

Actuarial Professionalism

■ 1997
Annual
Report

Committee on Qualifications

Actuarial Standards Board

Actuarial Board
for Counseling and Discipline





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Preface

To Members of All Organizations Representing Actuaries in the United States

THIS IS THE SECOND COMBINED ANNUAL REPORT of the Actuarial Board for Counseling and Discipline (ABCD), the Actuarial Standards Board (ASB), and the American Academy of Actuaries Committee on Qualifications. Its purpose is to acquaint the members of the five U.S.-based organizations representing actuaries (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries) with the activities of these groups and their importance to actuarial professionalism.

The U.S.-based organizations have agreed to maintain a common Code of Professional Conduct, including reference to appropriate qualification standards and standards of practice, and a common set of counseling and disciplinary practices designed to be uniform.

In the United States, the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline have been established as independent organizations to serve the actuarial profession in the areas of standard-setting and investigation, counseling, and discipline. They are responsible to the five U.S.-based organizations representing actuaries. Each of these boards receives administrative support from the staff of the American Academy of Actuaries, the cost of which is covered by American Academy of Actuaries dues plus additional support from the other U.S.-based organizations representing actuaries to cover the cost of their members who are not members of the American Academy of Actuaries.

The actuarial profession in the United States has delegated to the Academy, through the Academy Committee on Qualifications, responsibility for developing and maintaining standards of qualification to practice as an actuary.

The activities of the ABCD, ASB, and Committee on Qualifications are coordinated through the Academy's Council on Professionalism, which is dedicated to encouraging the members of all U.S.-based actuarial organizations to achieve and maintain a high level of professionalism in their ongoing practice.

In addition to the reports of the three organizations, this report includes letters from Ken Hartwell, the Academy Vice President for Professionalism, and Jack Turnquist, Chairperson of the Joint Committee on the Code of Professional Conduct, as well as an annotated Code of Professional Conduct for all the U.S.-based organizations representing actuaries.

There are also committees that address professionalism issues within each of the organizations representing actuaries in the United States (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries). The work of these groups supports the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, and the Academy's Committee on Qualifications and strengthens actuarial professionalism for all actuaries.



Letter from the
American Academy
of Actuaries
Vice President
for Professionalism



Ken Hartwell

ALTHOUGH WE ARE NOT SUCCUMBING TO THE TEMPTATION of becoming complacent, we do believe that awareness of the importance of professionalism is at a higher level than ever before. This report reinforces the three pillars upon which actuarial professionalism rests: qualifications to provide professional services, adherence to the profession's standards of practice, and compliance with the ethical standards set forth in the Code(s) of Professional Conduct.

I would be remiss if I did not thank the other committees represented on the Council on Professionalism, which do not otherwise feature in this report. The Committee on International Issues has begun to play a major role against the background of considerably greater international activity in the actuarial profession. The Committee on Professional Responsibility continues to promote knowledge of standards of conduct, qualification, and practice within the profession, and the Committee on Actuarial Public Service does good work in support of actuaries in public sector employment. Finally, the NAIC/Academy/ABCD/ASB Joint Committee has met regularly to good effect twice a year.

We greatly appreciate the participation of the chairpersons of the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline, together with the chairpersons of the Joint Committee on the Code of Professional Conduct, the Academy Committee on Qualifications, and the other Academy committees referred to above, in the ongoing work of the Council on Professionalism. They in turn are supported by hundreds of volunteers among members of the profession and of course by the Academy staff, and we pay tribute to both these groups.

Ken Hartwell

*American Academy of Actuaries Vice President and
Chairperson, Council on Professionalism*



Letter from the
Chairperson of the
Joint Committee
on the Code
of Professional Conduct



Jack Turnquist

THE DEVELOPMENT AND ADOPTION of a uniform Code of Professional Conduct by each of the U.S.-based organizations representing actuaries represented a significant advancement in professionalism for the actuarial profession in the United States. It essentially meant that, effective in 1992, all actuaries practicing in the United States would be held to the same professional ethical standards, regardless of organizational affiliation, just as they were held to the same professional standards of both qualification and practice. This was a necessary adjunct to the effective operation of the Actuarial Board for Counseling and Discipline. The development of the Code was the result of a concerted effort by the Joint Committee on the Code of Professional Conduct established under the aegis of the Council of Presidents. That Committee was subsequently discharged following the development of the amendments to the Code that were adopted in 1994.


Since that time, valuable experience has been obtained as a result of working with and applying the provisions of the Code in actual practice. This, together with the significant developments that have occurred in international actuarial working relationships, has identified the need for a facility for continued review and modification of the Code on a timely and consistent basis.

As a result, the Board of Directors of the American Academy of Actuaries adopted a resolution in 1997 establishing a new Joint Committee on the Code of Professional Conduct. This Committee, which became operational in January of 1998, has one representative from each of the U.S.-based organizations representing actuaries, and is charged with monitoring the Code of Professional Conduct and

recommending necessary amendments to the Code to all U.S.-based organizations. In recognition of the need for coordination and cooperation in professionalism issues affecting all North American actuaries, the Canadian Institute of Actuaries and the Colegio Nacional de Actuarios have provided liaison representatives.

The Committee is dedicated to ensuring that the Code of Professional Conduct keeps pace with the changing environment, appropriately addresses perceived needs and problems on a timely basis, and remains consistent among the U.S.-based actuarial organizations. It is in the process of making a thorough review and analysis of the existing Precepts and Annotations in light of the experience and issues identified. For the Committee's work to be effective, it is vital to have the active support and participation of the membership of the U.S. actuarial profession. We will need your help in identifying professional conduct issues that, based on your review and experience, are felt to be either not covered by the current Code or in need of clarification, amplification, or modification.

Remember, this is your Code of Professional Conduct and you are, and will continue to be, subject to its provisions. Make sure that your views are known now and when proposed amendments to the Code are exposed for comment.



Jack M. Turnquist

Chairperson, Joint Committee on the Code of Professional Conduct

Charge

The Committee on Qualifications of the American Academy of Actuaries drafts and recommends standards of basic education, experience, and continuing education for actuaries practicing in the United States. Once approved by the Academy Board of Directors, these standards are codified as Qualification Standards for Public Statements of Actuarial Opinion.

The scope of qualification standards is not limited to members of the Academy. Under Precept 3 of the actuarial profession's Code of Professional Conduct, all actuaries who are members of a U.S.-based organization representing actuaries—the Academy, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, or Society of Actuaries—must meet the qualification standards when practicing in the United States. Thus, the work of the Committee on Qualifications is important to members of the profession nationwide.

