

## Appendix 2

### Comments on the Exposure Draft and Responses

The first exposure draft of this ASOP, *Risk Treatment in Enterprise Risk Management*, was issued in June 2012 with a comment deadline of September 10, 2012. Eight comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Enterprise Risk Management Task Force of the Actuarial Standards Board carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the Task Force.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the Task Force and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the exposure draft.

<b>TRANSMITTAL MEMORANDUM</b>	
Comment	One commentator expressed the view that the task force achieved the objectives identified in its list of four questions for reviewers and that the ability to rely on non-actuaries as part of the risk treatment process is critical to successful implementation.
Response	The reviewers thank the commentator for sharing this view.
<b>GENERAL COMMENTS</b>	
Comment	One commentator stated that since this document defines risk as only being “the potential of future losses or shortfalls,” it neglects consideration of risk versus reward.
Response	The reviewers spent a considerable amount of time researching and discussing the definition of “risk,” both before the release of the exposure draft and since receiving comments. The reviewers decided that the definition of risk should remain focused on “the potential for future losses” since 1) an evaluation of “risk versus reward” implies one-sidedness, and 2) a significant amount of risk evaluation work focuses on tail events. Therefore, the reviewers believe the current definition is appropriate and made no changes.

<p>Comment</p>	<p>Two commentators remarked on the use of the terms “should” and “may.”</p> <ul style="list-style-type: none"> <li>• The first commentator suggested using “should, if appropriate” throughout the document unless there is an overriding reason to do otherwise. The use of “should” alone can be very prescriptive and burdensome and sets the bar too high for risk treatment in ERM.</li> <li>• The second commentator believed that the guidance here is insufficient to aid practice because it is too broad and hence requires the use of the phrase “may include” too frequently. This commentator feels if the scope is narrowed, then “may include” could be changed to “should consider” in several paragraphs. On a final note, this commentator stated, “the current scope probably forced this draft ASOP into a general principles format rather than an operational guidance format.”</li> </ul>
<p>Response</p>	<p>The reviewers examined the use of “may” and “should” throughout the standard, and made several changes.</p>
<p>Comment</p>	<p>One commentator found the ASOP to be too generic to provide guidance in certain situations.</p>
<p>Response</p>	<p>The reviewers believe the ASOP provides appropriate guidance in light of the current state of ERM. Therefore, no change was made.</p>
<p>Comment</p>	<p>One commentator did not disagree with any of the principles expressed in the document, but strongly believes that ERM is not exclusively an actuarial process and, therefore, extends beyond a purely actuarial function.</p>
<p>Response</p>	<p>The reviewers note that ASOPs apply to individual actuaries practicing in the area covered by the ASOP and do not require the role to be one that is only performed by actuaries.</p>
<p>Comment</p>	<p>One commentator believes that Chief Risk Officers (CROs) who are also actuaries will be at a disadvantage under this standard because they will have to provide different levels of documentation and disclosure than a non-actuary performing that same role. In addition, the commentator expressed concerns regarding how a CRO/actuary will need to deal with work done by non-actuaries on his/her staff.</p>
<p>Response</p>	<p>The reviewers believe the documentation and disclosures called for by this standard represent appropriate practice and hence will help ensure appropriate practice by actuaries. In addition, the standard specifically allows reliance on others, including non-actuaries on staff, in performing certain roles.</p>

Comment	One commentator believes that it is premature to develop a standard related to ERM due to the evolving nature of ERM, and that expressing the ERM principles in the form of a guidance document may be more appropriate at this time.
Response	The reviewers note that some actuaries have been practicing in the ERM field for many years. While we recognize that this is a changing area of practice, we believe it is appropriate to provide guidance to members of the actuarial profession at this time.
Comment	One commentator believes that this particular ASOP should provide more clarity with respect to how outside actuaries who are relied on by companies for ERM expertise could be affected. The ASOP as written suggests that a third party actuary who provides risk treatment analysis would be subject to the ERM ASOPs that, in turn, could require the company to state a reliance on the third party when reporting risk analysis. While this may be the ASOP's intent, the relationship expectation between a company and its third parties should be more clearly detailed.
Response	The reviewers note that this ASOP provides guidance to individual actuaries, not companies.
Comment	One of the commentators states this standard would be adding to existing and growing compliance requirements in the ERM landscape. This commentator worries that all of these requirements require CROs to spend more time understanding reporting requirements rather than actually managing our companies' risks and that promulgation of actuarial standards for ERM may result in other professional associations providing similar, but conflicting ERM standards (for example, the American Institute of Certified Public Accountants, the Chartered Financial Analyst Institute or others).
Response	The reviewers believe that the standard will eventually ease the compliance burden of actuarial professionals and note that this standard was prepared with an eye to the current requirements that exist or are under development.
Comment	Several commentators suggested modifying language to increase the consistency with ASOP No. 46, <i>Risk Evaluation in Enterprise Risk Management</i> .
Response	The reviewers agree, and made changes throughout the standard to increase consistency with ASOP No. 46.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
Comment	One commentator pointed out that in section 1.1, "risk treatment system" is not defined and suggested changing the text to "risk treatment portion of the risk management system."
Response	The reviewers agree and removed the reference to "risk treatment systems."
Comment	Several commentators suggested modification to the description of the ERM control cycle were needed, including the order in which risk management activities occur.
Response	The reviewers note the ERM control cycle is used as a context for this ASOP. It is not meant to be limiting, or suggest a fixed sequence of events. Therefore, no change was made.

