

This English translation of the Standard of Professional Conduct of the Institution of Actuaries of Japan is an unofficial translation. Only the original Japanese texts of the Standard of Professional Conduct have effect, and the translations are to be used solely as reference material to aid in the understanding of the Standard of Professional Conduct.

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## **Standard of Professional Conduct of the Institute of Actuaries of Japan**

Established on September 14, 2021

### **Article 1 Purpose**

The Institute of Actuaries of Japan (hereinafter referred to as the "Institute") has established this Standard of Professional Conduct (hereinafter referred to as the "Standard") as specified in Article 2 of the Code of Professional Conduct (hereinafter referred to as the "Code") as an aid to members of the Institute in interpreting the Code. It also serves as general criteria when the actuary performs professional services or when the actuary engages in activities based on their qualifications as an actuary who is a member of the Institute (other than Corporate Members).

### **Article 2 Compliance with the Code**

1. An actuary shall properly understand and act to preserve public trust in actuaries, even for matters not explicitly stipulated in the Code and the Standard.
2. "Professional services" in the Code refers to the rendering of advice, recommendations, or opinions based on actuarial considerations, and includes other services provided to a principal (i.e., a present or prospective client or employer) by acting as an actuary.

### **Article 3 Professional Integrity**

"Integrity" in Article 3 of the Code includes the conduct of an actuary as follows:

- (1) Perform your professional services honestly, diligently, and responsibly;
- (2) Pay the attention normally expected based on your own professional competency; and
- (3) Respect the opinions of an actuary other than yourself and cooperate in performing professional services. Also, act in the same manner toward members of actuarial organizations outside Japan and others involved in the professional services.

### **Article 4 Compliance**

The "laws and standards of practice" in Article 4 of the Code include those to be referred to when performing professional services, not only in Japan, but also overseas.

### **Article 5 Professional Services**

1. An actuary shall perform professional services only when they meet the applicable qualification standards promulgated by the Institute and have the professional competency (work experience, professional expertise, etc.) to perform such services.
2. An actuary shall make every effort to secure sufficient human resources, data, and time, and to acquire the authority required in performing professional services.

3. An actuary shall comply with the following matters to clarify the extent of the responsibilities when performing professional services. In addition, an actuary shall recognize the possibility that the reports prepared by the actuary for a direct client may be used by another party in a way that may influence the actions of a third party in a manner not intended by the actuary.
  - (1) When preparing reports for a direct client regarding professional services (hereinafter referred to as "reports") based on the membership title of the actuary of the Institute, clearly indicate the name and qualifications of the actuary; and
  - (2) When preparing reports, clarify the extent of the responsibilities assumed by the actuary.  
"Client" refers to a person who selects an actuary to perform professional services, and includes those in a position to directly use the results of the specialized work (hereinafter, this definition of "client" applies to Article 6 and the attached table).
4. An actuary shall consider the following when performing professional services, as elaborated in the attached table. These are matters to be generally considered, and if there are other matters to be considered, an actuary shall consider them as well.
  - (1) Materiality;
  - (2) Data Quality;
  - (3) Assumptions and Methodology;
  - (4) Model Governance;
  - (5) Review; and
  - (6) Report.

#### **Article 6 Impartiality**

1. An actuary shall not provide professional services involving an actual or potential conflict of interest between multiple clients or between the client and the actuary unless all of the following conditions are met. The same shall apply to professional services involving an actual or potential conflict of interest with another actuary belonging to the same business corporation or with a client of the actuary.
  - (1) The actuary's ability to act fairly is unimpaired;
  - (2) There has been disclosure of the conflict to all known clients whose interests would be affected by such conflict; and
  - (3) All such known clients have expressly agreed to the performance of the services by the actuary.
2. An actuary shall advise the client when there is a possibility of any significant conflict between the interests of the direct client and the interests of another party or the actuary with regard to the professional services.
3. If there is any income received from multiple clients in relation to professional services and when there is a possibility of any significant conflict between the interests of the direct client and the interests of another party with regard to the professional services, an actuary shall disclose to direct clients all sources of income received in relation to professional services. "Income" refers to any material consideration received from any source in relation to an assignment for which the actuary provides professional services including direct remuneration for those services. "Source" refers to one paying such material consideration.

#### **Article 7 Confidentiality and Prohibition of Unintended Use**

1. "Confidential information" in Article 7 of the Code means information that an actuary has obtained through professional services performed for a principal and that has not been disclosed to the public.
2. "Justifiable grounds" in Article 7 of the Code is limited to the following:

- (1) When the disclosure is authorized by the client; or
  - (2) When the disclosure is required by laws.
3. "Purpose other than a legitimate purpose" in Article 7 of the Code includes the following.
- (1) Purpose contrary to the intention of the client;
  - (2) Purpose that ignores the interests of the client and instead focuses on self-interest; and
  - (3) Purpose of use in a manner or range that is different from that specified by the client.

