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Progress of International Forum of Actuarial Associations (IFAA)

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Summary: A report on the progress of the International Forum of Actuarial Associations (IFAA) made during its year, and a discussion of plans for the coming year.

Mr. Kevin M. Law: We are going to have an interesting discussion of the IFAA. We have an excellent panel of speakers assembled to discuss that topic. All speakers have been heavily involved with the formation and development of the forum to date.

One of our scheduled speakers, Paul McCrossan, is not able to be with us. He was the first chairperson of the IFAA and was very instrumental in its founding. He just completed his term as chairperson. The panel consists of Bob Collett, Chris Daykin and Walter Rugland. Our recorder is Richard Tan. Richard is a vice president with Pan-American Life based in Tampa, Florida.

Our first speaker will be Chris. Chris will cover the background and the formation of the IFAA, and he will give us a preview of what to expect during the upcoming year. Chris has just started his term as president of the IFAA. Chris is the government actuary for the U.K. He provides advice to Parliament on all actuarial issues. He consults internationally on social security systems, insurance supervision, and pensions as part of a consulting service offered by the office of the Government

Actuary. Chris has held all offices available in the Institute of Actuaries, including a term as president, which he recently concluded in June 1996.

In September 1996, Chris assumed the position of chairperson of the IFAA. According to the subjective evaluation of Paul McCrossan, Chris has the most extensive international practice of any actuary in the world. Chris has spoken to actuarial organizations in about 40 different countries.

Mr. Christopher David Daykin: I want to give a little background on the creation of the IFAA, without going into a great deal of history. It is important to understand why the IFAA was founded and why we have got to where we are. As most of you will know, the International Actuarial Association (IAA) is just 100 years old. The history of the IAA was that it sponsored the organization of congresses every three or four years. It has offered individual membership to any actuary around the world who came into the category of being an actuary more or less on their own definition.

In more recent years since the 1950s, the IAA has sponsored the formation of a couple of sections to specialize in particular areas of activity. The Actuarial Studies in Non-Life Insurance (ASTIN) Section, was started in the late 1950s. Then in about 1990, the Actuarial Approach for Financial Risks (AFIR) Section was established.

In the current days, we have been seeing some important trends and changes taking place in the worldwide scene, which have focused attention on different aspects of the actuary's work. These include deregulation of the insurance industry, privatization of pension systems, and privatization of nationalized insurance companies in many countries. A move which is quite significant on an international scale is one towards giving actuaries particular responsibilities, such as those prescribed to the appointed actuary in Canada and the U.K. and now in a number of other countries. It's called responsible actuary in Germany and Switzerland and chief actuary in Japan. One way or another, it has a strong flavor of delegation by the regulator to the actuarial profession of particular judgmental and professional responsibilities, rather than the historic following of rules, which was the case in many countries around the world.

All of these things have placed a very distinct spotlight on the role of the actuarial profession as opposed to the technical abilities of actuaries. There is a greater focus on the associations of actuaries, our professional bodies. The SOA and the Canadian Institute of Actuaries as well as the Institute and the Faculty of Actuaries in the U.K. have had long traditions in this field. Many of the other associations of actuaries around the world were not formulated to be professional organizations. They were much more societies of actuaries or local clubs. They offered fellowship

and friendship for actuaries and maybe some educational activities, but not too much else.

I would characterize the professional associations as: having a code of conduct in place; being equipped to consider and to issue standards of practice; establishing qualification standards to determine who can be a full member; maintaining a process to be able to enforce the code of conduct in the standards of practice; paying active attention to continuing professional development issues; and acting as a spokesperson for the profession with governments and other bodies.

The IFAA was born to support the development of professional associations in these different directions. It was originally conceived by a group of leaders in the profession who were meeting at the Montreal Congress in 1992. It was conceived, at that stage, as being a coming together of the main English-speaking examining bodies such as the Society, and the Casualty Actuarial Society, the Canadian Institute, the Institute and Faculty of Actuaries from the U.K., and also the related bodies from Australia and South Africa.

As the discussions went on, it became clear that the vision that had been conceived by Paul McCrossan, who was then the president of the Canadian Institute and had convened this gathering in Montreal, was a vision which extended worldwide and was not something that could be restricted to the English-speaking associations. After much discussion and debate as to how such an organization could be established, it was agreed in the autumn of 1995 that it would be created as a section of the IAA, but with a particular focus on the questions of professionalism, education, recognition of qualifications, and the possibility of representing the views of the world's actuaries at an international level.

