



**ACTUARIAL STANDARDS BOARD**



**AMERICAN ACADEMY**  
*of* **ACTUARIES**

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Technical Director—File Reference No. 1520-100  
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**Response to FASB Invitation to Comment, “Valuation Guidance for Financial Reporting”**

To Whom It May Concern:

On behalf of the American Academy of Actuaries<sup>1</sup> (Academy) Financial Reporting Committee and the Actuarial Standards Board<sup>2</sup> (ASB), we appreciate the opportunity to provide this joint comment on the FASB’s consideration of whether there is a need for Valuation Guidance for Financial Reporting and how such a need might be filled.

The FASB, as the chief standard setter for general purpose financial statements in the United States has an obvious stake in establishing what phenomena should be measured in financial reports, how they should be measured, and what principles should guide these measurements. To the extent that financial reporting guidance needs to be provided for specific subjects, we encourage FASB to build upon existing foundations, where these foundations have already been well established. Establishing new mechanisms for providing valuation guidance in areas where such mechanisms currently exist and are well understood and well accepted would be inefficient and expensive for both FASB and the industries involved, and could confuse practitioners and users alike.

The actuarial profession has a structure for setting guidance that has been in place for nearly twenty years that works well and is well understood and accepted. The Actuarial Standards Board was established on July 1, 1988 as a single board promulgating standards of practice for the entire actuarial profession, regardless of specialty, within the United States. It currently has 42 numbered standards in

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<sup>1</sup> The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards.

<sup>2</sup> The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

place, with several others in various stages of development. Members of the Academy and other U.S.-based actuarial organizations are required, as part of a Code of Professional Conduct, to observe these standards when practicing in the U.S. These standards deal with numerous financial reporting issues in addition to other topics such as professional conduct and product pricing. For example, existing standards include:

- Measuring Retiree Group Obligations
- Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with GAAP
- Selection of Economic Assumptions for Measuring Pension Obligations
- Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

A more detailed description of the ASB's organization and processes is attached.

In addition to the actuarial standards issued by the ASB, the Academy has also issued a number of Practice Notes that provide more detailed, non-binding, guidance through examples of widely accepted actuarial practice. These practice notes are provided to assist actuaries in the day- to-day implementation of various standards, in approaching emerging issues, and in complying with various laws, regulations and other requirements.

We believe this approach provides the most suitable basis for providing guidance on valuation of actuarial items. We have enclosed our specific answers to your questions.

The Academy stands ready and willing to provide further technical input to you as you continue deliberation of the concepts contained in this ITC. Should you desire any clarification or expansion of these comments, please contact Tina Getachew at [getachew@actuary.org](mailto:getachew@actuary.org) or at (202) 223-8196.

Sincerely,



Henry Siegel  
Chairperson  
Academy Financial Reporting Committee



Cecil Bykerk  
Chairperson  
Actuarial Standards Board

You have requested that respondents consider several questions. Based on the general thoughts we express above, we have the following comments on the questions:

**Question 1 – Is There a Need for Valuation Guidance Specifically for Financial Reporting?**

Yes, we believe that there has been and will continue to be a need for specific valuation guidance for actuarial liabilities. The various actuarial standards and practice notes the ASB and the Academy have published respond to that need.

**Question 1(a) – Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Guidance, or a Combination of Both?**

We believe that valuation guidance should be as much principles-based as possible, rather than detailed and specific in nature. For example, Academy groups are working very hard along with the National Association of Insurance Commissioners and with representation from the AICPA to convert the current rule and formula- based life reserving structure for regulatory purposes to a principles-based structure. A significant motivation for this change has been the tremendous burden of creating and maintaining the various detailed rules, factors and formulas needed to sustain the existing system as life insurance products have grown in number and increased in complexity over time. Another motivation has been the realization that “one size” does not fit all sellers of the same product and that a single set of rules may create distorted rather than meaningful financial reporting information.

We also note that the FASB itself has expressed a preference for principles-based approaches to standard setting. In addition, developing international standards are likely to be more principles-based as well.

However, situations will invariably arise in which more specific guidance is required. The approach we propose could handle either broad or more specific guidance.

**Question 1(b) – What Should be the Duration of Any Valuation-Guidance-Setting Activities?**

In our experience, the need for new standards or the adjustment of existing standards continues as the external environment continues to evolve. We believe that standard setting is a special process that requires particular skill in both defining scope and creating clear and definitive wording in standards. These needs both argue for a permanent body with rotating membership through which knowledge and history can be transferred over time. Guidance can thus be reviewed periodically to assure it remains current and relevant.

We also expect that as convergence of US GAAP with international standards progresses, the need for financial reporting guidance will increase significantly, at least in the short term, rather than decrease. Furthermore, the constant development of new actuarial methodologies and new products suggest that there will be an on-going need for guidance.

The ASB is structured as such an ongoing body (please see appendix for full description). It has been in place since 1988 and membership changes over time as members leave and new ones take their place. This structure has worked well for the actuarial profession.