The Committee on Qualifications also is charged to provide members with confidential guidance on meeting the qualification standards. The committee receives dozens of inquiries each year from actuaries who have questions about the application of qualification standards to their own practice. Most inquiries concern continuing education requirements and typically are resolved informally through telephone conversations with the inquiring actuaries. However, in some instances the entire committee meets to discuss an inquiry and prepare a written reply.

The Committee on Qualifications is composed of nine members, at least two of whom are active practitioners in each of the profession's traditional practice areas—casualty, health, life, and pension.

Committee on Qualifications

From the
Chairperson



Robert B. Likins

Charles L. McClenahan,
Vice Chairperson

William J. Bugg Jr.

James L. Lewis Jr.

Daniel J. McCarthy

Terrence M. O'Brien

Adam J. Reese

Carl Shalit

THE CODE OF PROFESSIONAL CONDUCT in Precept 3 requires actuaries to perform professional services only when they are qualified to do so and to meet applicable qualification standards. The Qualification Standards provide guidance to actuaries regarding the necessary education and experience to do their professional work.

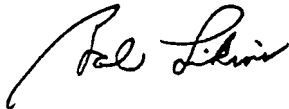
In 1996, the American Academy of Actuaries Committee on Qualifications, with support from the Academy Board of Directors, released for exposure proposed amendments intended to make the Qualification Standards clearer and easier to use. Throughout 1997, the Committee reviewed the many thoughtful comments it received on the first exposure draft of the revised *Qualification Standards for Public Statements of Actuarial Opinion* (PSAOs), and it received approval from the Academy Board of Directors to distribute a second exposure draft of this booklet in the fall of 1997. Comments on the second exposure draft are now being reviewed and addressed and incorporated into the final revision. We believe that the exposure draft process itself has helped increase awareness of Qualification Standards among the membership.

The Committee is encouraged by the questions it receives from actuaries representing themselves and, in some cases, their firms, concerning the basic education, continuing education, and professional experience necessary to meet Qualification Standards. These inquiries come from the conscientious, thoughtful actuary who is "looking before leaping" into a new work assignment. The purpose of the rewritten standards is to clarify and provide examples of public statements of actuarial opinion so that in as many situations as possible an actuary may make a correct, independent determination that he or she is qualified from a review of

the published standards. Comments on the first draft indicated that although progress was made, there was more to be done. Comments on the second exposure draft were in a similar vein.

Because actuaries work hard for their actuarial credentials, they want them to signify professional quality to the public. Establishing, communicating clearly, and following Qualification Standards for work undertaken will help to ensure continued respect for our well-earned favorable reputation as actuaries.

I encourage you to participate in continuing education even if you do not currently sign public statements of actuarial opinion. Your assignment could change and you might be asked to sign a PSAO. And the recordkeeping is not burdensome if you make notes on your continuing education throughout the year. Read your booklet. And if you have not yet begun your continuing education recordkeeping for 1998, do it now. Be qualified!

A handwritten signature in cursive script, reading "Bob Likins".

Robert B. Likins

Chairperson, Committee on Qualifications

Committee on Qualifications Annual Report



Committee on Qualifications
member James Lewis Jr.

Revision of Qualification Standards for Public Statements of Actuarial Opinion

In 1996, the American Academy of Actuaries Board of Directors authorized release of an exposure draft setting forth clarifying amendments to the *Qualification Standards for Public Statements of Actuarial Opinion* (PSAOs). Numerous thoughtful comments on the exposure draft were received. The Committee on Qualifications spent most of its time during 1997 reviewing comments and revising the first exposure draft of the Qualification Standards. Clarifying comments on issues of professionalism, continuing education, treatment of Enrolled Actuaries under the Qualification Standards, clarity of the language defining PSAOs to be actuarial opinions/communications “issued for purposes of compliance with” law, regulation, a standard of practice or accounting requirement, and Qualification Standards in multiple actuarial practice area situations were among those issues needing to be addressed. The Committee’s review of the comment letters submitted on the first exposure draft of the revised Qualification Standards led to a sufficient number and variety of changes (some of which appeared to be more substantive than editorial) that the Committee felt a second exposure draft was warranted. The Academy’s Board of Directors agreed, authorizing release of a second exposure draft at its September 1997 meeting. The draft was distributed before year-end, and again, many thoughtful comments were received.

The Committee’s challenge remains getting actuaries to ask themselves the question, “Am I qualified to do this work?” before undertaking *any* assignment, and in particular, an assignment that includes issuing a PSAO. It is to meeting this challenge that our efforts continue to be addressed.

Continuing Education Identification and Recordkeeping

The Committee on Qualifications continues its ongoing efforts to encourage actuaries to participate in continuing education (CE) and recordkeeping for CE. First, the Committee has provided in an appendix to the Qualification Standards booklet a set of three forms for taking notes at CE sessions, keeping an account of CE for the calendar year, and tabulating the accrual of adequate CE for issuing PSAOs. These forms will be provided in full sheet size with the final copy of the booklet when it is published, and should make it easier for actuaries to keep track of their CE. Second, we are writing the professional actuarial organizations to encourage them to clearly identify all CE activities in their meeting programs by actuarial practice area and to specify the number of credit hours each CE opportunity represents. Again, the Committee believes that this initiative will facilitate actuaries' efforts to comply with the CE requirements of the Qualification Standards.

Input to Society of Actuaries Education Revisions

The Committee on Qualifications is working with the Society of Actuaries (SOA) to encourage the SOA to provide an adequate selection of educational topics on its study syllabus to meet the specific Qualification Standards to issue a PSAO for annual statement reserve opinions. This will allow the prospective Fellow of the Society of Actuaries (FSA) who wants to acquire the education needed to meet the basic education requirements to acquire that education during the fellowship course of study.



Committee on Qualifications member Adam Reese



Committee on Qualifications member Carl Shalit



Committee on Qualifications member William Bugg Jr.

One Committee member also serves on the SOA committee that is revising the syllabus, providing a direct liaison to the SOA and keeping our Committee current as the SOA continues its work.

Promote Member Awareness of Qualification Standards

Our primary vehicle for increasing member awareness of Qualification Standards is the Qualification Standards booklet. Additionally, we have authored three articles in the Academy's monthly newsletter, the *Actuarial Update*, addressing qualification standards and continuing education. Finally, Qualifications Committee members have led or participated in professionalism sessions at the Enrolled Actuaries Meeting and the Academy Annual Meeting, and have met with the NAIC/Academy/ABCD/ASB Joint Committee to discuss the application of the Qualification Standards to public sector actuaries.

