



AMERICAN ACADEMY *of* ACTUARIES

September 27, 2013

Modeling
Actuarial Standards Board
1850 M Street, NW, Third Floor
Washington, DC 20036

Re: ASB COMMENTS - Comments on Exposure Draft of the Modeling ASOP

Members of the Actuarial Standards Board:

The American Academy of Actuaries¹ Pension Committee is pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the exposure draft of the proposed Actuarial Standard of Practice (ASOP) on Modeling.

We believe that the proposed ASOP should be extensively rewritten to focus more precisely on the modeling issues that ASB wishes to address.

Scope

The exposure draft defines “model” broadly. Indeed, the last paragraph in the background section says: “Actuaries generally agree that almost all actuarial work involves modeling of some type....”

It is unclear why this ASOP is needed in situations involving straightforward calculations. For instance, in calculating a deterministic present value using a pension valuation system or even using pencil and paper, the actuary seems to be using a model, as defined. In situations such as these, the exposure draft does not seem to have any positive effect and might instead add cost and exposure to routine work. Therefore, we believe the definition of “model” should be scaled back so that the ASOP only applies where it provides value.

Sections 1.2 *Scope* and 3.1 *Application of ASOP Guidance* allows the actuary to use professional judgment to identify situations where guidance described in the ASOP would not be appropriate or practical to follow. Situations involving “minimal reliance by the user” or “resulting in minimal financial effect” are cited. However, recognizing that there are numerous situations when actuaries use relatively simple calculation models to derive results that are relied on significantly by the user or have a significant financial effect, we believe that only models above some minimal level of complexity should be explicitly covered by

¹ The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

the ASOP.

In addition, because of the complicated definition of “model,” it would be helpful to give examples of actuarial work that are considered modeling as well as examples of actuarial work that are not.

Additional Clarification Needed

There are other areas where additional clarification, including examples, would be helpful.

- Section 3.2, which strives to ensure that a model meets its intended purpose, seems designed to expand on the existing standards. However, the Code of Conduct already requires the actuary to perform work with skill and care and take reasonable steps to avoid being misleading. It is unclear what additional requirements this ASOP would add that are not already contained in other standards.
- Section 3.4.1 requires the actuary to consider providing an explanation of the models used in deriving the results presented in an actuarial report. Given that models are used extensively in actuarial work, this requirement has the potential to affect nearly all actuarial communications. Because of this, it would be helpful if guidance were provided on the situations in which it would be appropriate to include such an explanation.

Standards Already Addressed by Other ASOPs

Topics already covered in other ASOPs should be removed or rewritten to refer to the applicable standard.

- Section 3.2.7 addresses assumptions. This is redundant, given the existing ASOPs that address assumptions.
- Section 3.4.2, on reconciliation of results, does not appear to provide any guidance related specifically to models.
- Section 3.6 requires the actuary to retain documentation “where appropriate to the **intended purpose.**” Section 3.8 of ASOP 41 contains guidance regarding the retention of other materials, and therefore, section 3.6 of the exposure draft appears to be redundant. We note that section 3.6 of the exposure draft requires the documentation to “include a statement of the purpose of the documentation...” No similar requirement is contained in section 3.8 of ASOP 41, and we see no reason the modeling ASOP should require this more stringent documentation requirement.

Standards that Can Be Expanded to All Actuarial Services

Some requirements of the proposed ASOP should be applied even more broadly to all actuarial service and are, therefore, not appropriate to include in the modeling ASOP.

- Section 3.2 specifies how we must ensure that a model meets its intended purpose. Much of this section can be applied very broadly to most of what actuaries do, not just to modeling.

- Much of section 3.3 on validation and checking can also be applied very broadly to most of what actuaries do.
- Section 3.4.3 on providing a description in actuarial communications of the judgment used in selecting inputs and methodology can be applied more generally to all actuarial work. Therefore, we believe this requirement would be more appropriately included in ASOP 41.

Other Comments

In addition, we have few miscellaneous comments.

- Section 3.1.2 implies that an actuary with a “limited ability to understand the underlying workings of the model” has a lesser obligation to comply with the ASOP. This does not seem to be appropriate. The standard should say that reliance on other experts is generally acceptable, but, in some situations, an actuary must have an appropriate level of understanding in order to use the model.
- Section 3.1.3 addresses the responsibility of the actuary to use professional judgment in determining when some or all of the guidance in the ASOP is not appropriate and in determining when deviation from the guidance is material. It should be clarified that a judgment that “some or all of the guidance is not appropriate” is different from a material deviation from the standard.
- Section 3.4 addresses presentation of results. We suggest that this section would be more appropriate under section 4, “Communications and Disclosures.”

The Pension Committee appreciates the opportunity to comment on this matter and would be happy to discuss any of these items with you at your convenience. Please contact David Goldfarb, the Academy’s pension policy analyst (202-785-7868, goldfarb@actuary.org) if you have any questions or would like to discuss these items further.

Sincerely,

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Chairperson, Pension Committee
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