## **Question 2 – What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?**

As noted above, we believe that the best approach would be to use existing, successful appraisal organizations with strong interaction with FASB with an eye toward ensuring that guidance provided by appraisal organizations meets FASB's principles and goals. Appraisal organizations would be expected to possess the expertise on the specific techniques that would produce results consistent with FASB's financial reporting principles. We would expect these organizations to be in the best position to provide guidance that is both practical and effective as well as to foresee and forestall possible techniques designed to circumvent financial reporting principles.

We understand that FASB cannot acquiesce to guidance provided by other bodies that does not meet the needs of the users of financial statements. In some industries or some circumstances, FASB may need to take the lead in establishing valuation guidance. We believe this should be a definite second choice rather than a first choice, most especially in instances where appropriate organizations and processes are already in place, well accepted and well understood.

## **Question 3 – What Process Should be Used For Issuing Valuation Guidance?**

As described in the attached document, the ASB has processes for deciding what topics require guidance, recruiting members of the ASB and other actuaries highly knowledgeable on the topic in question, and vetting any proposed guidance with the entire actuarial community and users to ensure that the standard is both appropriate and practical. We expect that other organizations would have similar processes designed to produce guidance in a timely fashion that are practical, effective and understood by the implementers and the users that could be used as models. We believe the FASB's need for financial reporting guidance could be successfully incorporated into the existing actuarial structure.

## **Question 4 – Should the Process of Valuation Guidance Be on an International or National Level?**

We believe that in the near term, any valuation guidance for actuarial liabilities should be targeted at the national level. The liabilities needing valuation and the available actuarial techniques vary substantially among international jurisdictions and a common set of guidance would be extremely difficult to devise and implement. As FASB and IASB standards converge, and national experience is gained, U. S. valuation guidance might converge with international guidance.

## About the Actuarial Standards Board

The Actuarial Standards Board (ASB) was established on July 1, 1988 as an entity within the American Academy of Actuaries. It operates independently in establishing standards with Academy staff support. It is the single board promulgating standards of practice for the entire actuarial profession in the United States. The ASB was founded with the sole authority to develop, obtain comment upon, revise, adopt, and repeal standards of practice for the actuarial profession.

**The Board.** The ASB comprises nine persons representing a broad range of backgrounds and areas of actuarial practice. Each ASB member is appointed to a three-year term, with terms staggered such that one-third of the board is appointed each year. No board member is permitted to serve more than two consecutive terms. Board members and the ASB Chair are appointed by, and serve at the pleasure of, the Selection Committee which comprises the Presidents and Presidents-Elect of the Academy, the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries. The ASB has the responsibility for appointing committees, task forces etc. to accomplish its purpose, as it sees fit.

**Standards.** Standards of practice serve to assure the public that actuaries are professionally accountable. At the same time, standards provide practicing actuaries with a basis for assuring that their work will conform to generally accepted principles and practices. Standards protect the public by:

- Indicating for various areas of actuarial practice the appropriate procedures, techniques, and approaches, thereby enhancing the public's trust in the credibility and completeness of the actuarial work product.
- Providing a means by which the many separate elements that make up actuarial practice can be reviewed and updated on a regular basis, so that practice remains current.
- Furnishing criteria for evaluating actuarial work products.
- Providing a basis for discipline in those instances in which standards are not adhered to.

For individual actuaries, standards confer major benefits as well, by:

- Providing guidance, particularly in practice areas that may be somewhat unfamiliar.
- Giving strong evidence to any interested observer that the profession serves the public in an effective and responsible way.
- Offering evidence of adequate professional performance.

Standards of practice also serve to further assure regulatory authorities that they can depend on the actuarial profession to act effectively in the public interest. Written standards of practice, coupled with written provisions for disciplining members, show that a profession governs itself and takes an active interest in protecting the public.

**Adoption.** As a general rule, the ASB's operating committees develop the standards that the ASB adopts. But ASB procedures allow for special cases in which another committee or task force may be appointed with the specific charge of drafting or updating a standard. Before drafting begins, committee members solicit a wide range of ideas and perspectives on the issues that may bear upon the standard under development.

**Exposure.** Once the board has approved a draft standard for exposure, it is published and available to the members of the actuarial organizations governed by the standards of practice of the ASB, as well as individuals who have expressed an interest in the profession's standards setting, such as state insurance commissioners. Committee members also recommend as recipients individuals who might have a particular need to be informed about a given standard. Finally, exposure drafts are available to anyone upon request.

The comment period in most cases is a minimum of 60 days. Some exposure drafts are so complex or controversial or portend a sufficiently major impact on the actuarial profession as to require a public hearing, which is open to anyone, including the media. In these cases, the ASB chairperson authorizes hearings. When all exposure steps are completed, six members of the board must approve the standard for adoption. Once standards are approved by the ASB, they are published and distributed by the Academy to the same actuarial membership described above, as well as to other interested parties.