

## **Professional Standards – Proposed Update to Standard Introductory Wording – June 2024**

### **Invitation for Member Feedback**

#### **Background**

Annexure A to this Memo sets out proposed changes to standard introductory wording that appears in section 1 of all Professional Standards (PS) except PS 1 Continuing Professional Development. The key changes proposed by the Professional Practice Committee (PPC) are:

1. To the definition of materiality, to combine the guidelines from PG 1 and the standard wording used in a PS. The proposed user-centric approach to setting materiality thresholds better aligns the Institute's approach with emerging community expectations and those of other actuarial bodies.
2. Clauses 1.3.3 and 1.3.4 were updated a few years ago to deal with a situation where a Member finds, part-way through an engagement, that they are unable to perform work in full compliance with the applicable PS. To address potential disadvantage to clients, clause 1.3.3 was expanded.

However, the updated wording could be read to apply more broadly than originally intended and so changes are proposed to clarify the intent.

3. These amendments will be made to Section B.5 of the Policy for Developing Professional Practice Documents and applied to all PS except PS 1 as set out in Annexure C.

#### **Feedback from Practice Committees and subsequent revision**

Feedback was sought and received from Practice Committees and the then Climate and Sustainability Working Group (now the Climate & Sustainability Practice Committee) and is set out in Annexure E.

Based on the feedback, the PPC determined:

1. To adopt alternative wording for clause 1.3.3 proposed by LIPC;
2. To further clarify the definition of materiality.
3. To retain the term "Intended Users" as opposed to adopting the label "primary users" and to clarify the definition; and
4. To expose the proposed changes to all Members for feedback prior to adoption.

The Annexures to this document are as follows:

- |   |  |
|---|--|
| A | Proposed changes to the existing Section B.5 of the Policy for the Development of Professional Practice Documents – marked-up. |
| B | Section B.5 as it will appear after amendment.   |
| C | Changes to individual Professional Standards to effect this amendment.   |
| D | Relevant definitions from other actuarial associations which have been reviewed in redeveloping the definition of materiality. |
| E | Summary of feedback from Practice Committees.  |

Members are invited to provide feedback on the proposed changes to [ppd@actuaries.asn.au](mailto:ppd@actuaries.asn.au) by **Friday 12 July 2024**. The PPC will consider all suggestions and plans to make a final recommendation to the September meeting of Council.

Any changes are expected to be made with effect from 1 October 2024: there are some Professional Standards where minor differences in order of sections, and additional explanatory information in some PS will be retained as noted in Annexure C.

Professional Practice Committee  
June 2024

**B.5 Common material to be included in all Professional Standards**

16. A Professional Standard must have the following opening sections and text:

**1. Introduction**

**1.1 Application<sup>2</sup>**

~~This contains purpose of Professional Standard, as well as describing related legislation, regulation, guidance etc. issued by other parties.~~

1.1.1 This Professional Standard applies to Members ...<sup>3</sup>

1.1.2 [A Member who provides advice performed under this professional standard:

- (a) must be an Eligible Actuary; and
- (b) must exercise ~~his or her~~ independent professional judgement and give impartial advice.

Members supporting the Member providing advice under the Professional Standard are not required to be an Eligible Actuary. However, this Professional Standard applies to Members who support another Member in providing advice under the Professional Standard, to the extent relevant to their contribution to the Services.<sup>4</sup>

1.1.3 [All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.]<sup>5</sup>

**1.2 Previous versions**

Previous version of this Professional Standard...

**1.3 About this Professional Standard**

1.3.1 This Professional Standard:

- (a) has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents;
- (b) must be applied in the context of the Code;
- (c) must be applied by Members of the Institute when they perform work that covered by the Professional Standard ~~covers~~; and

<sup>2</sup> This section is to set out the purpose of the Professional Standard (PS), as well as describing related legislation, regulation, guidance etc. issued by other parties.

<sup>3</sup> For the purposes of this policy, references to Members and applicability will be dependent on the particular PS. Other information may be included in relation to the application of the PS which may alter subsequent numbering.

<sup>4</sup> Where Eligible Actuary is a requirement of the Member giving advice, this text will be included.

