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***FINAL***

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**STANDARDS OF PRACTICE –  
SECTION 1640**

**COMMITTEE ON THE APPLICATION OF RULES AND STANDARDS**

**SEPTEMBER 2003**

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## MEMORANDUM

**TO :** All Members, Associates and Affiliates of the Canadian Institute of Actuaries  
**FROM :** Luc Farmer  
Chairperson, Practice Standards Council  
**DATE :** September 2, 2003  
**SUBJECT :** **Final: Section 1640 of the Standards of Practice**

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The Committee on the Application of Rules and Standards (CARS) has been asked to implement a standard of practice for review of the work of an actuary. This has been accomplished by the enclosed change to section 1640 of the Standards of Practice.

Section 1640 deals with how an actuary whose work is being reviewed and the reviewer treat each other. The main elements of the standard consider cooperation between the actuaries, reporting by the reviewer and dispute resolution.

There is an explanation of the revisions to section 1640 provided in the paper, preceding the text of the revision. The effective date for this revision is September 1, 2003.

An educational note is also being distributed as a supplement to this standard. The educational note applies specifically to reviews of an insurer's appointed actuary and may provide some useful guidance for reviews performed on other work. Neither the standard of practice nor the educational note apply to reviews conducted as part of a quality control process within an actuary's firm.

Any questions on the revision to section 1640 should be addressed to John F. Brierley at his *Yearbook* address.

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## REVISION TO SECTION 1640 OF THE STANDARDS OF PRACTICE

### Explanation of Revision

The Practice Standards Council, acting on the advice of the Committee on the Application of Rules and Standards and the Standards of Practice Editorial Committee, has approved this revised standard of practice.

“Present” and “revised” refer respectively to the present section 1640 and its revision.

The present section 1640 of the Standards of Practice is hereby revised

to cater to the growing frequency of what has been called “peer review”, or “external peer review”, of the work of an actuary at the instigation of a user of the first actuary’s work, and

to improve the wording of the present section 1640 without making substantive change.

In considering a review at the instigation of a user, the Committee on the Application of Rules and Standards identified certain desirable practices which also seem desirable for the reviews with which the present section 1640 deals, except as noted in revised paragraph .11, and they are included in the revised section 1640. Those practices are that:

The first actuary selects the reviewer, with consultation as appropriate with the user.

The review improves the reviewed work and contributes to the professional development of both actuaries.

The review is pre-release rather than post-release.

The main elements of the revision to improve the wording are as follows:

The revised section 1640 does not use the term “peer review”, because that term denotes both “internal” and “external” reviews, which section 1640 treats differently.

The four definitions in paragraph .01 shorten and simplify the subsequent wording.

The guidance for a review engagement is fully set forth and then made applicable to a repeat engagement (see the second sentence in revised paragraph .02). As a result, the revised roman text consists of untitled guidance applicable to all review engagements, and the two titled sections which follow need deal only with the appropriateness of certain engagements, namely:

those which preclude discussion between the two actuaries, and  
repeat engagements.

Paragraphs have been re-ordered in a more logical sequence. For example, present paragraph .04 is moved in front of present paragraph .02.

Present paragraph .03 has been split into revised paragraphs .05 (disagreement with first actuary’s work which is within accepted actuarial practice), .06 (first actuary’s information, data, resources, and time were limited), and .08 (first actuary’s work outside accepted actuarial practice).

Revised paragraph .07 deals with the possibility of improvement in the first actuary’s work.

Revised paragraph .22 clarifies present paragraph .12.

**Text of the Revision****1640 REVIEW OR REPEAT OF ANOTHER ACTUARY'S WORK**

[Effective date: September 1, 2003]

- .01 In this section 1640,
- “first actuary” means an actuary whose work is reviewed or repeated,
- “review engagement” means an engagement to review the first actuary’s work,
- “reviewer” means the actuary engaged to review or repeat the first actuary’s work,  
and
- “repeat engagement” means an engagement to repeat all or part of the first actuary’s work.
- .02 The standards in this section 1640 apply to a review engagement which is at the instigation of a user. They do not apply to quality control in the first actuary’s firm or employer (sometimes referred to as “internal peer review” or “internal audit”), even if the reviewer is external to the first actuary’s firm or employer. The standards for a review engagement also apply, mutatis mutandis, to a repeat engagement.
- .03 *If the terms of the first actuary’s engagement so permit, then the first actuary should cooperate with the reviewer.*
- .04 *If the terms of the review engagement so permit, then the reviewer should, as soon as practical, discuss the review with the first actuary (unless the reviewer’s agreement with the first actuary’s work makes such discussion superfluous), and should attempt to resolve any difference between them. The reviewer should report the result of such discussion.*
- .05 *If the reviewer reports disagreement with the first actuary’s work but that work is within the range of accepted actuarial practice, then the reviewer should so report.*
- .06 *If a limitation in time, information, data, or resources constrained the quality of the first actuary’s work, then the reviewer should so report.*
- .07 *If discussion between the two actuaries results in improvement to the first actuary’s work or, in the case of periodic reporting, to the work expected for the subsequent report, then the reviewer should so report.*
- .08 *If the first actuary’s work is not within the range of accepted actuarial practice, then the reviewer should so report and should consider Rule 13 (apparent material noncompliance with the rules or standards).*
- .09 *A repeat engagement is an appropriate engagement if its purpose is to identify or reduce uncertainty in the matter on which the first actuary reported. [Effective date: September 1, 2003]*

**Applicable rules**

- .10 The rules affect a review engagement, in particular Rule 1, on upholding the reputation of the profession; Rule 9, on dealing with other actuaries; and Rule 13, on apparent material noncompliance by another member with the rules or standards.

