

## MEMORANDUM

TO: The Members of the American Academy of Actuaries, the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries

FROM: The Joint Committee on the Code of Professional Conduct

RE: Revised Code of Professional Conduct

DATE: January 1, 2001

The accompanying booklet contains the final revised *Code of Professional Conduct* (“the Code”) adopted by the American Academy of Actuaries, the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries (collectively “the U.S.-based organizations”). The Code was adopted by these organizations effective January 1, 2001.

### ***Background***

Prior to 1992, each of the U.S.-based organizations had its own rules to govern the conduct of its members (e.g., the Guides and Interpretative Opinions as to Professional Conduct of the Academy). Those rules were not entirely consistent between the organizations, creating potential conflicts for actuaries who were members of more than one organization. To address these potential conflicts, the U.S.-based organizations developed and adopted Codes of Professional Conduct (with some variations between the organizations), all effective January 1, 1992. The differences in the Codes were resolved by a Joint Committee on the Code of Professional Conduct, and a single Code was adopted by the Boards of the U.S.-based organizations effective January 1, 1994.

Since that time, small differences have again crept into the Codes of the U.S.-based organizations, and need to be eliminated. As well, the increasing internationalization of actuarial practice has suggested the need for modification of the Code. Additionally, the Actuarial Board for Counseling and Discipline has identified areas where the Code would benefit from clarification or revision. To address these points, the current Joint Committee on the Code of Professional Conduct was established in 1997.

In May of 1999, with the approval of the Boards of the U.S.-based organizations, the Joint Committee released an exposure draft of proposed revisions to the Code. More than sixty comments containing excellent suggestions to improve the Code were received. The Joint Committee studied the comments with care, and prepared a second exposure draft in light of the suggestions offered by the commenters. With the approval of the Boards of Directors of the U.S.-based organizations, the Joint Committee released the second exposure draft on April 1, 2000, with a comment deadline of July 15, 2000.

Thirty-seven sets of comments on the second exposure draft, again containing excellent suggestions to refine the Code further, were received. The Joint Committee carefully reviewed all of the comments and prepared a proposed final Code reflecting the commenters' suggestions. Specific responses to comments received on the second exposure draft appear immediately below. The Joint Committee thanks all of those who submitted comments on the two exposure drafts.

### *Comments on Exposure Draft*

Comments received on the second exposure draft are broadly summarized in regular typeface; the Joint Committee's responses appear in **boldface**.

Many commenters offered general observations on the exposure draft. A number of the commenters expressed their agreement with the revisions that had been made and stated their overall satisfaction with the exposure draft. **The Joint Committee appreciated the positive response.** Some commenters expressed concern that the Code does not address specifically enough how it should be applied in the context of international practice. **The Joint Committee believes that the application of professional standards in the international context is an important topic, and has incorporated clarifying language into the introductory paragraphs of the Code. The Joint Committee believes, however, that the profession would benefit from more detailed guidance in this area than can be provided in the Code, and will therefore recommend to the leadership of the U.S.-based organizations that such additional guidance be provided in another forum.** One commenter opined that the proposed changes made the revised Code "more bureaucratic." **The Joint Committee disagrees, and believes that the revised Code is clearer in both structure and expression of intent than its predecessor.** Another commenter offered several editorial suggestions; **the Joint Committee agreed with many of them and added them to the Code.**

With respect to the introductory paragraphs, one commenter asked that the Code include a list of "Recognized Actuarial Organizations." **The Joint Committee believes it would be preferable for each U.S.-based organization to publish such a list in its Yearbook and on its Web site, and has made that recommendation to the leadership of the U.S.-based organizations.** Some commenters asked that terms in the introductory paragraphs such as "material violation" and "responsibility to the public" be separately defined; **the Joint Committee believes that these terms are understandable in context.** A few commenters offered specific editorial suggestions to the introductory paragraphs; **the Joint Committee incorporated those suggestions as appropriate.**

With respect to the definitions, a few commenters suggested changes to the definition of "Actuarial Communication"; **the Joint Committee revised the definition.** One commenter offered an alternative definition of "Principal"; **the Joint Committee found the suggested definition too complex, and did not make the suggested change.** Two commenters offered changes to the definition of "Actuary"; **the Joint Committee felt that the proposed changes were inappropriate and no change was made.** Several commenters offered changes to the definition of "Actuarial Services"; **the Joint Committee revised the definition.** Two commenters offered changes to the definition of "Confidential Information"; **the Joint Committee chose instead to address the comments by modifying Precept 9.** Other commenters offered revisions to the definition of "Recognized Actuarial Organization"; **the**

**Joint Committee discussed the proposed revisions but, ultimately, elected to retain its original definition with one minor revision.**