#### **Article 8 Improvement of Professional Competency**

1. Considering the nature of the professional services, an actuary shall constantly endeavor to maintain and improve professional competency and a wide range of abilities related to their professional services by engaging in self-improvement and mutual study.
2. The nature of the professional services in the preceding paragraph includes the sophistication and diversification of required professional expertise.

#### **Article 9 Upholding Credibility**

1. "Acts that discredit or damage the reputation of the Institute and the actuaries" in Article 9 of the Code include the following:
  - (1) Abusing the membership title of the actuary or the name of the Institute; and
  - (2) Disseminating false or misleading information.
2. An actuary may submit a statement to the Institute, when the actuary has any doubts regarding the professional services performed by the actuary or another actuary.
3. The submission of the statement in the preceding paragraph and the procedures related to it shall be as specified separately.

#### **Supplementary Provisions**

This Standard of Professional Conduct shall come into effect on April 1, 2022.

## Standard of Professional Conduct of the Institute of Actuaries of Japan – Attached Table

### (1) Materiality

In the course of performing professional services, an actuary may decide to simplify or omit a task in light of the physical circumstances in which it is performed. On such an occasion, if the effect of any of these is material, the actuary shall disclose this in any report to which it is relevant. The threshold of materiality under which the work is being conducted shall be determined by the actuary unless it is imposed by another party such as an auditor or the client. When determining the threshold of materiality, the actuary shall:

- a. Assess materiality from the point of view of the client, recognizing the purpose of the actuarial services; thus, an omission is material if the actuary expects it to affect significantly either the client's decision-making or the client's reasonable expectations;
- b. Consult the client if necessary.

### (2) Data Quality

An actuary shall recognize the following matters from the viewpoint of ensuring the quality of data when performing professional services.

#### ① Sources of Data for Assumptions

To the extent possible and appropriate when setting assumptions, the actuary shall consider using data specific to the subject of the actuarial services. Where such data are not available, relevant, or sufficiently credible, the actuary shall consider industry data, data from other comparable sources, population data, or other published data, adjusted as appropriate. The data used, and the adjustments made, shall be described in any report.

#### ② Sufficient and Reliable Data

The actuary shall consider whether sufficient and reliable data are available to perform the actuarial services. Data are sufficient if they include the appropriate information for the work. Data are reliable if they are substantially accurate. If sufficient and reliable data are not available, then the actuary shall follow the guidance in paragraph ④ below.

#### ③ Data Validation

The actuary shall take reasonable steps to review the consistency, completeness, and accuracy of the data used. These may include:

- a. Undertaking reconciliations against audited financial statements or other relevant records, if available;
- b. Testing the data for reasonableness against external or independent data;
- c. Testing the data for internal consistency and consistency with other relevant information; and
- d. Comparing the data with those for a prior period or periods.

The actuary shall describe this review in any report.

#### ④ Deficiencies in Data

When data doesn't satisfy paragraph ② or ③, there are deficiencies in data. The actuary shall consider the possible effect of any data deficiencies on the results of the work. If such deficiencies in the data are not likely

to materially affect the results, then the deficiencies need not be considered further. If the actuary cannot find a satisfactory way to resolve the deficiencies, then the actuary shall consider whether to:

- a. Decline to undertake or continue to perform the actuarial services;
- b. Work with the principal to modify the actuarial services or obtain appropriate additional data or other information; or
- c. Perform the actuarial services as well as possible, and disclose in any report the data deficiencies (including an indication of their potential impact).

#### ⑤ Data Modification

The actuary shall disclose any modification of data before its use (such as interpolation, extrapolation, adjustment, or discarding of outliers) in any report.

### **(3) Assumptions and Methodology**

An actuary shall recognize the following matters from the viewpoint of assumptions or methodology.

#### ① Appropriateness of Assumptions

The actuary shall consider the appropriateness of the assumptions underlying the methodology used. Assumptions generally involve significant professional judgment as to the appropriateness of the methodology used and the parameters underlying the application of such methodology. Assumptions may (if permitted under the circumstances) be implicit or explicit and may involve interpreting past data and other information or projecting future trends.

#### ② Margins for Adverse Deviations

The actuary shall consider to what extent it is appropriate to adjust the assumptions or methodology with margins for adverse deviations in order to allow for uncertainty in the assumptions or methodology. The actuary shall disclose any incorporation of margins for adverse deviations in assumptions or methodology in any report.

