



Actuarial Association of Europe
FAO Michael Lucas, Secretary General
4 Place du Samedi
B-1000
Brussels
Belgium

4 September 2015

Dear Michael

2nd Exposure Draft of European Standard of Actuarial Practice 2 (ESAP 2) – Actuarial Function Report under Directive 2009/138/EC

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on the latest draft of ESAP 2. To ensure a comprehensive response that reflects the breadth of areas in which our members work, we have consulted members of the IFoA's Solvency II Steering Group, Life Board, General Insurance Board, Regulation Board and International Board.
2. As outlined in our responses to previous consultations about ESAP 2, the IFoA supports the intentions of this standard.^{1 2} We continue to consider it important that reporting, both in terms of scope and practice, is consistent across Europe in the general application of EU legislation and, particularly, once Solvency II comes into effect.
3. The IFoA welcomes the work undertaken by the drafting committee, particularly in reconciling conflicting views from different associations. We note that the committee has adopted some of the IFoA's previous comments.
4. We note that the latest draft sets out principles for drafting the report; however, the draft standard also contains a number of more prescriptive statements that depart from a principles-based approach.
5. We have limited our specific comments to those areas of the draft that have changed since the previous version. We have also referenced our response of 29 August 2014 to highlight examples of the point made in paragraph 3.
6. The IFoA strongly supports the explanation provided about the use of component reports. The IFoA would expect the use of such reports to offer greater clarity in reporting.

Principles-based, targeted and proportionate

7. As commented in our previous response, the IFoA and the Financial Reporting Council (FRC) have begun to implement a principles-based framework in the UK. We welcome the

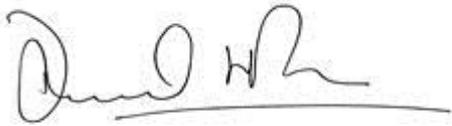
¹ <http://www.actuaries.org.uk/research-and-resources/documents/consultation-response-GCASP2>

² <http://www.actuaries.org.uk/research-and-resources/documents/foa-response-aae-working-draft-esap-2-actuarial-function-report>

AAE's similar commitment to a principles-based approach, but we are concerned that the current draft does not always adhere to this approach.

8. An example of how this could be applied is paragraph 3.2.3.1, where a principles-based approach could be to require sufficient information be made available to the administrative, management or supervisory body on changes since the last reported Technical Provisions.
9. If you wish to discuss any of the points raised please contact my colleague Philip Daggart, Policy Manager (philip.daggart@actuaries.org.uk/ 01312401319) in the first instance. If you would find it helpful, some of our members involved in the drafting of this response would be happy to participate in a conference call with the drafting committee.

Yours sincerely

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

Desmond Hudson
Chair, Regulation Board

Appendix Detailed Drafting points for AAE ESAP 2

Section 2 Definitions

- 2.5 We do not consider it necessary to include a definition of actuarial standards within an actuarial standard.
- 2.13 As we commented previously, we would welcome a distinction between models and methods by including a definition of “methods”. If that were not possible, an alternative approach would be to replace “methods” with “methodology”. This would be consistent with ESAP1.
- 2.14 The definition of “professional judgement” appears to be backward looking and could, we think, be enhanced by including reference to anticipated future changes. The definition could also include “the application of training and experience” to the specific work required for the report.
- 2.16 The definition of Solvency II principles covers a wide range of often detailed requirements that are more detailed than principles. It may be clearer and safer simply to refer to Solvency II provisions.

Section 3.3 Appropriate Practices

- 3.1.13 We welcome the AAE’s restriction of the standard to significant issues. However, if the word “significant” were included in the standard, rather than the explanatory comments, it would add more weight to the proposed approach.

Section 3.2 Technical Provisions

- 3.2.3.1 The requirement for a commentary on the main items of movement in Technical Provisions should clarify that it may be appropriate to present impacts in own funds rather than solely Technical Provisions.
- 3.2.6 We commented previously that there should be separate definition of models and methods. We would still regard the inclusion of definitions for both words as being more complete. The reference in 3.2.6.7 to methods alone adds to the ambiguity. However, our comment in respect of 2.13 offers a further alternative.
- 3.2.6.5 We would recommend the text should not try to restate the Level 2 text as a negative. It would be preferable to keep more closely to the Level 2 text by saying “The AFR should indicate if the AF assesses that the information technology systems used in the calculation of technical provisions sufficiently support the actuarial and statistical procedures.”

Section 3.3 Opinion on underwriting policy

- 3.3.7.2 The inclusion of “risk appetite” and “risk profile” appears to go beyond the requirements of the quoted regulation. We suggest it is not clear how to assess consistency with risk profile, which is a consequence of the underwriting policy amongst other things.

Section 3.4 Opinion on Reinsurance Arrangements

- 3.4.3 The items considered regarding reinsurance arrangements under stressed conditions may be better included within the company’s ORSA report. Where this is the case, we would encourage clarification that the AFR does not require additional reporting.