The Year Ahead

The Committee's primary task in 1998 will be reviewing the comment letters received on the second exposure draft of the revised Qualification Standards, making appropriate changes, and developing a final document for review and approval by the Academy's Board of Directors. The first exposure draft yielded a wealth of valuable comments and ideas from the membership, and the second exposure draft has produced



Committee on Qualifications
member Daniel McCarthy

similar results. The Committee is confident that the final revised Qualification Standards booklet will be considerably clearer and easier for actuaries to use.

Final adoption of the revised Qualification Standards will also require the establishment of a process for advance recognition of “organized” continuing education activities and advance “approval” of the providers of those activities. The Committee appreciates the assistance of the Academy Committee on Professional Responsibility in developing this process. Additionally, the Committee plans to continue its efforts to communicate the importance of the Qualification Standards to the membership through public speaking and publication of articles in the *Actuarial Update*. The Committee looks forward to a productive year as it continues to urge actuaries to be sensitive to qualification issues as part of achieving and maintaining a high level of professionalism in their daily practice.

Members of the Committee on Qualifications



Seated left to right:

Daniel J. McCarthy and Robert B. Likins

Standing left to right:

William J. Bugg Jr., Adam J. Reese,
Carl Shalit, and James L. Lewis Jr.

Not pictured:

Charles L. McClenahan and Terrence M. O'Brien

Charge

The Actuarial Standards Board (ASB) was established in 1988 as an independent entity within the American Academy of Actuaries. Its purpose is to direct and manage the development of actuarial standards of practice, to expose and promulgate actuarial standards of practice in all areas of actuarial practice, and to provide continuous review of existing standards of practice, determining whether there is need for amendment, alteration, expansion, or elimination.

The ASB has the authority to prescribe its own operating procedures and to establish and appoint individuals to committees, subcommittees, and task forces it may deem necessary in carrying out its assigned functions.

Actuarial Standards Board

From the Chairperson



David G. Hartman

Daniel J. McCarthy,
Vice Chairperson

James R. Swenson,
Vice Chairperson

Phillip N. Ben-Zvi

Heidi R. Dexter

Frank S. Irish

Roland E. (Guy) King

William C. Koenig

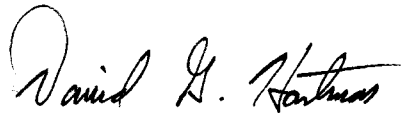
Alan J. Stonewall

THE ACTUARIAL STANDARDS BOARD (ASB) marked its tenth year, 1997, by completing work on a near-record number of actuarial standards of practice (ASOPs). Four new standards were adopted; one was revised; and a proposed standard, *Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions*, was released for comment. The ASB's activity encompassed all four traditional practice areas (casualty, health, life, and pension), and placed the board, toward the end of the year, in an excellent position to turn its attention to some emerging areas.

As a practical matter, the ASB leans heavily on the work of its operating committees and task forces, whose members prepare and present the drafts that become actuarial standards of practice. Without the meticulous care and dedication that these volunteers bring to their efforts, the board's ability to fulfill its responsibilities would be much reduced. The generosity with which so many offer their time and talents is a genuine tribute to the actuarial profession.

The ASB's small staff supports the work of all the operating committees, subcommittees, and task forces, editing and producing exposure drafts, final standards, and publications designed to help members of the actuarial profession keep up to date. In mid-1997, Christine Nickerson, who had headed the ASB's staff from the beginning, caused her colleagues much regret by resigning to take up other interests; she was replaced in early fall by Mary E. Cadette. Meanwhile, Standards Editor Anne M. Kotchek, aided by Editorial Assistant Jess Carlson, kept the many papers and projects connected to the ASB's work moving forward at a steady pace.

At the end of the year, the board bid good-bye to Harper L. Garrett, a member since 1995, and to Richard S. Robertson, a member since 1992 and chairperson in 1996 and 1997. Heidi R. Dexter, former chairperson of the ASB's Pension Committee, and William C. Koenig, former chairperson of the ASB's Life Committee, now fill out the board's roster. I am humbled to have been chosen as chairperson for 1998—a year that promises much hard work, with the prospect of much accomplishment.

A handwritten signature in black ink that reads "David G. Hartman". The signature is written in a cursive style with a large initial 'D'.

David G. Hartman

Chairperson, Actuarial Standards Board

Actuarial Standards Board Annual Report



ASB Vice Chairperson
Daniel McCarthy



ASB Vice Chairperson
James Swenson

Looking Back: 1997

The Actuarial Standards Board (ASB) issued standards—new, revised, or proposed—in all four traditional areas of actuarial practice in 1997. Two new standards were adopted to guide the ratemaking work of property/casualty actuaries. In the health practice area, a financial reporting recommendation was revised and adopted as an actuarial standard of practice (ASOP), and a new standard on documentation was adopted. Life actuaries have a revised edition of a 1990 standard on dividend determination. And as the year came to a close, the board approved and distributed an exposure draft of a proposed standard concerning retirement plan benefits in domestic relations that is certain to be of special interest to pension practitioners.

Two of the board's active committees—the Editorial Advisory Committee and the General Committee—are charged with responsibilities that cut across the traditional practice areas. Specialized questions, on the other hand, are often the province of task forces appointed by the board. The board also undertakes collaborative efforts with closely related entities—for example, with the Committee on Social Insurance of the American Academy of Actuaries, which devoted a good deal of time in 1997 to a standard on social insurance. The ASB is thus able to broaden or narrow its analytical focus and draw on others' expertise in ways best suited to whatever question is at hand.

Casualty Committee

The ASB adopted two actuarial standards of practice designed to guide actuaries in the casualty practice area at its July meeting. ASOP No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*, applies to all property/casualty insurance coverages and to property/casualty risk-financing systems that provide similar coverages. ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, offers guidance in estimating the cost of capital and in evaluating underwriting profit and contingency provisions. These standards of practice apply to work performed after December 1, 1997.



ASB member Phillip Ben-Zvi

Editorial Advisory Committee

In addition to its standing charge of reviewing the exposure drafts of proposed standards for format, style, structure, and consistency, the Editorial Advisory Committee took on a number of other tasks in 1997. Committee members undertook and completed a survey on the use of the *Glossary of Actuarial Terms* (a 1994 publication), and reported the results to the ASB at its October meeting. The committee also finished a revision of the ASB's Procedures Manual, which describes the board's operating guidelines, and prepared for the task of reviewing and updating the *Applicability Guidelines for Actuarial Standards of Practice*, a publication developed by the Council on Professionalism of the American Academy of Actuaries.