<sup>5</sup> Included if the advice is designated an Applicable Service. As a rule, all advice provided under a PS will be Applicable Service unless Council is persuaded otherwise.

- (d) defines the Institute's requirements for work covered by that the Professional Standard ~~covers~~.

1.3.2 If a Member believes that this Professional Standard is ambiguous or wishes to seek clarification of it, ~~then~~ they may consult the Institute's Professional Practice Committee for an interpretation.

1.3.3 A Member may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If a Member finds ~~that~~ they cannot carry out their work in a way that fully complies with this Professional Standard, ~~then~~ they must:

- (a) decline to carry out the work; or
- (b) end their agreement to do so; ~~or~~
- ~~(c) perform the work to the fullest extent possible under this Professional Standard; and qualify the work accordingly as set out in clause 1.3.4.~~

~~The approach adopted in such circumstances will require the exercise of the Member's professional judgement having regard to Materiality as appropriate.~~

~~1.3.4 In the scenario described in clause 1.3.3 (c), the resulting work product must be clearly qualified, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations. All reasonable attempts must be made to comply with this Professional Standard to the fullest extent possible. A description of the areas where change would be needed to enable the creation of an unqualified work product must be disclosed along with a description of the reasons for issuing qualified work.~~

1.3.4 ~~In the scenario described in clause 1.3.3 (c),~~ Notwithstanding clause 1.3.3, if

- (a) in the judgement of the Member, the Client is likely to suffer significant loss or disadvantage if the member ceases to provide the Services, and
- (b) the Services will not be Materially affected if the Member completes the work without full compliance with this Professional Standard,

the Member may complete the Services but must

- (i) clearly qualify the resulting work product ~~must be clearly qualified~~, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations,
- (ii) make a All reasonable attempts ~~must be made~~ to comply with this Professional Standard to the fullest extent possible, and
- (iii) disclose ~~A description of~~ the areas where change would be needed to enable the creation of an unqualified work product ~~must be disclosed~~ along with ~~a description of~~ the reasons for issuing qualified work.

1.3.5 If a Member does not comply with this Professional Standard, ~~then~~ that may constitute Misconduct under the Institute's Disciplinary Scheme, although proper account will be taken of provisions of clauses 1.3.3 and 1.3.4.

1.3.6 This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflect the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek

clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

#### 1.4 Other relevant material

- 1.4.1 This Professional Standard must be applied in the context of the relevant legislation, regulation and accounting standards. If there is a conflict in wording, then the legislation, regulation and accounting standards take precedence over this Professional Standard.
- 1.4.2 In this context, legislation, regulation and accounting standards include laws, regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law. Also included are relevant modifications or substitutions of these. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.4.3 Apart from the Code, legislation, regulation or accounting standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.

#### 2. Commencement Date

This Professional Standard applies...

#### 3. Definitions

- 3.1 ~~This section lists the definitions relevant to the~~In this Professional Standard<sup>6</sup>:

~~'Intended User'~~ means any legal or natural persons (generally including the Client) whom

~~(a) the Member intends to use the output of the Services, or~~

~~(b) at the time the Member performs the Services, the Member ought reasonably to expect will use the output of the Services.~~

~~'Material'~~ means relevant to ~~the Entity's circumstances and is either important or essential in the opinion of the Member a decision of an Intended User of the Services~~ (Section 4 ~~of this Standard~~ addresses 'Materiality' for the purpose of this Standard). For this purpose, 'Material' does not have the same meaning as in Australian accounting standards.

**'Report'** means a document prepared by a Member under this Professional Standard ...

**'To disclose'** means to include information within a written communication, such as a Report where one is prepared.

**'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

- 3.2 ~~The following clause must be used in the definitions section of the Professional Standard:~~

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<sup>6</sup> This section lists the definitions relevant to the Professional Standard and will usually include the following definitions.

"A word that is derived from a defined word has a corresponding meaning."

