

## **COMMENT 15: DECEMBER 22, 2008**

To: Actuarial Standards Board

From: Frank Todisco

Subject: ASOP No. 41 Revision

Date: December 22, 2008

Thank you for the opportunity to comment on the Exposure Draft, “Actuarial Standard of Practice No. 41, Actuarial Communications,” issued September 2008. My comments represent my personal opinions, and do not necessarily reflect the views of my employer, nor of the ASB Pension Committee, on which I serve as Interim Chair.

I offer the following comments for your consideration:

**Section 3.2.2, Conflict of Interest** – The corresponding section in current ASOP 41 is 3.1.5, Non-Independence. Regarding disclosure of any pertinent information that is not apparent, the Exposure Draft includes the sentence “This includes any situation where the actuary acts, or may appear to be acting, as an advocate.” I applaud this addition, which I think is an important clarification. I would expect that this sentence would most commonly be applicable in situations involving collective bargaining and mergers and acquisitions. That would be my interpretation. However, if your intent is that the sentence should represent either more than that or less than that, you might want to consider additional clarification, such as providing examples of when the sentence might apply.

**Section 3.2.3, Reliance on Other Sources for Data and Other Information** – What is meant here by “Other Information”? It could easily be read to include reliance on other sources for assumptions. Is that the intent, or are assumptions intended to be covered solely in Section 3.2.4?

**Section 4.3.1, Certain Assumptions or Methods Selected by an Empowered Other Party** – This section appropriately borrows some of the guidance promulgated in revised ASOP No. 4 (September 2007), requiring disclosure when such an assumption or method significantly conflicts with what, in the actuary’s professional judgment, would be reasonable for the purpose of the actuarial communication (subsection d. of the Exposure Draft).

In one key respect, however, the Exposure Draft would not set as strong a standard as ASOP 4. In ASOP 4, the requirement to assess whether the assumption or method “significantly conflicts” with what the actuary would judge reasonable would effectively not apply where the actuary is “unable” to evaluate the assumption or method (Sections 3.2 and 4.2 of ASOP 4) – whereas in the Exposure Draft, the requirement would

effectively not apply if the actuary merely “did not” evaluate the assumption or method (subsection e. of the Exposure Draft).

This exception is too wide: it would make it too easy for an actuary to disclose that he or she did not evaluate the assumption or method, even if the actuary knows better. It is true that if the actuary does indeed know better – if the actuary can tell, *prima facie*, that an assumption or method is inappropriate – then, technically, the actuary did in fact evaluate the assumption or method, and subsection e. would not apply. However, I fear that as written, the Exposure Draft could be interpreted by an actuary as a free pass to disclose that he or she did not evaluate an inappropriate assumption or method. I recommend that either the stronger language of ASOP 4 be used, or that some tighter wording be formulated.

**Section 4.3.2, Required Disclosures if the Actuary Disclaims Responsibility for Any Assumption or Method in Any Other Situation** – “Disclaim” can be a loaded term and can leave an inaccurate impression. Webster’s defines disclaim as “1. to give up or renounce...2. to refuse to acknowledge or admit; deny; repudiate.” This wording should be replaced by something more appropriate to the intended situations.

Perhaps more clarification is needed. Outside of situations where an assumption or method is prescribed by law (covered by 4.2) or selected by an empowered other party under applicable law (covered by 4.3.1), we are left with two situations: either the actuary “takes responsibility” for the assumption or method (first paragraph of 4.3) or “disclaims responsibility” (4.3.2). Does this dichotomy adequately cover all other commonly encountered situations? What, specifically, does it mean to “take responsibility” for an assumption? This is new language. Does it mean that the actuary either chose the assumption or finds it to be reasonable? If that’s the intention, better to be clear and say so. What, specifically, does it mean to “disclaim responsibility” for an assumption? Does it mean, per the Webster’s definition, to repudiate? What about a commonplace situation where a client asks the actuary to evaluate a potential action or development (acquisition, plan change, projected costs) and specifies a wide variety of assumptions that are understood to be debatable at an early stage of evaluation. How does this situation fit into the dichotomy of taking responsibility or disclaiming responsibility?

**Disclosure of risk** – ASOP 4 includes a new subsection, 4.1.1, that might be described as “disclosure of risk,” a recognition of and disclosure that today’s measurements could be vastly different tomorrow; the current economic turmoil underscores the point. I wonder if ASOP 41 should require some appropriate disclosure (in accordance with relevant facts and circumstances and the actuary’s professional judgment) of the existence of risk. Alternatively, should the General Committee of the ASB consider creating a new standard, applicable to all practice areas, on the measurement, recognition and disclosure of risk? It is a question that will be on the Pension Committee’s agenda as well, and a critical question for our profession.

Thank you for your consideration of my comments. I know how much dedicated work goes into producing these standards, for which I thank you.

Sincerely,  
Frank Todisco