ASB member Alan Stonewall



ASB member William Koenig

General Committee

The General Committee continued its work in revising and reformatting Interpretative Opinion 3, *Professional Communications of Actuaries*, and Interpretative Opinion 4, *Actuarial Principles and Practices*. These documents, adopted by the American Academy of Actuaries (1970–1982) and republished by the ASB in 1992, would be more useful to many if they were recast in the form of actuarial standards of practice.

Health Committee

In April, the ASB adopted ASOP No. 28, *Compliance with Statutory Statement of Actuarial Opinion Requirements for Hospital, Medical, and Dental Service or Indemnity Corporations, and for Health Maintenance Organizations*. This standard is a revised and more comprehensive version of Financial Reporting Recommendation 10, *Statement of Actuarial Opinion for Health Service Corporation Statutory Annual Statements*. It follows the current versions of the Blank for Hospital, Medical, or Dental Service or Indemnity Corporations and the Blank for Health Maintenance Organizations issued by the National Association of Insurance Commissioners. The standard does not apply to state laws or regulations that differ substantively from these Blanks. It is effective for all applicable statements of actuarial opinion written for annual statements prepared for fiscal periods ending after September 15, 1997.

Actuarial Standard of Practice No. 31, *Documentation in Health Benefit Plan Ratemaking*, was adopted by the ASB at its October meeting. The standard is limited

to documentation related to the development of rates (estimates of the expected value of future costs); it does not apply to prices (the amounts charged to purchasers). Unless specifically noted otherwise, the standard also does not apply to work performed in connection with Statement of Financial Accounting Standards (SFAS) 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The standard is effective for work performed after April 1, 1998.

Life Committee

The ASB adopted ASOP No. 15, *Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts*, in 1990. Although primarily concerned with the determination of dividends, that standard also provided general advice on dividend illustrations. With the adoption of ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation*, in 1995, it was clear that some revision of ASOP No. 15 would be necessary. In December 1997 the board adopted a revised edition that covers only standard actuarial practice with respect to business that is outside the purview of the NAIC's model regulation. The revised standard is effective for work performed after April 1, 1998.

Pension Committee

In December, the ASB released for comment an exposure draft of a proposed standard, *Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions*. The board's Pension Committee, which began work in response to a request



ASB member Frank Irish



ASB members Heidi Dexter (*right*) and Phillip Ben-Zvi



ASB member Guy King

from the Actuarial Board for Counseling and Discipline, is most interested in comments on the draft's treatment of allocation methods, selection of assumptions, and disclosure of conflicts of interest. The comment deadline is June 1, 1998.

Task Forces

A number of ASB task forces send their work forward to the board under the aegis of a larger committee. Some task forces, however, are freestanding, reporting directly to the ASB. In 1997 the board had two such bodies, one focusing on long-term care and one on social insurance.

The ASB re-formed the Task Force on Long-term Care in 1996 to review and revise ASOP No. 18, *Long-term Care Insurance*; in 1997, the task force, with both new and old members of the original group, continued its work on a draft that will address developments since the standard's adoption in 1991. The Academy's Committee on Social Insurance acted as an ASB task force through the year, releasing a third exposure draft of a proposed ASOP on social insurance and considering the comments received.

A third task force, on retiree group benefits, was discussed at the October meeting but had not been formed by year's end.

ASB Members

The nine-person Actuarial Standards Board broadly represents the various practice areas within the actuarial profession. ASB members are appointed to three-year terms by a selection committee comprising the presidents and presidents-elect 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.

The selection committee, which annually appoints the chairperson of the ASB, named David G. Hartman to serve as chairperson during 1998. The terms of Phillip N. Ben-Zvi, Harper L. Garrett, and Richard S. Robertson, chairperson in 1996 and 1997, expired at the end of 1997. Mr. Ben-Zvi was appointed to a second term. Mr. Garrett and Mr. Robertson were replaced by Heidi R. Dexter and William C. Koenig.

Phillip N. Ben-Zvi	2000*
Heidi R. Dexter	2000
David G. Hartman, chairperson	1998
Frank S. Irish	1999*
Roland E. (Guy) King	1999
William C. Koenig	2000
Daniel J. McCarthy, vice chairperson	1998*
Alan J. Stonewall	1999
James R. Swenson, vice chairperson	1998

Terms expire on December 31 of the year indicated. An asterisk indicates a member who is serving a second term.

Members of the Actuarial Standards Board



Seated left to right:

James R. Swenson, David G. Hartman,
and Daniel J. McCarthy

Standing left to right: Phillip N. Ben-Zvi,
Frank S. Irish, Heidi R. Dexter,
Roland E. (Guy) King, William C. Koenig,
and Alan J. Stonewall

Financial Summary

Financial activities pertaining to the Actuarial Standards Board are accounted for separately within the American Academy of Actuaries' system of accounts. The ASB submits a budget request to the Academy treasurer, listing all planned income sources and potential expenses. The Academy Board of Directors considers this request when adopting the Academy's annual budget and makes provision within the budget for ASB operating expenses.

The ASB has discretion with regard to the expenditure of all funds allocated to it, subject only to accounting and audit requirements mutually determined by the treasurer and the ASB.

Actuarial Standards Board
Statement of Revenue and Expenses
Year Ended December 31, 1997¹

Revenue	
Standards Handbooks	\$ 780
Service Fees ²	93,102
Total Revenue	\$93,882
Expenses	
Salaries ³	\$133,538
Benefits	26,826
Office Operating Costs	56,739
Printing	106,137
Postage	32,206
Staff Travel	13,179
Committee Meetings	38,833
Travel Reimbursement for ASB Members	42,359
Standards Handbooks	2,814
Miscellaneous	6,001
Total Expenses	\$458,632

¹ These figures represent the audited financial results as of December 31, 1997. Many members of the actuarial profession have contributed significant amounts of time to the activities of the Actuarial Standards Board without compensation. The financial statement does not reflect the value of these contributed services.

²In addition to funding from the Academy, operating costs for the ASB are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries.

³Includes salaries of three full-time staff members and charges for actual time spent on the standards program by other Academy employees.

Mission The Actuarial Board for Counseling and Discipline was established in 1992 by the organizations representing actuaries in the United States. Its threefold mission is to

- Provide counsel and respond to requests for guidance from actuaries about issues they encounter in day-to-day practice.
- Consider alleged violations of the actuarial profession's Code of Professional Conduct, offer remedial counseling and, when necessary, recommend disciplinary measures to the member organizations.
- Serve as ombudsman in the resolution of disputes involving actuaries.