- 3.3 ~~If a term to be used in a Professional Standard is already defined in the Code, then it is not to be defined in the Professional Standard and the following clause must be used in the definitions section of the Professional Standard:~~

~~"Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code<sup>7</sup>."~~

#### 4. Materiality

- 4.1 The Member must take Materiality into account when performing work under this Professional Standard. ~~In determining whether something is Material, the Member must consider the purpose of the work.~~

- 4.2 ~~Determining w~~Determining whether something is Material or not, or determining the threshold of Materiality, will always be a matter requiring the exercise of the Member's professional judgement. When exercising this judgement, the Member must:

(a) assess Materiality from the point of view of the Intended User(s), recognising the purpose of the Services. Thus, a matter required to be considered under this Professional Standard, or an omission, understatement, or overstatement, is Material if the Member expects it to affect significantly either the Intended User's decision-making or the Intended User's reasonable expectations; and

(b) consider the Services and the subject of those Services.

In setting a threshold of Materiality, a Member must consider any requirements advised by the Client, an auditor retained by the Client or a relevant regulator. Where those requirements result in the exclusion of a matter which would otherwise be included, the Member must disclose the reason for the exclusion, and its nature and extent.

- 4.3 If the Member has formed the opinion that a matter required to be considered ~~under this Professional Standard~~ is not Material, then the Member must record that the matter is not Material and provide reasons for forming that opinion but does not have to further consider that matter.:

~~(a) the Member must record that the matter is not Material and provide reasons for forming that opinion, but does not have to further consider that matter; and~~

~~(b) if the matter is not relevant to the Entity's circumstances, the matter may be omitted from the applicable Report; or~~

~~(c) if the matter is relevant to the Entity's circumstances, but is not Material because it is neither important nor essential in the Member's opinion, the Member must disclose in the Report that the matter is not Material and provide reasons for such opinion.~~

- 4.4 The Member must assess whether any omissions, understatements, or overstatements are Material. If the effect of these in aggregate is Material, the Member must disclose this in any Report to which it is relevant.

#### 5. [body of Professional Standard]

<sup>7</sup> If a term to be used in a Professional Standard is already defined in the Code, then it is not to be defined in the Professional Standard and the following clause must be used in the definitions section of the Professional Standard

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1.1.3 [All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.]<sup>5</sup>

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- (d) defines the Institute's requirements for work covered by the Professional Standard.

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- (a) decline to carry out the work; or
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- (a) in the judgement of the Member, the Client is likely to suffer significant loss or disadvantage if the member ceases to provide the Services, and
  - (b) the Services will not be Materially affected if the Member completes the work without full compliance with this Professional Standard,
- the Member may complete the Services but must
- (i) clearly qualify the resulting work product, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations,
  - (ii) make all reasonable attempts to comply with this Professional Standard to the fullest extent possible, and
  - (iii) disclose the areas where change would be needed to enable the creation of an unqualified work product along with the reasons for issuing qualified work.
- 1.3.5 If a Member does not comply with this Professional Standard, that may constitute Misconduct under the Institute's Disciplinary Scheme, although proper account will be taken of provisions of clauses 1.3.3 and 1.3.4.
- 1.3.6 This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflect the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

#### **1.4 Other relevant material**

- 1.4.1 This Professional Standard must be applied in the context of the relevant legislation, regulation and accounting standards. If there is a conflict in wording, then the legislation, regulation and accounting standards take precedence over this Professional Standard.
- 1.4.2 In this context, legislation, regulation and accounting standards include laws, regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law. Also included are relevant modifications or substitutions of these. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.4.3 Apart from the Code, legislation, regulation or accounting standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.



## 2. Commencement Date

This Professional Standard applies...

## 3. Definitions

### 3.1 In this Professional Standard<sup>6</sup>:

**'Intended User'** means any legal or natural persons (generally including the Client) whom

- (a) the Member intends to use the output of the Services, or
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**'Material'** means relevant to a decision of an Intended User of the Services (Section 4 addresses 'Materiality' for the purpose of this Standard). For this purpose, 'Material' does not have the same meaning as in Australian accounting standards.

