of this **APS**, should be undertaken at a time such as to be capable of influencing the conclusions and outputs of the work.

3. Individual(s) taking part in Peer Review

3.1. The individual(s) taking part in the **Peer Review** must:

3.1.1. have appropriate experience and expertise; and

3.1.2. be in a position to take part in, and to be seen to take part in, the **Peer Review** with appropriate objectivity.

4. Definitions

Term	Definition
Actuarial Work	Work undertaken by a Member in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings, or opinions.
Actuaries' Code	The ethical code for Members issued by the Institute and Faculty of Actuaries (available at: http://www.actuaries.org.uk/regulation/pages/actuaries-code).
APS	Actuarial Profession Standard, issued by the Institute and Faculty of Actuaries.
Member	A Member of the Institute and Faculty of Actuaries.
Peer Review	Process by which a piece of work (or one or more parts of a piece of work) for which a Member is responsible is considered by at least one other individual(s), having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question.