Actuarial Board for Counseling and Discipline

From the Chairperson



Henry K. Knowlton

Joseph J. Leube,
Vice Chairperson

Jerome A. Scheibl,
Vice Chairperson

E. Paul Barnhart

Daphne D. Bartlett

John M. Bertko

Ruth F. Frew

Kenneth W. Porter

Robert W. Sturgis

THE YEAR 1997 was an eventful one for the Actuarial Board for Counseling and Discipline (ABCD). Its members devoted considerable time to drafting proposed revisions to Article X of the Bylaws of the American Academy of Actuaries (which govern the ABCD's activities) and the ABCD's Rules of Procedure. An exposure draft of Article X was then distributed to all members of the organizations served by the ABCD. The comments received not only provided valuable feedback on the draft itself, but also indicated that at least some respondents were not entirely clear about the ABCD's position within the structure of the actuarial profession and about its role and responsibility.

The ABCD is an independent organization, authorized and financed (in proportion to the number of members) by the five organizations serving actuaries in the United States. Each of these organizations has delegated to the ABCD the authority to investigate possible violations of its Code of Professional Conduct and, when appropriate, to recommend disciplinary action to the organization. The ABCD has no authority to impose discipline itself, and although its work is managed through the Academy's offices, it should be kept in mind that it operates under the authority of each of the participating organizations, not just the Academy. Among the principal objectives underlying the formation of the ABCD in 1992 was to minimize duplication of effort relating to the investigation of potential disciplinary matters and to provide consistent handling of such matters.

While the revisions to Article X and the ABCD Rules of Procedure are important, these activities have taken place concurrently with the normal work of the ABCD, which includes providing timely response to requests for guidance and

evaluation of alleged violations of the Code of Professional Conduct. These, our most important activities, continue to occupy most of the ABCD's time and attention. Assisting in these activities are the ABCD staff and members of the participating organizations who serve as volunteer investigators, mediators, and consultants. Their support is vital, and it is sincerely appreciated.

In 1997, two of our charter members, Alan Ferguson and Walt Fitzgibbon, reached the end of their terms of service. Each was a major contributor to the ABCD, and the hard work, wit, and wisdom of both will be missed.

A handwritten signature in black ink, appearing to read "Henry K. Knowlton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Henry K. Knowlton

Chairperson, Actuarial Board for Counseling and Discipline

Actuarial Board for Counseling and Discipline Annual Report



ABCD Vice Chairperson
Joseph Leube



ABCD Vice Chairperson
Jerome Scheibl

Requests for Guidance

In terms of number of cases, responding to more than thirty requests for guidance continues to be the most prevalent activity of the ABCD. Many of these cases involve actuaries who are concerned, from a professional viewpoint, about situations in which they find themselves and simply want to use the ABCD as a sounding board to help them reach the best solution to a problem.

In other cases, the problem is more complex and may require significant time for an ABCD member to assist the actuary in reaching an answer that is comfortable to both. In the most complex situations, the entire ABCD will consider the request, and written guidance will be provided on behalf of the entire board.

Discipline Process

While responding to requests for guidance is the ABCD's most frequent activity, the ABCD's role in the overall discipline process is the function that receives the greatest member interest. The unusually high number of ABCD fact-finding hearings held in 1996 resulted in fewer hearings in 1997. On the other hand, the number of cases in the investigation stage has increased, which may result in increased hearing activities in the future.

A review of completed cases would often lead one to ask, "Why is the process so slow?" While the ABCD makes every attempt to move cases through the pipeline, the process is deliberate in debating cases to ensure that the actuary receives due process at each step of the way. This involves giving the actuary the right (and an adequate opportunity) to respond to (a) the initial notice of a complaint, (b) the naming of an

investigator, (c) the report of the investigator, and (d) the notice of an ABCD fact-finding hearing. Cases are frequently delayed owing to the ABCD waiting for litigation to be settled to keep the ABCD's administrative determinations on ethics, professionalism, and practice from unduly influencing litigation.

Ombudsman Activities

The ABCD's case statistics tend to significantly understate its ombudsman activities. Sometimes, where there are disagreements among actuaries and one actuary reports the matter to the ABCD, the ABCD chairperson and vice chairpersons attempt to mediate the dispute rather than assign an investigator to the case. In cases involving business disputes, if the case involves no apparent violation of the Code of Professional Conduct and can be settled with the help of the ABCD, it is far better to informally resolve the dispute between the professionals involved rather than to further escalate the dispute. In the ABCD's caseload, these situations often begin as a complaint and are usually recorded as complaints that were dismissed.

Cooperation with Regulators

On a semiannual basis, representatives of the ABCD, the Actuarial Standards Board, the American Academy of Actuaries, and the Academy Committee on Qualifications meet with state insurance regulators on issues of mutual concern. The ABCD has found this discourse to be essential in informing regulatory actuaries of the ABCD's procedures and practices.



ABCD member Robert Sturgis



ABCD member Ruth Frew



ABCD member Kenneth Porter

Regulatory actuaries are in a position to be a tremendous help to the profession in identifying actuarial work that appears to need improvement. While a number of regulators comment on the poor quality of some actuarial work they review, they rarely refer such work to the ABCD.

The reluctance of many of these regulatory actuaries to bring complaints to the ABCD is understandable. Making such a report may be a daunting prospect. The natural reluctance to make a complaint is compounded by the view, held by many regulatory actuaries, that if they do make a complaint and are later personally sued as a result, their employer will not necessarily assume the cost of their defense, no matter how meritorious their position may have been.

In a number of cases, these regulatory actuaries have chosen to submit information anonymously. As long as state laws do not ensure that these regulatory actuaries, who make legitimate complaints on behalf of their employers, are protected from nuisance lawsuits, the ABCD believes that the option to submit information on an anonymous basis must be retained.

Communications

Once again in 1997 the ABCD addressed the actuarial profession through several communications media. Publications included a continuing series of articles on ethical issues in the Casualty Actuarial Society's *Actuarial Review* co-authored by Jerry Scheibl of the ABCD and the CAS Committee on Professionalism Education, chaired by Roger Schultz. The American Society of Pension Actuaries newsletter published an article by ABCD member Joe Leube on the ABCD's process.