**'Report'** means a document prepared by a Member under this Professional Standard ...

**'To disclose'** means to include information within a written communication, such as a Report where one is prepared.

**'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

### 3.2 A word that is derived from a defined word has a corresponding meaning.

### 3.3 Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code<sup>7</sup>.

## 4. Materiality

### 4.1 The Member must take Materiality into account when performing work under this Professional Standard.

### 4.2 Determining whether something is Material or not, or determining the threshold of Materiality, will always be a matter requiring the exercise of the Member's professional judgement. When exercising this judgement, the Member must:

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<sup>6</sup> This section lists the definitions relevant to the Professional Standard and will usually include the following definitions.

<sup>7</sup> If a term to be used in a Professional Standard is already defined in the Code, then it is not to be defined in the Professional Standard and the following clause must be used in the definitions section of the Professional Standard

- (b) consider the Services and the subject of those Services.

In setting a threshold of Materiality, a Member must consider any requirements advised by the Client, an auditor retained by the Client or a relevant regulator. Where those requirements result in the exclusion of a matter which would otherwise be included, the Member must disclose the reason for the exclusion, and its nature and extent.

- 4.3 If the Member has formed the opinion that a matter required to be considered is not Material, then the Member must record that the matter is not Material and provide reasons for forming that opinion but does not have to further consider that matter.
- 4.4 The Member must assess whether any omissions, understatements, or overstatements are Material. If the effect of these in aggregate is Material, the Member must disclose this in any Report to which it is relevant.

**5. [body of Professional Standard]**

**End of [name of relevant document]**

## Annexure C

### Professional Standards to be updated editorially

The following table sets out how each existing Professional Standard will be updated and notes where there may be differences in numbering or in the definitions to be inserted. ‘Non-standard application’ means requiring any other change than the addition of proposed words in 1.1.2 and replacement of existing sections 1.3.3 and 1.3.4 with the proposed wording set out in Attachment A. Only PS1 Continuing Professional Development does not require some amendment.

Section 1.2 of each standard (or its equivalent) will be replaced to note the implementation of this update: “A revised definition of ‘Material’ was inserted in October 2024 together with minor wording amendments to section 1 of the Standard in line with the revised Policy on Preparing Professional Practice Documents adopted by Council in September 2024.”

PS	Title	Lead PC	Last amended	Non-standard application section	Non-standard definition(s)
102	Financial condition report	GIPC	March 2021	(Apply proposed text as is)	(Apply proposed text as is)
103	Actuarial review	LIPC	March 2021	(Apply proposed text as is)	(Apply proposed text as is)
202	Actuarial Advice to a Life Insurance Company or Friendly Society	LIPC	March 2023	(Apply proposed text as is)	(Apply proposed text as is)
203	Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies)	LIPC	March 2021	(Apply proposed text as is)	(Apply proposed text as is)
302	Valuation of General Insurance Claims	GIPC	March 2023	Relevant section numbers are 1.4.3 and 1.4.4 instead of 1.3.3 and 1.3.4 respectively. Section 1.2.2 already reflects the first proposed amendment	(Apply proposed text as is)
400	Investigations of the Financial Condition of Defined Benefit Superannuation Funds	SIPC	March 2021	(Apply proposed text as is)	Replace existing 4.1 and 4.2 with proposed wording and renumber existing 4.3 and 4.4 to 4.5 and 4.6 resp
402	Determination of Accrued Benefits for Defined Benefit Superannuation Funds	SIPC	March 2021	Only 1.1.2 needs amending – existing 1.2.5 provides no let-out like former 1.3.3(c)	(Apply proposed text as is)
403	Preparation of Benefit Certificates	SIPC	May 2022	(Apply proposed text as is)	Update not required – ‘Material’ not a defined term