### **Selection of reviewer**

- .11 The reviewer may be engaged by a user of the first actuary's work or by the first actuary. The latter may not be appropriate if the interests of that user and the first actuary's client or employer are opposed, but otherwise has the merit of
- facilitating compliance with this section 1640,
  - helping to assure selection of a qualified reviewer, and
  - avoiding unnecessary duplication by the reviewer of the first actuary's work.
- .12 In selecting a reviewer or agreeing the terms of the engagement, then the first actuary would have regard to the user's objective for the review and would consult with the user as appropriate.
- .13 If an actuary is qualified to perform the work of the first actuary, then that is prima facie evidence that the actuary is qualified to be the reviewer.
- .14 The perceived objectivity of the reviewer is enhanced if the reviewer is independent of the first actuary.

### **Terms of the engagement**

- .15 The review may take place prior to the release of the first actuary's report ("pre-release review") or after such release ("post-release review"). A pre-release review provides the opportunity for the reviewer to suggest improvement to the work. A post-release review allows such improvement to be implemented only in future work and in some cases might require a withdrawal of the report and revision to the work. A post-release review would therefore be avoided unless the circumstances of the case require it.
- .16 It is desirable that the terms of the engagement permit timely open discussion between the two actuaries. Such discussion
- facilitates the review,
  - lessens the possibility of reviewer misunderstanding or of unwarranted damage to the first actuary's reputation,
  - reveals possible improvement to the first actuary's work, even if the work is in accordance with accepted actuarial practice, and
  - contributes to the professional development of both actuaries.

### **Difference between the two actuaries**

- .17 It is possible for two actuaries properly to arrive at different results. Avoidance of a dispute about a difference which is not material, or explanation of a difference which is material, serves users and helps to preserve the reputation of the profession.
- .18 If the reviewer has access to different data, information, or resources, or has different time constraints, then the reviewer would so report.
- .19 Insufficiency or unreliability in the data creates uncertainty for both actuaries and increases the likelihood of reviewer disagreement with the first actuary's work. If better data are likely to narrow the range of the disagreement, then the reviewer would so report.

- .20 Discussion between the two actuaries is educational to both and may reveal possible improvements to the first actuary's work. The reviewer's report of those improvements assists the user to assess the utility of the review engagement. It may not be possible to identify those improvements which result from early discussion on matters which the first actuary had not yet decided.
- .21 Review by a third actuary of the reviewer's tentative disagreement with the first actuary's work may help to put the difference between them in perspective. Depending on the extent of the difference and its implications for the users, the reviewer, the first actuary, or both of them together, may wish to consult, in confidence, with the chairperson or vice-chairperson of the appropriate practice committee, the chairperson or vice-chairperson of the Practice Standards Council, or the chairperson or vice-chairperson of the Committee on Application of Rules and Standards.
- .22 If the review is confidential, then the extent and duration of any exemption provided to the reviewer, as such, from the application of Rule 13 is limited to the circumstances described in its Annotation 13-1.

### **Review engagement which precludes discussion between the two actuaries**

- .23 The reviewer would consider the appropriateness of a review engagement which precludes discussion with the first actuary, especially if the first actuary will not be apprised that the review is to take place. The engagement may be an appropriate engagement in, for example, any of the following cases:

The interests of the first actuary's client or employer and the reviewer's client or employer are opposed, especially so in the case of actuarial evidence work involving litigation or mediation.

The reviewer's client or employer is the police or regulatory authorities who are investigating the first actuary's conduct or the conduct of the first actuary's client or employer.

The review is merely preliminary to a further review in which timely open discussion between the two actuaries will be possible.

Discretion by the users of the reviewer's report is assured.

- .24 For example, in the case of actuarial evidence work involving litigation or mediation, the reviewer may be asked to report, without discussion with the first actuary,
- results based on assumptions which differ from those in the first actuary's report, or alternatives to the first actuary's reported results which are within the range of accepted actuarial practice.
- .25 An engagement which limits or delays discussion between the two actuaries may be an appropriate engagement if the reviewer's client or employer wants to ensure that the two reports are independent of each other.

### **Repeat engagement**

- .26 In order to identify or reduce uncertainty, the first actuary's client or employer may ask a second actuary to repeat the first actuary's work. A repeat engagement usually requires more time and expense than a review engagement. The second actuary may or may not have knowledge of, or access to, the first actuary's work. If the second actuary knows or suspects that the engagement is a repeat engagement, then he or she would take into account the possibility that the client or employer is "opinion shopping" when determining if it is an appropriate engagement.