The section was created, and we just recently adopted a mission statement. The mission, as adopted at the meeting in September, is "to encourage the development of a global profession acknowledged as technically competent and professionally reliable, which will ensure that the public interest is served." It introduces a full reference to the public interest, which I think we all decided was an important element of the role of a professional association in any country, and even at the international level at which the IFAA is operating.

How have we set about trying to define this mission and put it into practice over the first year of the IFAA's existence? One of the things we set in place very early on is a committee to look at education matters. We also put in place the Accreditation Committee, which is chaired by Walt Rugland. We also put in place a committee called the Public Pronouncements Committee. We were concerned, and so was the IAA council, that the IFAA should not get into the business of making

pronouncements at a global level about what actuaries thought on this, that, or the other subject, without having a proper due process for establishing that such a statement would be supported by the member associations. The Public Pronouncements Committee has developed a protocol, which is currently out for a mail vote of the member associations. Also, because of the agreement with the IAA, it has gone out to IAA council members for their approval. We hope to be in a position by the end of this year to have a process in place that will enable us to make such pronouncements.

The very moment the IFAA was created, we found that the International Accounting Standards Committee (IASC) was engaged in a big project to create a new standard on the expensing of employee benefit costs in company accounts. This standard, which they were hoping to develop, was to our minds, not very well thought out. It contained serious errors from an actuarial perspective, and it was something that we felt we needed to work on and try to influence as much as possible. Right from the start, we established a committee to work on this topic, and it has been engaged in active debates and interchange with the IASC. The IASC has now published an exposure draft of this new standard, which has not taken on board the points that we have been trying very hard to make. So we are in a position of having to make a formal response to the IASC by the end of next February to try to point out to them that the way in which they are going is not very satisfactory, and it will lead to uncertainty in public accounts and to volatility in the treatment of pension costs. We hope that we will have in place the public pronouncements protocol and that we will also have agreement among all of the actuaries who are working hard on this IASC response. We also hope that we will be in a position next February to issue a statement on behalf of all of our member associations with regard to an actuarial perspective on this particular accounting standard.

We hear that there may be other such issues forthcoming. Behind the scenes, there is talk of an international accounting standard on accounting for insurance companies—life and property and casualty. We are already beginning to put in place some mechanisms to be able to respond to such an initiative when we find out what is going on. We suspect there will be more such occasions in the future.

We have put in place the Advice and Assistance Committee. Its plain meaning is that it is there to give advice and assistance to new actuarial associations and to associations that are wanting to become full members of the IFAA, in that they are aspiring to be professional bodies and to put in place all of the elements of a professional association. The hidden agenda of this committee is that it is there to provide a rapid response task force for other initiatives that may come up on the international scene. This includes anything that may come in prior to it being put to

a new committee, which would have to be established through the proper mechanisms that inevitably take quite a bit of time.

I would like to focus on the educational side of things before coming back to what the benefits of all this should be for associations. The educational side is still at a relatively early stage of development, but it's all the more important that you should be aware of it, and the member associations should be participating actively in the debate. The intention is that we should develop within the IFAA an agreed common core that would help to establish a common understanding of a basic qualification of actuaries around the world. It will include several agreed levels rather than just one level, and it will also contain agreement on the detailed content of such a syllabus. What is agreed internationally at that level would be fully global in its content; it would not, therefore, contain country-specific material. It would not be very practice-specific either, but it would cover the whole range of practice areas that are considered to be appropriate for a qualified actuary.

In that sense, we will be taking on board a number of ideas that are already being developed within major examining body associations, such as the Society and the Institute. These ideas include some broadening of the base of actuarial techniques in order to accommodate more actuarial movement into the wider fields, and an acceptance that many of the detailed practice-specific and nation-specific material should become part of continuing professional development, rather than be covered extensively in the basic examination system. This will facilitate the internationalization of the process.

Initial thoughts have been put together by a small working party of the Education Committee. They suggest that we try to define four stages of syllabus structure: a preliminary stage, an actuarial foundation stage, an application stage, and then a stage relating to practicing in particular practice areas.

The preliminary stage would not necessarily be examined by the different member associations, but would form a foundation requirement for becoming a member of the profession. It would include basic things such as mathematical statistics and probability, statistical processes, computing, accounting, economics, communication skills, and language skills.

The second stage, the actuarial foundation stage, would contain much of the material in the early stages of the current examinations of the major bodies, such as financial mathematics, survival models and their applications (including life contingencies) and risk mathematics in a variety of different forms.

For the third stage, which is applications, the intention would be to lay some foundations of the application of actuarial methods, techniques, and judgment in five main areas of activity: the investment area, the life insurance area, the nonlife insurance or property and casualty area, the pensions and social security area, and the health insurance area.