PS	Title	Lead PC	Last amended	Non-standard application section	Non-standard definition(s)
404	Valuation of superannuation fund assets	SIPC	March 2021	Only 1.1.2 needs amending – existing 1.2.5 provides no let-out like former 1.3.3(c)	As ‘Material’ is defined, the definition section will be amended and the Materiality section 4 inserted, resulting in subsequent section being renumbered 5
405	Cost of death and disability benefits in superannuation funds	SIPC	March 2021	Only 1.1.2 needs amending – existing 1.2.5 provides no let-out like former 1.3.3(c). 1.1.4 will be replaced with the ‘Previous version’ wording set out as 1.2 (second paragraph of intro above)	As ‘Material’ is defined, the definition section will be amended and the Materiality section 4 inserted, resulting in subsequent sections being renumbered 5 etc
406	Unsegregated Superannuation Liabilities	SIPC	September 2022	Only 1.1.2 (numbered 1.1.4 in this standard) needs amending; existing 1.3.3 provides no let-out like former 1.3.3(c)	As ‘Material’ is defined, the definition section will be amended and the Materiality section 4 inserted, resulting in subsequent sections being renumbered 5 etc
407	Solvency Management of Defined Benefit Superannuation Funds	SIPC	March 2021	Only 1.1.2 (numbered 1.1.6 in this standard) needs amending; existing 1.3.3 provides no let-out like former 1.3.3(c)	As ‘Material’ is defined, the definition section will be amended and the Materiality section 4 inserted, resulting in subsequent sections being renumbered 5 etc
408	Payments from superannuation funds to employers	SIPC	March 2021	None except 1.1.2 is 1.1.3 in this standard	As ‘Material’ is defined, the definition section will be amended and the Materiality section 4 inserted, resulting in subsequent sections being renumbered 5 etc
409	Segregated Superannuation Asset Certificates	SIPC	September 2022	Only 1.1.2 (numbered 1.1.4 in this standard) needs amending; existing 1.3.3 provides no let-out like former 1.3.3(c)	Update not required – ‘Material’ not a defined term
410	Statements of Opinion Relating to Defined Benefit Pensions	SIPC	June 2023	1.1.2 is 1.1.6 in this standard	(Apply proposed text as is)
602	Valuations of Health Insurance Claims	HPC	April 2024	New sections 1.3 and 1.4 replace existing 1.4 and 1.5 respectively	(Apply proposed text as is)

## Annexure D

## Examples of materiality and related definitions from other IAA member associations

### United Kingdom

Technical Actuarial Standard 100 **General Actuarial Standards** (in force since March 2023) (UK Financial Reporting Council)

[https://media.frc.org.uk/documents/TAS\\_100\\_General\\_Actuarial\\_Standards\\_Version\\_2.0.pdf](https://media.frc.org.uk/documents/TAS_100_General_Actuarial_Standards_Version_2.0.pdf)

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**communications** Actuarial information that meets the reliability objective and is provided to an intended user to assist the intended user in making informed decisions.

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**intended user** A person or group of persons whose decisions communications are intended (at the time they are provided) to assist.

**material** Matters are material if they could, individually or collectively, influence the significant or relevant decisions that could be taken by an intended user. Assessing whether a matter is material is a matter for judgement and therefore subjective, requiring consideration of the objectives underpinning the technical actuarial work, the expectations and experience of the intended user and other considerations, such as the significance of resulting commercial or practical implications.

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**reliability objective** To allow the intended user to place a high degree of reliance on actuarial information, practitioners must ensure the actuarial information, including the communication of any inherent uncertainty, is relevant, based on transparent assumptions, complete and comprehensible

## USA

Actuarial Standard of Practice (ASOP) 1 **Introductory Actuarial Standard of Practice** (in force since June 2013) (Actuarial Standards Board) [https://www.actuarialstandardsboard.org/wp-content/uploads/2013/10/asop001\\_170.pdf](https://www.actuarialstandardsboard.org/wp-content/uploads/2013/10/asop001_170.pdf)

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**2.6 Materiality** – “Materiality” is a consideration in many aspects of the actuary’s work. An item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user. When evaluating materiality, the actuary should consider the purposes of the actuary’s work and how the actuary anticipates it will be used by intended users. The actuary should evaluate materiality of the various aspects of the task using professional judgment and any applicable law (statutes, regulations, and their legally binding authority), standard, or guideline. In some circumstances, materiality will be determined by an external user, such as an auditor, based on information not known to the actuary. The guidance in ASOPs need not be applied to immaterial items.