The ABCD has undertaken educating actuaries on professionalism issues beyond the scope of its own work. Mock hearings presented by ABCD members and others in the profession at major meetings of the organizations representing actuaries have proven effective and stimulating educational forums. In October, the ABCD presented a mock hearing at a Conference of Consulting Actuaries meeting in conjunction with the American Academy of Actuaries Annual Meeting. ABCD members also participated in a separate professionalism session at another Conference meeting. The ABCD and the subject of actuarial professionalism have also been integral in presentations for Society of Actuaries fellowship admissions courses. Finally, members of the ABCD staged a mock trial at the 1997 Casualty Loss Reserve Seminar.

ABCD members also occasionally speak to actuarial clubs or other groups. These appearances may be facilitated through the communications staff at the American Academy of Actuaries or directly with ABCD members. There is also an ABCD video that was developed for actuarial groups and is available upon request from the Academy.



ABCD member Daphne Bartlett

Confidentiality

Unless public discipline is recommended and imposed by the membership organization, ABCD case-related activities are kept strictly confidential. Even if public discipline is imposed by a membership organization, Article X of the Bylaws of the American Academy of Actuaries requires the ABCD to maintain confidentiality.

The ABCD may inform complainants of action taken as a result of their complaint, but only in a limited fashion. If a case is dismissed, or an actuary is counseled, the complainant is informed only of the dismissal or the fact of counseling. After the



ABCD member John Bertko

ABCD has completed its work on a case, only member organizations may communicate anything related to the case.

While a few actuaries have called for a more open ABCD process, the leadership of the profession seems to support the current ABCD process, which protects the identity of the individual actuary unless a membership organization imposes public discipline. While the ABCD encourages the complainant and actuary to keep the process and results of an ABCD investigation confidential, the proposed revisions to Article X make it clear that the confidentiality requirement applies solely to the ABCD. Rules governing the ABCD do not prohibit complainants or actuaries who take issue with the ABCD's action from voicing their concerns to their respective membership organizations and the public so long as they do not violate the Code of Professional Conduct.

Confidentiality is an ABCD restriction, and while the ABCD discourages adversarial actuaries from making their disputes public, so long as any public statements are not in violation of the Code of Professional Conduct, the ABCD cannot prevent actuaries' disclosures.

Proposed Changes to Article X

The ABCD believes it was responsive to the vast majority of comments regarding the proposed changes to Article X of the Bylaws of the American Academy of Actuaries.

Many of these comments involved maintaining the due process protections of the ABCD investigation process within Article X where they could not be removed without a vote of the membership. While it had been the intent of the ABCD to retain these protections as part of its Rules of Procedure, in response to these comments, the ABCD proposed restoring these protections to the revised Article X.

The changes in the revised Article X, which the ABCD hopes will be approved by the Academy membership during 1998, fall into three major areas:

- The roles of the ABCD in general and investigators in particular have been revised to better define the fact-finding nature of this activity.
- The roles of attorneys in ABCD hearings have been modified, with individual rules applying both to the attorneys representing the actuary and the ABCD.
- The confidentiality provisions have been rewritten to make it clear that this requirement applies only to the ABCD and is not intended to suppress comment from individual actuaries who disapprove of ABCD actions.

We believe these changes are necessary if the ABCD is to continue to function effectively, and we encourage the support of these changes by all members of the profession.



Members of the Actuarial Board for Counseling and Discipline



Seated left to right:

Jerome A. Scheibl, Henry K. Knowlton,
and Joseph J. Leube

Standing left to right:

Kenneth W. Porter, Ruth F. Frew, John M. Bertko,
Robert W. Sturgis, and Daphne D. Bartlett

Not pictured: E. Paul Barnhart

Cases Considered During 1997

Type of Case	Pending from 1996 and Earlier	Received in 1997	Total
Conduct	11	3	14
Practice	4	6	10
Conduct and Practice	5	5	10
Requests for Guidance	1	32	33
Total	21	46	67

Cases by Practice Area	Pending from 1996 and Earlier	Received in 1997	Total
Casualty	3	15	18
Health	2	5	7
Life	5	13	18
Pension	11	13	24
Total	21	46	67

**Disposition by Chairperson and Vice Chairpersons
(or Other Member[s])—Requests for Guidance)**

Dismissed	10
Dismissed with guidance*	1
Referred to investigator	9
Held pending receipt of more information	10
Held pending resolution of litigation or other external process	2
Replied to requests for guidance	31

Disposition by Whole ABCD

Dismissed	1
Counseled	2
Recommended public disciplinary action	0
Pending hearing in 1998	1

Total Cases Pending and in Progress January 1, 1998 22

*An additional complaint that the chairperson and vice chairpersons dismissed was appealed by the complainant to the ABCD as a whole. The disposition was still pending at the end of 1997.

Since its inception in 1992, the ABCD has completed its cases as follows:

Disposition	1992	1993	1994	1995	1996	1997	Total
Dismissed	12	24	9	11	8	11	75
Dismissed with guidance	6	10	3	—	5	1	25
Counseled	—	2	8	1	6	2	19
Referred to ombudsman	3	1	1	—	—	—	5
Recommended public discipline	—	1	2	—	3	—	6
Replied to requests for guidance	8	8	8	10	28	31	93
Total	29	46	31	22	50	45	223

Financial Summary

Year Ended December 31, 1997

Staff Salaries	\$70,602
Staff Benefits	14,162
Office Operating Costs	29,078
Printing	11,059
Postage and Delivery Services	2,203
Staff Travel	11,330
Committee Meetings	14,839
ABCD Travel Reimbursement	43,986
Other	6,682
Total	\$203,941

NOTE: Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. Many members of the actuarial profession have contributed significant amounts of volunteer time to the activities of the ABCD. This financial summary does not reflect the value of those contributed services. Operating costs of the ABCD are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries.

Preamble

The Precepts of this Code of Professional Conduct identify the professional and ethical standards with which an actuary must comply. The Annotations provide additional explanatory, educational, and advisory material to members of the actuarial profession on how the Precepts are to be interpreted and applied. An actuary must be familiar with, and keep current with revisions to, the Code of Professional Conduct and its Precepts and Annotations.

Code of Professional Conduct^{1,2}

Each of the U.S. organizations representing actuaries has adopted a Code of Professional Conduct. The Code of Professional Conduct developed through and adopted by the American Academy of Actuaries is reprinted here. The footnotes annotate variations in this code made by each of the organizations (American Society of Pension Actuaries [ASPA], Casualty Actuarial Society [CAS], Conference of Consulting Actuaries [CCA], Society of Actuaries [SOA]).