The fourth stage, the practicing stage, which may be postqualification, at least in terms of this international agreed level of qualification, would be practice-area-specific, country-specific material containing appropriate recognition of the local regulatory and fiscal framework with an emphasis on professionalism, responsibility, individual judgment, and the role and importance of continuing professional development.

That is a serious agenda. The Education Committee has been given an initial goal of 1998, when the next international congress is going to be held in Birmingham, U.K., to develop their ideas to the point at which the IFAA could agree with them and then seek to get a number of associations to implement them by some time in the middle of the first decade of the 21st century. There could be some radical elements that cause many associations to make changes to their existing approach to education. There are serious implications in this for some members of the IFAA, and I am speaking particularly of the CAS and the American Society of Pension Actuaries in the U.S., where the focus is relatively narrow and practice specific.

We hope to go down to quite a level of detail, in terms of the agreed core syllabus. We have some material that we can work from because a group in Europe, consisting of 18 national associations, has already developed and agreed to a core syllabus for the European actuary for mutual recognition of fully qualified actuaries within Europe. That is a good place to start, given the fact that it involves 18 member associations out of the current 40 or so of the IFAA. It does not have on board the Society, the Institute of Actuaries in Japan, the Canadian Institute of Actuaries (CIA), or the CAS, all of which are major players in this field.

Here is what we might envision coming out of the IFAA education process: a structure; an agreement on the broad syllabus content; and an acceptance that the provision of the education could be done either through an examining process within the association itself or using the universities and other providers. Some qualification would be recognized after stage two, which would be internationally recognized on a fully mutual basis, and then some stage three requirements, which would be essentially local-country specific.

The member associations of the IFAA are expecting to get a lot out of the IFAA. In particular, they are expecting to get recognition on the world stage as meeting

criteria to enable them to belong to the international association. That can be important for associations just getting off the ground in new countries. They are expecting to be able to get some interchange of information that will help them to be informed and to develop. They are also hoping to find mutual support and a common voice to be used on the international stage.

Where is the IFAA going? It is trying to ensure that the actuarial profession is among the first professions in the world to be organized globally. Furthermore, we want to have a global process for making public pronouncements and achieving agreements of professional standards, so that the qualification of an actuary would be something that could be transferable around the world, at least at some agreed levels. Our profession would achieve greater recognition in our individual countries and internationally as well, and we would have a significant influence on the emergence of things at the international level, which might affect actuaries or the industries and fields of work in which they are engaged.

Those are some exciting challenges for the IFAA, enough to give you a bit of an introduction. The IFAA will continue to be very closely associated with the IAA. It has been agreed that they will have a common secretariat, which will be in Canada some time around the end of 1997, serviced in conjunction with the CIA's own secretariat.

The IAA council is already thinking of ways in which the profession may develop in the future. The long-term future is for the IFAA to be the lead international body controlled by the national associations. We want to encourage member actuaries around the world, to come to Birmingham to attend the next international congress. I would invite you and members of all your associations to the 26th International Congress of Actuaries which will take place in Birmingham, in the U.K. in 1998. We are having this in 1998 because it is the 150th anniversary of the creation of the actuarial profession.

Staple Inn has just been refurbished for this upcoming convention. The convention center in Birmingham, which is one of the best in the U.K., will accommodate as many actuaries as we can find to come from all over the world. In the middle of the week, we will take over the home of the Duke and Duchess of Devonshire. It will be converted into a medieval country fair with all sorts of activities just to provide relaxation in between the hectic schedule of meetings. There will be five sessions going on at any one time. There will be choices and topical issues. We will have panel discussions and presentations, so that we can make sure everything is up to date, relevant, and of interest to actuaries from all different countries.

Mr. Law: Our next speaker will be Walt Rugland. Walt is a consulting actuary with Milliman & Robertson in Hartford, Connecticut. He is a past president of the SOA. Walt is the chairperson of the Accreditation Subcommittee of the IFAA, which oversees the admission of actuarial organizations into the IFAA. He is a member of a select group of only three North American actuaries that have been admitted as honorary overseas members to the British Institute of Actuaries. Walt also played a significant role in the establishment of the SOA foundation. Walt will be discussing the membership criteria for the IFAA, codes of conduct, and disciplinary procedures.

Mr. Walter S. Rugland: Mo Chambers and I went to London in November 1992. We suggested that there is opportunity for actuaries across borders, but that one of the things we needed to be assured of was that the expectations in terms of behavior and conduct would be comparable as they crossed borders. We suggested to some of the people in London that we ought to figure out how to do that. That was in keeping with Paul McCrossan's goal of trying to have more cooperation among the English-speaking actuarial organizations.