*Intended user(s)* is not defined in ASOP 1

*Example from a practice area-specific ASOP currently being redrafted:*

ASOP 36 (in force since 2011) **Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves** [https://www.actuarialstandardsboard.org/wp-content/uploads/2014/02/asop036\\_1531.pdf](https://www.actuarialstandardsboard.org/wp-content/uploads/2014/02/asop036_1531.pdf)

**3.2 Purpose and Users of the Statement of Actuarial Opinion**—The actuary should identify the intended purpose and intended users of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Annual Statement Instructions, and the intended users may be the company and its regulators.

**3.6 Materiality**—The actuary should evaluate materiality based on the actuary’s professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion. The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the reserves and future payments for losses and loss adjustment expenses. For example, for a statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, materiality might be evaluated in terms of the company’s reported reserves or statutory surplus.

ASOP 36 draft 2 June 2023 **Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves**

[https://www.actuarialstandardsboard.org/wp-content/uploads/2023/07/ASOP-No.-36-second-exposure-draft\\_June-2023.pdf](https://www.actuarialstandardsboard.org/wp-content/uploads/2023/07/ASOP-No.-36-second-exposure-draft_June-2023.pdf)

**3.1 Purpose and Users of the Statement of Actuarial Opinion**—The actuary should identify the intended purpose and intended users of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Property/Casualty Annual Statement Instructions, where the intended users include the company’s board of directors and its regulators.

**3.10 Determination of Materiality Standard**—The actuary should determine a materiality standard that is appropriate for the intended purpose of the statement of actuarial opinion.

When determining the materiality standard, the actuary should take into account the financial metrics that the actuary believes are relevant to the intended users of the statement of actuarial opinion and how those financial metrics are likely to be affected by changes in the total reserves within the scope of the statement of actuarial opinion. For example, for a statutory statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, the materiality standard might be based on an amount that would trigger a regulatory action for the company. Other examples of materiality standards include percentage of surplus, percentage of reserves, and the amount of adverse deviation that would cause surplus to fall below minimum capital requirements.

If the actuary chooses to comment on the risk of material adverse deviation on a direct and assumed basis, the actuary may select different materiality standards on a direct and assumed basis and on a net of recoverables basis.

The actuary should use the selected materiality standard to determine whether there is a significant risk of material adverse deviation. This materiality standard may not be appropriate for use in evaluating materiality in the reserve evaluation or in other contexts.

**3.11 Material Adverse Deviation**—The actuary should determine whether there are significant risks and uncertainties that could result in material adverse deviation. When making this determination, the actuary should take into account both quantitative and qualitative factors to assess whether there are significant risks that could result in future outcomes being greater than what is provided for in the total reserves within the scope of the statement of actuarial opinion by more than the materiality standard. The actuary should take into account the scope of the statement of actuarial opinion, the intended purpose and intended users of the statement of actuarial opinion, and the requirements of applicable law.

If the scope of the statement of actuarial opinion includes both direct and assumed reserves and reserves net of recoverables, the actuary should assess the risk of material adverse deviation on a net of recoverables basis. The actuary may choose to comment on the risk of material adverse deviation on a direct and assumed basis. The actuary's conclusion on the risk of material adverse deviation may differ between direct and assumed reserves and reserves net of recoverables.

The actuary should compare the sum of (1) the total reserves within the scope of the statement of actuarial opinion and (2) the materiality standard to the high end of the range of estimates that could be produced and that the actuary considers reasonable, consistent with the applicable ASOPs, and consistent with the identified stated basis of the reserves. If the sum is less than or equal to the high end of the range, the actuary should find that there is a risk of material adverse deviation. If the sum is greater than the high end of the range, the actuary may find that a risk of material adverse deviation exists.

When the reserve evaluation is based on separate estimates for different reserve items, such as loss, loss adjustment expense, and other reserves, the actuary should take into account the combined risks and uncertainties of the total reserves within the scope of the statement of actuarial opinion to determine whether a risk of material adverse deviation exists. The actuary also may comment on the risk of material adverse deviation related to different reserve items.