Preamble

The Precepts of this Code of Professional Conduct identify the professional and ethical standards with which an actuary must comply. The Annotations provide additional explanatory, educational,³ and advisory material to members of the actuarial profession on how the Precepts are to be interpreted and applied. An actuary must be familiar with, and keep current with⁴ revisions to,⁵ the Code of Professional Conduct⁶ and⁷ its Precepts and Annotations.

Professional Integrity

PRECEPT 1. An actuary shall act honestly⁸ and in a manner to uphold the reputation of the actuarial profession and to fulfill the profession's responsibility to the public.

ANNOTATION 1-1. An actuary fulfills the profession's responsibility to the public through compliance with this Code, and by offering actuarial advice, recommendations,⁹ and opinions that are the product of the actuary's exercise of professional judgment.

ANNOTATION 1-2. An actuary who pleads guilty to or is found guilty of any misdemeanor related to financial matters or any felony shall be presumed to have contravened Precept 1 of this

Code, and shall be subject to the profession's counseling and discipline procedures.

ANNOTATION 1-3. An actuary shall not use a relationship with a third party to attempt to obtain illegal or materially improper treatment from such third party on behalf of a principal (i.e., present or prospective client or employer).

PRECEPT 2. An actuary shall perform professional services with integrity, skill, and care.

ANNOTATION 2-1. "Professional services" refers to the rendering of advice, recommendations,¹⁰ or opinions based upon actuarial considerations, and also includes other services provided to a principal (i.e., present or prospective client or employer) by one acting as an actuary.

Qualification Standards¹¹

PRECEPT 3. An actuary shall perform professional services only when the actuary is qualified to do so and meets applicable qualification standards.

ANNOTATION 3-1. It is the professional responsibility of the actuary to observe applicable qualification standards in the

Amended by the Board of Directors of the American Academy of Actuaries in January 1995.

¹As Adopted May 9, 1993 and Amended September 26, 1996 (CAS)

²The Code of Professional Conduct was approved by the Board of Governors of the Society of Actuaries on May 18, 1993. (SOA)

³Comma deleted (CAS)

⁴Comma added (CAS)

⁵Comma deleted (CAS)

⁶Comma added (ASPA, CAS, SOA)

⁷and (ASPA, CAS, SOA)

⁸, with integrity (ASPA, SOA)

⁹Comma deleted (ASPA, CAS, SOA)

¹⁰Comma deleted (CAS)

¹¹Qualification Standards (CCA)

jurisdiction in which the actuary renders professional services, and to keep current regarding changes in these standards. For example, for practice in the United States, the Qualification Standards promulgated by the American Academy of Actuaries apply; for practice in Canada, the eligibility conditions promulgated by the Canadian Institute of Actuaries as set out in the Canadian Institute of Actuaries' bylaws apply.

Standards of Practice

PRECEPT 4. An actuary shall ensure that professional services performed by or under the direction of the actuary meet applicable standards of practice.

ANNOTATION 4-1. It is the professional responsibility of the actuary to observe applicable standards of practice in the jurisdiction in which the actuary renders professional services, and to keep current regarding changes in these standards. For example, for practice in the United States, the Standards of Practice promulgated by the Actuarial Standards Board apply; for practice in Canada, the Standards of Practice promulgated by the Canadian Institute of Actuaries apply.

ANNOTATION 4-2. Where there is a question regarding the applicability of a standard of practice, the professional judgment of the actuary, taking into account the applicable accepted principles of actuarial practice, shall prevail.

Disclosure

PRECEPT 5. An actuary shall, in communicating professional findings, indicate clearly that the actuary is responsible for the findings.

ANNOTATION 5-1. An actuary who makes an actuarial communication should indicate clearly the extent to which the actuary or other source(s) are available to provide supplementary information and explanation.

ANNOTATION 5-2. An actuary who makes an actuarial communication assumes responsibility for it except to the extent the actuary disclaims responsibility by stating reliance on other sources.

Reliance on other sources means making use of those sources without assuming responsibility therefor. A communication making use of¹² such reliance should define the extent of reliance. An actuary may rely upon other sources for information except where limited or prohibited by applicable standards of practice.

ANNOTATION 5-3. Any written communication of professional findings must be signed with the name of the actuary who is responsible for it. The name of an organization with which the actuary is affiliated may be incorporated into the signature,¹³ but the actuary's responsibilities and those of the organization are not affected by the form of the signature.

PRECEPT 6. An actuary shall, in communicating professional findings, identify the principal(s) (i.e., the client[s] or employer[s]) for whom such findings are made and shall describe the capacity in which the actuary serves.

PRECEPT 7. An actuary shall make full and timely disclosure to a principal (i.e., present or prospective client or employer) of the sources of all direct and indirect compensation that the actuary or the actuary's firm may receive in relation to an assignment for which the actuary provides professional services for that principal.

ANNOTATION 7-1. An actuary who is not financially and organizationally independent concerning any matter related to the subject of an actuarial communication should disclose to the principal any pertinent relationship that¹⁴ is not apparent.

ANNOTATION 7-2. "Indirect compensation" is any material consideration received from any source in relation to an assignment for which the actuary provides professional services, other than direct remuneration for those services.

ANNOTATION 7-3. Actuaries employed by firms that¹⁵ operate in multiple sites are subject to the requirement of disclosure of sources of compensation that¹⁶ the actuary's firm may receive in relation to professional services with respect to a specific assignment for that principal, regardless of the location in which such compensation is received.

¹²any (ASPA, SOA)

¹³Comma deleted (ASPA, CAS, SOA)

¹⁴that which (CAS)

¹⁵that which (CAS)

¹⁶that which (CAS)

Conflict of Interest

PRECEPT 8. An actuary shall not perform professional services involving an actual or potential conflict of interest unless:

- (a) the¹⁷ actuary's ability to act fairly is unimpaired; and
- (b) there¹⁷ has been disclosure of the conflict to all known direct users whose interests would be affected by the conflict; and
- (c) all¹⁷ such known direct users have expressly agreed to the performance of the services by the actuary.

ANNOTATION 8-1. A "direct user" of an actuary's services is a principal (i.e., present or prospective client or employer) having the opportunity to select the actuary and able to communicate directly with the actuary about qualifications, work,¹⁸ and recommendations.

ANNOTATION 8-2. If the actuary is aware of any significant conflict between the interests of the direct user and the interests of another party relative to the actuary's work, the actuary should advise the direct user of the conflict. The actuary should also include appropriate qualifications or disclosures in any related actuarial communication.

Control of Work Product

PRECEPT 9. An actuary shall not perform professional services when the actuary has reason to believe that they may be used to mislead or to violate or evade the law.