Dave Flynn, Mo Chambers, and I went to Belgium where we suggested this idea. We received blank stares. We said, "Let us tell you more about North America and how the actuarial profession in North America tries to keep itself organized and get along with each other." We talked in terms of the common code, and we found out that the consultative group in the European Union had just come up with essentially a common code of professional conduct.

Then we learned that the IAA in its hundred years of history had always been inclusive, and it had always essentially been offering a membership home to any actuary who was a member of an association that seemed to have a credential in that person's home country. It became obvious to me that the IAA was a membership organization. It could not create standards or criteria of membership, other than saying you had to have membership in some organization in your home country. The issue became how do we create an organization of organizations. The common core of such an organization has to be professionalism. Professionalism deals with conduct and a discipline process. Professionalism also deals with standards of practice, and determining whether they are adopted on a legitimate basis. Then you go back to who is qualified to be an actuary, which leads you to education, which is why this education discussion that Chris outlined is so important.

The heart of the issue is, how do we get a common basis for education? You cannot, however, get to the education issue until you start out with the conduct and all the other aspects of professionalism. We came up with the notion that the IFAA

should be an organization to which actuarial organizations around the world aspire to become members. In establishing the criteria for membership, we have kept that notion in mind. It is not an inclusive organization. It is an organization to which actuarial associations must aspire to be members and retain their membership. The accreditation function is not only one of letting people in, but making sure they can stay in. For us in North America, until we get some of the education suggestions in front of us, it is very simple: we are all going to be in and we will all be able to stay in. For organizations elsewhere in the world, it has been an eye-opening experience for them to realize what it takes to make the grade in terms of joining the international community of actuarial associations.

An organization is not defined in terms of territory or in terms of practice. If you have an actuarial organization, you can ask the IFAA whether it can be admitted. If you have an actuarial club that happens to have a code of conduct and standards of practice, that club could become a member of the IFAA. The first requirement is you must have a code of conduct. The code of conduct must contain the precepts of the code that has been adopted in Europe as the common code of the members of the consultative group, and that code was patterned after the uniform code we have here in North America.

We knew, and know still, that many organizations do not have a code of conduct and have never thought about having one. One of the issues at the time we were doing this was we knew Japan did not have a code of conduct. We knew Japan was very important in the international actuarial community, and we also understood some of the cultural issues. They had advised us on the cultural issues they had with respect to whether there could be a code of conduct for actuaries in Japan. We were not advised by Japan, but we were advised by others to give people a window. Why don't we say they will be admitted provided that at the end of 12 months after the admission there is a code of conduct in place. That would be more effective than saying you cannot come in until you have a code of conduct because there was no way of really getting that initial thrust through.

The criterion for membership is that if you do not have a code of conduct that satisfies the precepts of the consultative group code, you must commit to having one in place within 12 months. Interestingly, out of the current 44 members, 12 had to make that commitment and 4 had already fulfilled that commitment. The others are working diligently to establish a code of conduct that fulfills that commitment right now, so that by the end of next summer, they will be at the appropriate stage.

For some of these members, their culture requires that their government or legislative body approve the code. That is the case in Japan. We have a substantial

number that are still working on getting the code done, such as Israel and India; the Japanese and the Chinese are done.

Of course, the code of conduct is of no value unless professionals are disciplined when they do not comply with the code of conduct; you have to show that you have a discipline process in place. We identified some criteria that we thought were appropriate for a discipline process. One is it has to be written. We knew of situations where a discipline process was claimed to be in place, but it was a hidden process undertaken by the executive committee of the association. We said you have to have a discipline process that is in place, that is written, that has an appeal process attached to it, and one in which people have the opportunity to appear and defend themselves. Those are the criteria for the discipline process.

How do you evaluate whether it is effective? We said that our initial thrust has to be that a process exists, so that if we start having the actuaries cross borders, we at least know there is something that can be done because a process is in place. About half of the associations do not have a discipline process in place. The agreement is that they can become members if they commit to having a discipline process in place within two years after their membership is confirmed. Otherwise, they will lose the title of full membership and become associate members. That will give them three more years to get it in place. If they do not have it in place by then, they will probably end up not being members other than observing members of the IFAA.

The next step was about standards of practice or guidance notes as they are called in the U.K. There are different names around the world, but standards of practice exist some places and do not exist in other places. The important thing, we felt, was there needed to be a process where standards of practice would be promulgated if an organization chose to promulgate them. The commitment is that if you promulgate standards of practice, it will be an open process and the standards will be available. Every year, you provide a copy of the standards to the secretariat of IFAA, so that anyone in the world who wants to know what your standards of practice are for your association can obtain them. Within that commitment is a longer commitment that says that if you do not promulgate standards of practice, you will have a process in place in a five-year period from the date you become a member of IFAA.