## South Africa

Actuarial Practice Note (APN) 901 **General actuarial practice** (in force since December 2021)  
(Actuarial Society of South Africa)

<https://www.actuarialsociety.org.za/download/APN%20901:%20General%20Actuarial%20Practice/?wpdmdl=11798>

**1.4 Reasonable Judgment** – The actuary should exercise reasonable judgment in applying any Standard of Practice.

1.4.1 A judgment is reasonable if it takes into account:

- a. The spirit and intent of the Standard of Practice;
- b. The type of assignment; and
- c. Appropriate constraints on time and resources.

1.4.2 Nothing in a Standard of Practice should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work (Principle of Proportionality).

1.4.3 Any judgment required by the Standard of Practice (including implicit judgment) is intended to be the actuary's professional judgment unless otherwise stated.

**2.4 Materiality** – In case of omissions, understatements, or overstatements, the actuary should assess whether the effect is material. If the effect of any of these is material, the actuary should disclose this in any report to which it is relevant. The threshold of materiality under which the work is being conducted should be determined by the actuary unless it is imposed by another party such as an auditor or the principal. When determining the threshold of materiality, the actuary should:

2.4.1 Assess materiality from the point of view of the intended user(s), recognizing the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations;

2.4.2 Consider the actuarial services and the subject of those actuarial services; and

2.4.3 Consult with the principal if necessary



## Annexure E

## Feedback from Practice Committees

### *Life Insurance Practice Committee*

*The LIPC suggest a more simple change to 1.1.3 expressed as follows:*

*1.3.3. A Member may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If a Member finds that they cannot carry out their work in a way that fully complies with this Professional Standard then they must:*

*(a) decline to carry out the work;*

*(b) end their agreement to do so; or*

*(c) if the client would suffer significant loss if the Member were to withdraw and in the Member's judgement, if they complete the work the inability to comply with this Standard will not Materially affect their conclusion/report/valuation etc, then perform the work to the fullest extent possible under this Professional Standard; and qualify the work accordingly as set out in clause 1.3.4.*

Although the suggested redraft is a longer clause, LIPC's view is that drafted as such reduces the overall number of statements and makes it clear that (a) and (b) are the preferred options and (c) has a heavy caveat.

### *Superannuation and Investment Practice Committee*

The SIPC considered the proposals and have indicated in principle support. SIPC Chair has confirmed that the SIPC is comfortable with the proposals.

### *Risk Management Practice Committee (RMPC)*

Overall, the RMPC agrees with the proposed changes.

RMPC's main comment was from a practical perspective, namely that the Member needs to consider any relevant materiality thresholds of the client that relate to the purpose of the work. RMPC noted that often materiality is agreed with the external auditors and is, for example, determined as a % of Net Assets. That approach however, is not a hard and fast rule and may also be x% of a balance with a maximum \$m to prevent large overs offsetting large unders.

RMPC recommend that any guidance on materiality should make it clear that any established materiality policies of the client also need to be considered.

### *Health Practice Committee*

HPC considered that overall, the explanation and intention for the changes make sense, subject to RMPC's relevant comments about materiality policies and guidance.

HPC expressed the view that the new words describe the obligation much more clearly at different stages of an engagement and based on the timing of when the Member makes such a discovery.

HPC noted that the update to the definition of Materiality which now covers additional perspectives.

### *Climate and Sustainability Working Group (CWSG)*

No objection to the changes.

One comment on the topic of 'materiality' being framed by reference to the users of the services being provided. Chair of CWSG agrees with the principle of the update, however, notes that most accounting standards use the term "primary users" rather than just "users". In the context of accounting standards and this is because over time the sets of users of financial statements have expanded beyond 'traditional' users like investors or lenders to broader sets of users like regulators, government, or other groups from civil society. Different groups of users may have different views of materiality. Some actuarial advice provided under a professional standard could also have multiple groups of users – e.g. because of the public interest in areas of actuarial work like workers comp and CTP sometimes actuarial advice might go to a very broad audience beyond its primary users. The language "primary users" might avoid confusion in cases where there are multiple sets of users.

### *General Insurance Practice Group (GIPC)*

GIPC support the proposed changes subject to RMPC's comments about materiality policies and guidance.

The GIPC also recommend that the changes should be circulated to members for feedback prior to adoption.

### *Data Science Practice Committee*

No feedback received.