With respect to Precept 1, no comments were offered on the precept or on Annotation 1-1. However, a few commenters suggested clarifying changes to Annotation 1-2; **the Joint Committee revised the annotation.** A few commenters also suggested revisions to Annotation 1-3; **the Joint Committee did not agree with the suggestions, but did make one clarifying change.** Several commenters addressed Annotation 1-4; some felt that it demanded too much of the actuary, while others suggested that it be made even more rigorous. **The Joint Committee revised the annotation to clarify the scope of the actuary’s responsibility, particularly with respect to maintaining the reputation of the profession.** One commenter suggested adding an annotation dealing with “moral turpitude”; **the Joint Committee believes that Annotation 1-4, as revised, is sufficient to address the commenter’s concerns.**

With respect to Precept 2, one commenter suggested a clarifying edit; **the Joint Committee agreed with the suggestion.** Two commenters questioned the application of the precept to international practice; **the Joint Committee believes this topic can be better addressed in another context (see responses to General Comments above).** One commenter asked whether the precept applies to work that has not traditionally been “actuarial”; **the Joint Committee believes the revised definition of “Actuarial Services” addresses this question.**

With respect to Precept 3, one commenter questioned the application of this precept to international practice; **the Joint Committee believes this topic can be better addressed in another context (see responses to General Comments above).** Two commenters asked whether the precept requires compliance with common law, accounting standards or other generally-accepted, but not formally adopted, actuarial practices; **the Joint Committee believes these issues go beyond the scope of what should be addressed in the Code.** Two commenters objected to the inclusion of Annotation 3-3, which parallels language commonly included in the Actuarial Standards of Practice as adopted by the Actuarial Standards Board; **the Joint Committee believes this language enhances the value of the Code and elected to retain it.** Two commenters made minor editorial suggestions regarding Annotation 3-3; **the Joint Committee agreed with the suggestions.**

With respect to Precept 4 and its annotations, many commenters offered a wide range of comments and observations concerning the scope and phrasing of the Code’s requirements for actuarial communications. However, one commenter observed that Precept 4 and its annotations were far too specific and argued that the Code should deal generally with actuarial communications but should leave the specifics to actuarial standards of practice. **The Joint Committee was persuaded by this latter argument, noting that the requirements for actuarial communications may often be nation-specific and that actuarial standards of practice are a better vehicle to address those requirements. Accordingly, the Joint Committee revised Precept 4 to require clearly that the actuary comply with applicable actuarial standards of practice on communications and deleted the annotations to the precept, except for the two annotations required by the International Actuarial Association of member organizations’ codes of ethics.**

With respect to Precept 5, one commenter asked why the precept made references to “findings”; **the Joint Committee agreed with this comment and revised the precept.** Another commenter

disagreed with the inclusion of the phrase, “as appropriate”; **the Joint Committee believes the phrase clarifies the scope of the precept and elected to retain it.**

With respect to Precept 6, some commenters expressed concern that the actuary’s obligations could not reasonably be met. **The Joint Committee revised the precept to reflect the actuary’s obligations more clearly and appropriately.**

With respect to Precept 7, several commenters objected to the proposed scope and implementation of the precept, particularly with regard to past principals and prospective principals who are currently unknown. **The Joint Committee was persuaded by the comments and revised the precept to eliminate references to past principals and prospective principals who are not currently known by the actuary.**

With respect to Precept 8, a few commenters questioned the scope of the precept and one commenter offered a proposed revision to Annotation 8-1. **The Joint Committee believes that the precept is reasonable in scope and does not impose excessive burdens upon the actuary. The Joint Committee agreed with and incorporated the suggested alternative annotation with a few editorial revisions.**

No comments were received on Precept 9.

With respect to Precept 10, one commenter questioned the phrasing of the precept; **the Joint Committee revised the precept to address the commenter’s concerns.** A few commenters questioned how an actuary can comply with Annotations 10-4 and 10-5 absent consent of the principal; **the Joint Committee recognizes that the Code cannot bind the actuary’s principal and, therefore, elected not to attempt to do so in the annotations.** A few commenters expressed concern that Annotation 10-5 might require the actuary to provide actuarial work product without compensation; **the Joint Committee revised the annotation to clarify the actuary’s obligations.**

One commenter objected to Precept 11 as being too onerous. **The Joint Committee disagreed, noting that the precept imposes no additional obligations beyond the current Code, and made no changes.**

No comments were received on Precept 12, although one commenter suggested moving Annotation 12-1 to the Definitions section. **The Joint Committee elected to leave the position of the annotation unchanged, but revised the annotation to make it less like a definition.**

Several commenters expressed approval with the proposed changes to Precept 13 and its annotations; others offered various suggested changes to clarify further the scope of the actuary’s obligations. **The Joint Committee recognizes that the obligations imposed by this precept are particularly sensitive and that the precept therefore must be articulated as clearly as possible. The Joint Committee revised the precept and its annotations, incorporating many of the commenters’ suggested revisions, in an effort to explain the scope and nature of the actuary’s responsibilities as precisely as possible.**

No comments were received on Precept 14.

*Conclusion*

The Joint Committee on the Code of Professional Conduct wishes to thank all those who participated in this important project.

**Joint Committee on the Code of Professional Conduct**

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