Another commitment that is made at the time of application is that you will pay your subscriptions and your dues when billed. The Canadians will be tough in terms of making sure that gets done. There is also a commitment to accommodate the decisions of your organization's Education Committee. There is a written

commitment to accommodate, even though you are not required to totally agree; but it does say you cannot ignore it.

Mr. Daykin: The intention is that each country implement what is agreed upon.

Mr. Rugland: I think that is established in terms of commitments, and it is identified as applying to future admissions into the organization. Everyone who is there is grandfathered, but the notion is that in the future the decisions of the Education Committee would be adhered to.

We had 44 organizations a year ago say they wanted to be members. About 42 of those have now become members. We are still waiting for final material from Pakistan. Sweden is still adjusting its code of conduct, or the documentation of its code of conduct in order to meet our requirements. There have been several organizations that already have made modifications in their code to meet the requirements.

We are beginning to get more applications than we had a year ago from eastern Europe, several from Africa other than South Africa. The Asian rim actuaries now are asking for information; the Malaysian organization is now an observer. Indonesia is on the verge of being an observer. Hong Kong is being considered. We already have the actuaries in Taiwan, and there will be other organizations from east Asia. The Brazilian actuaries are members, and we are working with the Argentinians. We have had requests for information coming from the northern part of South America, and the organizations in Central America have started to submit information, as well as from the Caribbean. We will end up with perhaps a group of 55–60 organizations in the IFAA.

The successes are incredible. The whole mind set of many of these organizations within two years has come from being a meeting society to a professional society. They want to know how to set themselves up as a profession. They are asking us questions, which indicates they are thinking about what it means to be professionals.

Do we have any failures? There are a few organizations that I wish we would have heard from. We are trying to get in touch with them. We are trying to find out why we have not heard from them. That is probably communications related more than anything else.

Would we do anything differently? I do not think we would. The thrust we have is the right one, and I am very encouraged about the last meeting we had of the IFAA delegates. You get into a room where you find 45 or 50 people who have come

together for one day from around the world to discuss these issues. That tells you that it has worked out all right and that we are on the right track.

Mr. Law: Our third speaker is Bob Collett. Bob is the president and chief executive officer of Milliman & Robertson. He is also the chairman of Woodrow Milliman, which is the umbrella international network of consultants. Bob is the chairperson of the SOA Committee on International Relations. He has functioned as the delegate of the SOA to the IFAA, and he has participated in all of the IFAA meetings to date. Bob also played a significant role in the founding of the international section and he served as our first chairperson. Bob will be covering the U.S. perspective of the IFAA.

Mr. Robert L. Collett: As Chris said, the IFAA has become quite important already. It is likely will either succeed or redefine the IAA as the major international body of actuaries. The one major success is that already the membership may include about 98% of those who are considered to be the world's actuaries. It is having a real impact.

The SOA was a charter member of the IFAA. It is far and away the largest member organization of the IFAA. It's a strong supporter and believer and it plays many key roles. Paul McCrossan was the first chairperson of the IFAA. Walt Rugland chairs the Accreditation Subcommittee. Someone who is not with us, but deserves note in passing, is Barry Watson who died on September 23. It was a real loss for the IFAA, for the Society, and for all of us. He was very active and very instrumental in getting out, against major odds, a timely response to the IASC on a draft pronouncement on accounting for employee benefit plans.

The Committee on International Relations, and, as Kevin mentioned, the International Section leadership, have been consistently strong in their support for the IFAA and for its goals. It is not just the SOA in North America, but also the AAA, the CAS, the CCA, the American Society of Pension Actuaries (ASPA), and the CIA—all charter member organizations, have members who are participating in subcommittee activities. The IFAA's importance is already beyond question, specifically in the areas of basic education ideas, standards, advice, and assistance.

One area of significance has to do with public pronouncements or public statements of opinion. At this stage, it is one area where I have some personal concerns about where we are today. The IASC activity with respect to accounting for employee benefit plans has adequately demonstrated the fact that the actuarial profession needs the ability to collect its views and to make those views known to persons and groups outside our profession. That is especially true when there is a consensus that exists as to the opinions within the profession. The IASC pension

situation came upon us in a hurry, and it forced us to scramble and get together some ideas for their consideration.

As Chris mentioned there is now a proposed process for defining professional opinions of the actuarial community in the future, for notice to members, and for issuing those public statements of opinion. My concern is that the proposed process as presently promulgated may not be the best one. As it now stands, the process makes it considerably easier for the IFAA to issue public opinion statements than the process that exists in most member organizations. The IFAA, under the proposed rules, can more easily issue a public statement of opinion than the SOA. Their process is closer to the AAA process.