ANNOTATION 9-1. Material prepared by an actuary may be used by another party in a way that¹⁹ may influence the actions of a third party. The actuary should recognize the risks of misquotation, misinterpretation,²⁰ or other misuse of such material and should take reasonable steps to ensure that the material is clear

and presented fairly²¹ and that the actuary is identified as responsible for the material as required by Precept 5 of this Code.

Confidentiality

PRECEPT 10. An actuary shall not disclose to another party any confidential information obtained through professional services performed for a principal (i.e., client or employer) unless authorized to do so by the principal²² or required to do so by law.

ANNOTATION 10-1. "Confidential information" refers to information not in the public domain of which the actuary becomes aware in conjunction with the rendering of professional services to a principal. It may include information of a proprietary nature, information that²³ is legally restricted from circulation,²⁴ or information that²⁵ the actuary has reason to believe²⁶ the principal would not wish to be divulged.

Courtesy and Cooperation

PRECEPT 11. An actuary shall perform professional services with courtesy and shall cooperate with others in the principal's (i.e., client's or employer's) interest.

ANNOTATION 11-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions²⁷ of such differences, whether directly between actuaries or in observations made to a principal by one actuary on the work of another, should be conducted objectively and with courtesy.

ANNOTATION 11-2. An actuary in the course of an engagement or employment may encounter a situation such that the best interest of the principal would be served by the actuary's setting out an alternative opinion to one expressed by another actuary together with an explanation of the factors that²⁸ lend support to the alter-

¹⁷Capitalize (a) The, (b) There, and (c) All (ASPA, SOA)

¹⁸Comma deleted (ASPA, SOA)

¹⁹~~that~~ which (ASPA, SOA)

²⁰Comma deleted (CAS)

²¹Comma added (ASPA, CAS, SOA)

²²client or employer (ASPA, SOA)

²³~~that~~ which (ASPA, CAS, SOA)

²⁴Comma deleted (ASPA, CAS, SOA)

²⁵~~that~~ which (ASPA, CAS, SOA)

²⁶that (ASPA, CAS, SOA)

²⁷~~Discussions~~ Discussion (ASPA, SOA)

²⁸~~that~~ which (ASPA, CAS, SOA)

native opinion. Nothing in this Code should be construed as preventing the actuary from expressing such an alternative opinion to the principal.

ANNOTATION 11-3. A principal has an indisputable right to choose a professional advisor. An actuary may provide service to any principal who requests it,²⁹ even though such principal is being or has been served by another actuary in the same matter.

If an actuary is invited to advise a principal for whom the actuary knows or has reasonable grounds to believe that another actuary is already acting in a professional capacity with respect to the same matter or has recently so acted, it may be prudent to consult with the other actuary both to prepare adequately for the assignment and to make an informed judgment whether there are circumstances involving a potential violation of this Code that³⁰ might affect acceptance of the assignment.

The prospective new or additional actuary should request the principal's consent to such consultation. When the principal has given consent, the original actuary may require reasonable compensation for the work required to assemble and transmit the relevant information such as pertinent data, work papers,³¹ and documents. The actuary need not provide any items of a proprietary nature, such as computer programs.

Advertising

PRECEPT 12. An actuary shall not engage in any advertising or business solicitation activities with respect to professional services that the actuary knows or should know are false or misleading.

ANNOTATION 12-1. "Advertising" encompasses all communications by whatever medium, including oral communications, that³² may directly or indirectly influence any person or organization to decide whether there is a need for actuarial services or to select a specific person or firm to perform actuarial services.

Titles and Designations

PRECEPT 13. An actuary shall make use of membership titles and designations of an actuarial organization only in a manner that conforms to the practices authorized by that organization.

ANNOTATION 13-1. "Title" means any title conferred by an actuarial organization related to a specific position within that organization. "Designation" means a specific reference to membership status within an actuarial organization.

Collateral Obligations

PRECEPT 14. An actuary with knowledge of an apparent, unresolved material violation of this Code shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would divulge confidential information or be contrary to law.

ANNOTATION 14-1. A material violation of this Code is one that³³ is important, has influence or effect, or affects the merits of a situation, as opposed to one that³⁴ is trivial, does not affect an outcome, or is one merely of form.

ANNOTATION 14-2. Except when an actuary is prohibited by law or while the actuary is acting in an adversarial environment involving another actuary or actuaries, when the actuary becomes aware of an apparent material violation of this Code, the actuary is required to undertake promptly the following course of action:

- (a) If appropriate, discuss the situation with the other actuary or actuaries and, if necessary, agree upon a course of action to ensure that the apparent violation is resolved;
- (b) If (a) is not appropriate or is not successful, bring the apparent violation to the attention of the appropriate investigator

²⁹Comma deleted (ASP, CAS, SOA)

³⁰~~that~~ which (ASP, CAS, SOA)

³¹Comma deleted (ASP, CAS, SOA)

³²~~that~~ which (ASP, CAS, SOA)

³³~~that~~ which (ASP, CAS, SOA)

³⁴~~that~~ which (CAS)

body. For example, for violations of this Code arising out of practice in the United States, the actuary should refer the matter to the Actuarial Board for Counseling and Discipline; for violations of this Code arising out of practice in Canada, the actuary should follow procedures established by the Canadian Institute of Actuaries³⁵.

PRECEPT 15. An actuary or the actuary's representative shall respond promptly in writing to any letter received from a person duly authorized by the appropriate counseling and disciplinary body of the profession to obtain information or assistance regarding possible violations of this Code.

PRECEPT 16. An actuary shall abide by this Code of Professional Conduct whenever providing professional services.

ANNOTATION 16-1. Laws and regulations may impose obligations upon the actuary. Where the requirements of law or regulation conflict with this Code, the requirements of law or regulation shall take precedence.

*ANNOTATION 16-2.*³⁶ For professional services rendered in Canada, the rules of the Canadian Institute of Actuaries apply.

*ANNOTATION 16-3.*³⁷ For professional services rendered in Mexico, the rules of the Colegio Nacional de Actuarios apply.

³⁵ ; for violations of this Code arising out of practice in Mexico, the actuary should follow the procedures established by the Colegio Nacional de Actuarios (ASPA, SOA)

³⁶ *This annotation was approved by the Board of Governors of the Society of Actuaries on October 17, 1993. (SOA)

³⁷ †This annotation was approved by the Board of Governors of the Society of Actuaries on January 9, 1996. (SOA)

Committee on Qualifications

Actuarial Standards Board

Actuarial Board for Counseling and Discipline



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