#### ③ Discontinuities

The actuary shall consider the effect of any discontinuities in experience on assumptions or methodology. Discontinuities could result from:

- a. Internal circumstances regarding the subject of the actuarial services such as changes in the mix of business; or
- b. External circumstances impacting the subject of the actuarial services such as changes in the legal, economic, regulatory, supervisory, demographic, technological, or social environment.

The actuary shall disclose any discontinuities in any report.

#### ④ Individual Assumptions and Aggregate Assumptions

The actuary shall assess whether an assumption set is reasonable in the aggregate. While assumptions may be justifiable individually, it is possible that prudence or optimism in multiple assumptions will result in an aggregate assumption set that is no longer valid. If not valid, the actuary shall make appropriate adjustments to achieve a reasonable assumption set and final result.

#### ⑤ Internal Consistency of Assumptions and Methodology

The actuary shall determine if the assumptions and methodology used for different components of the work are materially consistent, and that any significant interdependencies are modeled appropriately. The actuary shall disclose any material inconsistencies in any report.

⑥ Alternative Assumptions and Sensitivity Testing

The actuary shall consider the sensitivity of each methodology to the effect of variations in key assumptions, when appropriate. In determining whether sensitivity has been appropriately addressed, the actuary shall take into account the purpose of the actuarial services and whether the results of the sensitivity tests reflect a reasonable range of variation in the key assumptions, consistent with that purpose.

**(4) Model Governance**

An actuary shall recognize the following matters for model governance. The level of governance shall be proportionate to the risk to the intended users as a result of an incorrect conclusion being drawn from the results of the model.

The actuary involved in using models shall:

① Model Risk Mitigation

Be satisfied that the model risks have been identified and assessed, and that there are appropriate actions to mitigate these risks such as adequate model validation, documentation, and process controls.

② Model Validation

Be satisfied that an appropriate model validation has taken place. The model validation includes assessments that:

- a. The model reasonably fits its intended purpose. Items that the actuary shall consider, if applicable, include the quality of data required by the models, and the model's ability to generate an appropriate range of results around expected values;
- b. The model meets its specifications; and
- c. The full or partial results of the model can be reproduced, or any differences can be explained.

The model validation shall be performed by individual(s) who did not develop the model, unless doing so imposes a burden that is disproportionate to the model risk.

③ Understanding the Model

Understand the model, with the conditions under which it is appropriate for the model to be used including:

- a. Any limitations of the model for the intended use;
- b. The context in which the model will be used;
- c. How model inputs will be provided; and
- d. How the actuary expects the results of the model to be used.

The actuary shall disclose relevant limitations or uncertainties and their broad implications in any report.

④ Documentation

Be satisfied that there is adequate documentation of the model design, construction, and operation and of the conditions under which it is appropriate to use the model, including any limitations of the model. This documentation shall include, where appropriate, scope, purpose, methodology, statistical quality, calibration, and fitness for intended purpose, and reflect changes to the model (if any) made by the actuary.

## ⑤ Controls

Be satisfied that the model is subject to appropriate controls. This typically includes a change control process that:

- a. Prevents unauthorized changes to the model;
- b. Documents any changes made and any material impact on the model; and
- c. Allows any changes to be reversed.

## ⑥ Use of Results

When the results or output of a model run are to be used:

- a. Be satisfied that the conditions to use the model are met;
- b. Be satisfied that there are appropriate controls on inputs and outputs of the model;
- c. Consider whether the model validation described in paragraph ② should be performed in whole or in part;
- d. Understand, and where appropriate explain, material differences between different runs of the model;
- e. Understand any management actions or responses assumed within the model. The actuary shall disclose such management actions or responses assumed and their broad implications in any report; and
- f. Document, where appropriate, limitations, inputs, key assumptions, intended uses, and model output.

## (5) Peer Review

An actuary shall recognize the following matters when reviewing reports, etc.

### ① Level of Review

The actuary shall recognize the level of review according to the purpose of the client.

### ② Reviewer selection

The actuary shall select a reviewer who is independent of involvement with the specific component(s) reviewed and is knowledgeable and experienced in the practice area of the actuarial services.

## (6) Reporting

When reporting to the client, an actuary shall recognize the following matters, considering the client's ability, level of understanding and expertise, and requirements through communicating as necessary.

### ① Form and Content

The actuary shall determine the form, content, and relevant disclosures of each communication to be appropriate to the particular circumstances, taking into account the intended users.

### ② Timing and Frequency of Communication

The actuary shall issue each communication within a reasonable time period. The timing of the communication shall reflect any arrangements that have been made with the principal. The actuary shall consider the needs of the intended users in setting the timing.