As to the scope of a public statement, the IFAA criterion is that it must either relate to actuarial expertise or to some conceptual issue which need not be exclusively but should be substantially actuarial. The SOA's criterion is somewhat different: it will issue statements, if at all, only on matters within the actuary's special competence. The AAA's criterion is much like the IFAA's.

Regarding notice to members, the IFAA says that all member organizations will be notified through the designated contact person, and there will be a minimum one-month exposure period. The SOA is quite different. As you know, a membership vote is required. The AAA does not necessarily involve membership notification in advance.

Finally, regarding approval for release, the IFAA proposed policy or rules say that all member organizations are assumed to have approved, unless they respond to the contrary. The SOA says that a two-thirds positive vote for more than half of all fellows is required. This is a topic that generated considerable discussion some years ago in the SOA, and may continue for all that I know. I think we need adequate discussion within the Society before we respond positively to the IFAA's proposed process. Clearly, we have an immediate need with respect to the IASC. One approach might be to adopt rules now which would let us deal with those needs, but have those processes be temporary, and then have them either superseded or reaffirmed at a future point in time. Another approach to modification might be where a statement would be released as presently proposed, with words to the effect that it has been developed by a committee of the IFAA and been exposed to all member associations, and those listed below have endorsed the statement without material objection. That is the current wording. Perhaps some different wording is needed there. It is going to be discussed by the Society leadership between now and the January deadline.

Mr. Law: It appears that we have time for questions. Before we begin, I would like to recognize a few other people who are with us. We do have in attendance some of our ambassadors of the International Section. The ambassadors are individuals who have been appointed in various countries around the world. In very broad terms, they are responsible for representing the interests of the Society in their respective regions; for publicizing the actuarial profession; for helping to communicate, and for looking after the needs of the Society members who are located in those countries.

Michelle Chong Tai-Bell is our ambassador in Trinidad and she is also on the section council. She has the responsibility of shaping and defining our ambassador program; she has made a great deal of good progress on that project during the past year. Stephan Rajotte lives in Korea. Janet Sharp is from Jamaica, which will host the meeting of the Caribbean Actuarial Association in about five or six weeks.

Mr. Daniel M. Arnold: I am also editor of the *Pension Section News*, so I am wearing two hats here. I would like to start with a basic question. It seems to me that this is a United Nations-type situation. My first reaction is when you have a situation such as this, in which you have certain players that have many members, in terms of numbers, in one country or in one organization, and another member association that might have a handful of players, how is the voting done? Are we going to have a situation like we have in the United Nations where there may be votes on issues involving political issues or religious issues, where a number of the associations may have a handful of members each, but when you count all the votes up, you get 40 or more that have nothing to do with actuarial science, but represent a majority of a number of associations? How is that being handled?

Mr. Daykin: We gave a great deal of thought to that particular issue because, as you say, it is clear that there are a small number of organizations that really have the majority of members—the Society is clearly the largest—but the other American associations are significant, and the Institute of Actuaries and the Japanese Institute are very large organizations as well. We carefully crafted a system of weighted voting. In effect, it means that you do not get votes in proportion to your size, because that would lead to total dominance by a very small number of organizations. You also do not get one vote per association. I think I am correct in saying the SOA effectively has four votes, compared with one vote for a smaller association. There is an extent of weighting there. When you look at it in terms of the controls and the overall balance of power within the organization, it means, in effect, that nothing serious could be agreed by the IFAA without the assent of the three or four largest associations. On the other hand, you also need to get the assent of all the European associations in order to get a significant proposal through. There are a number of checks and balances that are intended to ensure that major

groupings would feel that they had some reasonable control over what was happening in the organization. You could not suddenly have a developing country lobby a very small association and force the SOA and the Institute of Actuaries to do something completely different from their normal procedures.

I hope we have an appropriate balance there. It remains to be seen whether it will work in a serious situation. We have not yet come to a vote of that sort, because we wanted to work as far as possible on a consensus basis. I think in all major policy developments, we hope that we will develop a consensus rather than putting it to forced votes.

Mr. Rugland: I would add that the active participation of the Society and its representation on virtually every committee—and sometimes double representation— assures significant influence that transcends the four votes as well.

Mr. Morris W. Chambers: Bob Collett has raised a very important issue in connection with the public pronouncement policy that has been developed by a subcommittee of the IFAA. I think we should give serious consideration to two aspects of that. I am not sure whether Bob was suggesting that the criteria that have been established by the SOA should be the model for public pronouncements by the IFAA, but it seemed to come across that way. I would argue that should never be the case. In fact, the SOA does not have a policy for making public pronouncements. It has a policy for not making public pronouncements. The other thing is, of course, the two organizations are quite different, and one would not expect them to have the same approach to making public pronouncements. Their purposes are quite different. So, when the Society's representatives on the IFAA consider the proposal that has been made, they should certainly not use the Society's approach as being the criteria by which they make their decision.