<b>SECTION 2. DEFINITIONS</b>	
Comment	One of the commentators felt that the definition of “counterparty risk” may be too limited, stating, this risk includes a variety of types including, but not limited to, items such as bond redemptions, credit arrangements, and vendor relationships.
Response	The reviewers believe that the current definition incorporates these types of risk and therefore made no change.
Comment	One reviewer found the second sentence in the definition of “enterprise risk management control cycle” unclear.
Response	The reviewers modified the definition to be consistent with the definition of “enterprise risk management control cycle” in ASOP No. 46.
Comment	Several commentators asked if the term “risk profile” should be included.
Response	The reviewers agree and inserted the definition for “risk profile” as defined in ASOP No. 46.
Comment	Many commentators had remarks on the definitions of “risk appetite,” “risk tolerance,” and “risk limit.” Many felt that the definitions were unclear or duplicative. Others stated that these definitions were not the same as those used for similar terms in other documents.
Response	The reviewers researched the definitions of “risk appetite,” “risk tolerance,” and “risk limit” and understand that widely varying definitions for these terms are currently being used by organizations. In addition, the reviewers note that the purpose of the definitions is to provide clarity to the users of the ASOP. It is not the intention of the ASOP to provide guidance on definitions for usage other than within the context of the standard itself. Therefore, the reviewers did not make changes to these definitions.
Comment	One commentator stated, with respect to the definition of “risk mitigation,” that all risk treatment activities effectively seek to reduce frequency or severity. For example, setting a risk limit is one form of risk mitigation. Based on the use of the term in section 3.4, it seems like the definition of risk mitigation is more focused on the treatment of risks that either already transferred to the organization or are planned on being transferred to the organization.
Response	The reviewers disagreed and made no change.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
Comment	One commentator felt that sections 3.1 and 3.3 exhibited a high degree of overlap.
Response	The reviewers agree and revised the introductions to sections 3.1 and 3.3 to improve clarity.
Comment	One commentator recommended language to clarify section 3.1(a).
Response	The reviewers modified the section to be consistent with ASOP No. 46.
Comment	One commentator suggested including “business model” in section 3.1(a).
Response	The reviewers believe that “business model” is included within “strategic goals” in section 3.1(a)(4) and, therefore, made no change.

Comment	There were several suggestions for improving subsections of section 3.1(a), including: removing “current and potential future” in section 3.1(a)(1), adding “those regarding” before “the level” in section 3.1(a)(4), and adding language to address the limitations of the fungibility of capital during times of stress in section 3.1(a)(8).
Response	The reviewers agree and made appropriate changes to these sections.
Comment	One commentator suggested adding “counterparties” to the list of stakeholders in section 3.1(a)(5) and another noted that expected values and volatility should also be considered any time correlation is considered in section 3.1(a)(7).
Response	The reviewers note that the list in section 3.1(a)(5) is not intended to be comprehensive. The reviewers believe the current language in these sections is sufficiently clear and therefore made no changes.
Comment	One commentator suggested moving section 3.1(b)(4) to section 3.4(b).
Response	The reviewers agree and moved the item to the appropriate section.
Comment	One commentator suggested that the language “potential future variability of the costs and benefits” in section 3.1(b)(4) is “too open-ended.”
Response	The reviewers agree and changed the language to “the variability of outcomes after risk mitigation” to section 3.1(b)(4), which is now in section 3.4(b).
Comment	One commentator suggested deleting section 3.3(a) and adding “and the aggregation of those activities” at the end of section 3.3(b).
Response	The reviewers agree and made the changes.
Comment	Three commentators recommended changes in the wording of section 3.4 to improve clarity.
Response	The reviewers made minor changes to this section to improve clarity.
Comment	One commentator suggested that section 3.4(b) should include regulatory constraints on risk treatment options.
Response	The reviewers agree and added “regulatory constraints on risk mitigation options.”
Comment	One commentator suggested that section 3.4(b) should mention the “sensitivity of risk treatment options to changing conditions.”
Response	The reviewers agree and added “the variability of outcomes after risk mitigation.”

**SECTION 4. COMMUNICATIONS AND DISCLOSURES**

Comment	One commentator recommended that section 4.1.1 give guidance for the situation of a new actuary stepping into a role where contact with the prior person in the role is limited. The commentator felt that the words “as appropriate” do not give sufficient guidance as to how to handle successor issues where the predecessor is not available.
Response	While the reviewers agree that this situation is challenging, the reviewers believe that disclosing the impact of material changes in systems, process, methodology, and assumptions is important, and the term “as appropriate” allows for the reasonable use of professional judgment when making these disclosures.

