ACTUARIAL SOCIETY
of
HONG KONG
香港精算學會

29 Nov 2024

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Hong Kong

To whom it may concern,

Re: Comment on Exposure Drafts (EDs) on Practice Note (PN) 810.2 (Revised), The duties of the auditor of an insurer authorized under the Insurance Ordinance and PN 620.2 (Revised), Communication between the auditor and the Insurance Authority

On behalf of The Actuarial Society of Hong Kong (ASHK), I am writing to respond to the invitation to comment on the captioned PNs, in particular, focusing on the PN 810.2 (Revised), The duties of the auditor of an insurer authorized under the Insurance Ordinance.

These comments have been prepared by the Financial Reporting Committee (FRC) of ASHK.

Actuarial Society of Hong Kong

ASHK is the sole professional body for actuaries in Hong Kong and was first formed in 1968 as the Actuarial Association of Hong Kong. With over 1,000 members, it is governed by an elected Council with a President and 14 other Council Members. Being a Fellow Member of ASHK (FASHK) is a requirement (Insurance [Actuaries' Qualifications] Regulations Cap. 41A) for an Appointed Actuary/ Certifying Actuary in Hong Kong. A significant number of our members are involved in the statutory reporting under the Insurance Ordinance (from both the preparer and auditor perspectives).

Our comments

Overall, we are supportive on the direction on the PN 810.2 (Revised) and we would like to raise the following recommendations.

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- **Leverage on the relevant ASHK Actuarial Guidance Notes (AGN)**[1]**:** Appendix 1 (Suggested procedures for reporting on specified annual forms) has detailed the considerations on Methodology, Data, Assumptions, Models and Results – a lot of these are involved with actuarial processes. Sufficient and qualified actuaries should be involved (both preparer and auditor), and it is important for relevant actuarial personnel to comply with the relevant AGNs issued by the ASHK as they have been doing for the current financial and statutory reporting;

- **Enhance the considerations needed in Appendix 1 – Methodology:** There are some items not considered explicitly in the Suggested procedures for Methodology, including (i) Homogeneous risk group setting, (ii) Time value of options and guarantees, (iii) Future discretionary benefits, (iv) Participating fund related requirements, (v) Capital resources, (vi) Reinsurance eligibility and valuation, and (vii) Simplifications being applied;

- **Enhance the considerations needed in Appendix 1 – Assumptions:** To avoid confusion, suggest moving the point *"inputs and set-up of the Economic Scenario Generator (ESG) (for long term business)"* to this section instead of the "Sample test of the model validation" which will be more aligned with the common practices in reviewing this item; also suggest covering the review of the look-through process and data for the Matching Adjustment;

- **Clarify paragraph 27-29 (Non-accounting records):** The definition of *"non-accounting records such as reports produced by systems (e.g. actuarial systems)"* may be too narrow, in which insurers may also rely on End user computing ("EUC") and manual working for producing the annual returns, the restricted definition/ example of the non-accounting records may render non-compliance on proper books and records; and

- **Supplement paragraph 40 (Materiality assessment):** While we understand that it is a matter of professional judgement for the materiality assessment, given the quantity of the specified annual forms involved (covering different aspects) – suggest supplementing the granularity (e.g. at entity level or at more granular level) and if there are any key considerations of the materiality assessment for different aspects of annual forms to ensure that the assessments are transparent and clear to both the preparer and auditor.

If you would like to discuss our comments further, please do not hesitate to contact me.

[1] The list of the AGNs can be found at https://www.actuaries.org.hk/pages/22/Actuarial%20Guidance%20Notes

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Yours sincerely,

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Chairperson of ASHK FRC

Members of the FRC are listed below:

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