Mr. Collett: I think you make a good point, Mo. I feel as the SOA person who casts the vote for the SOA, that I have to pay special attention to the SOA. I think we need time within the SOA to be sure that we are not ceding or giving proxy to something that is somehow in conflict with our by-laws, but I think we will get through all of that. I agree that might be the wrong model from the bigger picture, but initially, as the SOA representative, I am first looking at it narrowly and then, hopefully, I'll get well beyond that.

Mr. Gary Corbett: I think I agree with Mo on that. The Society is not the model, but I am interested in just what sort of controls there would be on this statement of opinion. Is it just a majority vote with these weighted votes coming into play? Is there a requirement for 60%, 65%, 75% or something like that? I would be concerned about just a majority vote. Has this been addressed yet?

Mr. Daykin: The intention is very much to only make a public pronouncement if there is very substantial support for it. We were looking to as close as unanimous support as possible, but, in practice, that may not be achievable. We still wanted to be able to make a statement if it wasn't unanimous, but we would do so by listing the associations that had approved it. We would not ascribe it to associations that had not approved it, if there were some who had expressed some objection.

Mr. Corbett: But it could still be just 51% of the weighted votes?

Mr. Rugland: I may be reading this too quickly or too superficially, but it seems that it does not have a number. The way I was reading it, the list of organizations who had endorsed it without material objection would include all those who were silent, not just those who had positively responded. I guess a silly example would be if it is mailed to me, and it has a 30-day deadline. I am asleep at the wheel, and it does not even get to Dave Holland, and we are deemed to have endorsed. That is not going to happen.

Mr. Daykin: That is part of something that I needed to respond to earlier. The intention is to give everybody the chance to respond, but practically speaking, to expect that you get 100% response from these 40 or 50 organizations is not realistic. They do not all have the processes in place to have response. Some of them do not respond even within the consultative group in Europe where we have a much smaller group. We thought it was unrealistic to expect you had 100% of people coming back and saying yes; therefore, we will assume that silence means consent. If people come back and say they do not agree, then that will be clearly registered as a counter vote, and the statement's appropriateness will be examined.

Although it does not specifically state a number in the protocol, I do not think that the executive of the IFAA would want to issue a statement unless it had at least three-quarters of the associations behind it. If there was a significant minority, then I think we would really go back to the drawing board. We are not in the business of trying to make a pronouncement for a pronouncement's sake. We only want to make pronouncements if we feel we can do so on a consensus basis.

The process for developing a pronouncement within a committee is intended to ensure that any association that has an interest in the subject will influence it at that point. We have this IASC committee working. Any association is free to be active and to participate in that. The pronouncement that they will propose, at the end of that, will be one that reflects the views of the associations who have participated actively. The pronouncement will surely not go in a direction that is counter to any of the active participants' views.

Mr. Corbett: I would feel more comfortable with some percentage in there. It surely must say something. I mean could 40% do it now? If there is no number in there, I do not understand what would constitute an OK to go ahead. I understand the feelings that you would not want to do it, but, surely, something as important as this should have a criterion.

I had another question of interest. In the U.S. some of us are members of two, three, or four organizations in North America. Does the Society have four votes, and the Academy have four votes, so, essentially, would I be represented twice or three times?

Mr. Daykin: Yes. Each organization of a suitable size would have four votes.

Mr. Rugland: The good news is you can pay dues four times too.

Mr. R. Dennis Corrigan: The subject of the IASC has come up repeatedly here. Could you give me a couple concrete examples regarding what way that organization's ideas are unsatisfactory from an actuarial point of view. A related issue is the way in which the national organizations that set the accounting standards coordinate their activities with the IASC. Is there anything we can learn there as a model? In North America, there are other bodies that look after accounting standards.

Mr. Daykin: That second issue is a very interesting one, because, actually, the evidence the IFAA put in earlier in this process was virtually identical to that put in by the U.K.'s Accounting Standards Board. We had a very good liaison within the U.K. with our accounting standards board. The main problem has been getting the Financial Accounting Standards Board in the U.S. to see things in the way that actuaries would see things. They have been a very heavy influence in the IASC's development.

The principal area where we have been concerned has been over the discounting approach adopted within the IASC exposure draft, which implies a discount rate based on long-term bond values, even if the pension fund is not invested at all in funds. This seemed a bit bizarre. The actuarial profession's views have been that a fundamental principal from an actuarial point of view is that you have to have consistency of assets and liabilities. Furthermore, you must look at the situation in a consistent way, and determine your discount rate appropriately according to the assets that you have. That is a message that we have been trying to convey to the accountants, which the U.K.'s Accounting Standards Board have taken on board, but which the IASC so far has not, largely because of the influence of their American components.

From the Floor: Can you describe the IASC mandate or where it comes from?

Mr. Daykin: The IASC has not been that important a body in the past. Previously, they have really only set standards that have been adopted in countries that do not have their own standard-setting process. So, they have been totally ignored by the U.K., the U.S., and other countries that have their own process. The way in which they seem to have come on to the scene now is that the International Organization of Security Commissions is saying that for a company to be quoted internationally, there is now going to be a requirement to comply with the standards of the IASC. It could become a serious issue for companies that are quoted in a number of stock exchanges around the world. These companies will then become subject to these IASC requirements, even if they are also subject to other specific country requirements in countries where they are operating.

Mr. Arnold: I am a little confused by one statement that was made about making public statements. If the SOA is not the model, because the SOA works hard not to make public statements, how can the SOA participate in the IFAA's issuing of public statements? Where do they get their authority to vote?

Mr. Rugland: The best answer may be that we intend to get legal advice from our general counsel on that subject.

Mr. Daykin: On that topic, I think the model was not the Society model as Mo indicated. It was, in fact, much more the Academy's and the Canadian Institute of Actuaries' model. Both bodies are charged under their constitutions with making public statements on behalf of the profession in their respective countries. It also had regard to the way in which we operate in the U.K., where the Institute and the Faculty have that role.

The Society is unusual in being a very large organization that is primarily an educational organization, rather than a public interface body. In most other associations around the world, although there may not have been much public interface up to now, there is only one association, or maybe two, and their role is to interface with other people in governments, and they have to face up to these issues. I hope the Society will not feel that they are being dragged along on this one. We are not planning to make all sorts of public pronouncements here and everywhere. These things will be quite rare. There will be a very strong consensus among the world's actuaries participating in this process; they are actuaries who feel that we really ought to say something in the public interest. It should not be something that is just a very narrow technical point. That is why we have not precluded the possibility of making statements on things that are associated with

actuarial involvement, and where actuaries could have something useful to say on something that is a purely technical actuarial issue.

Mr. Chambers: I think the other thing to keep in mind is that the impact of a public pronouncement in these matters comes from its ability to be prepared in a relatively short time. These things come along very quickly. The IASC issue emerged within a week of the IFAA being formed. There are very short time periods in which to respond, and I think that is what has created the approach of tacit approval, if you will, that is in the proposed process that has been put forward. If we were to require that we wait around for each organization to respond one way or the other, we would never make a public pronouncement. I think that has influenced it, and that is what the problem is with the SOA process for making public pronouncements: it takes too long. In today's world, with the pace of change, the SOA cannot make a public pronouncement with its current process.

Mr. Rugland: I want to make sure, Mo, that everybody understands what the Society can do. In order to make an SOA opinion public, the SOA must have a vote of the members. The board of governors, at its own volition, can state an opinion of the board, and the board can authorize any task force in any committee to state an opinion on its own. I would encourage you, if you become chairperson of a committee or task force, and you think you may be in the realm of wanting to state an opinion, to ask in advance for authority to issue an opinion, because you can do that, and that has been done within the Society.

Within the context of this structure that we have been talking about, we were very careful to make sure that we did not assemble a house of delegates that had never had instructions. For example, the agenda items to be voted on must be sent out 90 days before every meeting so that delegates can be instructed on how to vote. Every organization has one delegate, every delegate has from one to four votes. Basically, you vote on what was sent out 90 days earlier. You do not vote on what you decide to do in rump sessions at the delegate's meetings. The votes that will come in the session of IFAA will be votes that come from the members, not necessarily from the delegate's own opinions, and this is going to take time to work out, because many people think they can show up and get together and decide how to do things.

I have felt that in the public pronouncement area, the strength of the IFAA and its representation is in the rigidity in which we apply the membership of the committees. Committees cannot be just set up. First, they are set up on a thoughtful basis with approval of the IFAA committee's ruling governing body. Second, they are well representative of regions, areas of practice, and things like that. Third, they are open so other people to come in and be a part of them. It seems to me that the

control we have on these pronouncements is really derived from the way in which they are put together. The control is on the committee structure itself—and who is running the committee, and who is on the committee. In my mind, there can be great reliance placed on that. Plus, we have the board of governors who can delegate that power to Bob, if they want to. The board can tell the delegate how to vote.