

**ASOP #41 Comments**

First, I note that one purpose of the ASOP 41 revision is to standardize the treatment of deviation among all ASOPs. What might be called a companion exposure draft, *Proposed Revision of Deviation Language for All Standards and Removal of References to PSAOs From All Standards (All Practice Areas)*, has also been circulated and addresses more particularly how this standardization of deviation language among all ASOPs would be accomplished.

It is not the standardization of deviation that I wish to address in this response but another communication issue that is a subtle part of all or most of the actuarial tasks covered by ASOPs. I believe that ***uncertainty*** is an effect or characteristic of all actuarial work involving risk. Communicating the uncertainty contained or embedded in the work product of actuaries has not been addressed at all in the revised version of ASOP 41 nor do I believe that it is addressed strongly enough in ASOPs covering specific tasks<sup>1</sup> for which standards have been promulgated.

**I suggest that the ASB give consideration to including in ASOP 41 new language standardizing and encouraging where relevant the disclosure of the uncertainty in an actuarial work product. Centralizing the disclosure or communication of uncertainty in ASOP 41 is important because not all actuarial communication relative to a work product involving uncertainty is the subject of an ASOP.**

We link uncertainty to deviation only in the sense that both may be common elements (although distinct from each other) of actuarial work requiring communication or disclosure. We feel that uncertainty is a common element to all actuarial work involving risk and consideration ought to be given to making appropriate disclosure of uncertainty a standard actuarial practice relative to all work actuaries do even if not covered by a standard.

I note that deviation in the ASOP 41 revision is defined in terms of deviation from an ASOP. That is, no consideration, apparently, need be given to disclosing deviation from what is ordinary or customary actuarial practice for which no standard exists.

With respect to the above, there is a mention in ASOP 23, Data Quality, that takes a step in the direction of requiring disclosure of uncertainty. See ASOP 23, 3.7 quoted below:

- 3.7 Use of Data: Because data that are completely accurate, appropriate, and comprehensive are frequently not available, the actuary should make a professional judgment about which of the following is applicable:
- a. the data are of sufficient quality to perform the analysis;
  - b. the data require enhancement before the analysis can be performed, and it is practical to obtain additional or corrected data that will allow the analysis to be performed;
  - c. judgmental adjustments or assumptions can be applied to the data that allow the actuary to perform the analysis. If the actuary judges that the use of the data, even with adjustments and assumptions applied, may cause the results to be **highly uncertain** or contain a material bias, the actuary may choose to complete the assignment, but should

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<sup>1</sup> The ASOPs currently mentioning “uncertainty” are: 4, 5, 6, 9, 12, 15, 17, 20, 23, 33, 36, 40, 42, & 43.

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disclose the potential existence of the **uncertainty or bias, and, if reasonably determinable, their nature and potential magnitude;**

- d. if the actuary believes that the data are likely to contain material defects, the actuary should determine, if practical, the nature and extent of any checking, verification, or auditing that may have been performed on the data. Then, if, in the actuary's professional judgment, a more extensive review is needed, the actuary should arrange for such a review prior to completing the assignment; or
- e. if, in the actuary's professional judgment, the data are so inadequate that the data cannot be used to satisfy the purpose of the analysis, then the actuary should obtain different data or decline to complete the assignment.

ASOP 23 deals with data quality and the impact that poor data might have in creating uncertainty. However, uncertainty will be present even in situations where data quality would not be an issue. Uncertainty will exist in an actuarial work product even if data is good and standards are complied with. Uncertainty can exist for a number of reasons even if actuarial work is done responsibly including: the fact that the past is not necessarily a good predictor of the future; models are not perfect; a financial result with 100% certainty is too expensive.

While I have no specific suggestion with respect to how the communication of uncertainty might be incorporated into ASOP 41, I would be happy to help in making proposals if the ASB concludes that uncertainty is a component that should be added to ASOP 41.

With respect to the specific questions asked in the transmittal letter, I have the following comments:

1. *Do you believe it appropriate to require the actuary to be responsible for assumptions and methods used within an actuarial communication unless otherwise disclosed? Do you believe that this standard is the appropriate place to do that? Does this draft make this intent sufficiently clear?*

In the context of the ASOP "responsibility for assumptions and methods" means responsibility for the choice of assumptions and methods. I have no problem with assuming the actuary is responsible for assumptions and methods in this context unless otherwise noted and we believe that this is made clear in the ASOP.

However, the title of this paragraph (3.2.4) may imply a greater responsibility – that is, there may be an implication that the assumptions and methods chosen will work in the sense that they will produce satisfactory financial results 100% of the time.

The ASOP only requires disclosure when the choice of assumptions or methods was made by an Empowered Other Party or if the actuary disagrees with the assumptions or methods. I suggest that the actuary should in all cases (even when the actuary made the choice) communicate or disclose a level of uncertainty associated with the assumptions or methods used. The level of disclosure may range from an indication that uncertainty exists to a quantification of the level of uncertainty present in the actuarial work product – although I recognize that this latter may be difficult to do..

- 2. This ASOP is titled “Actuarial Communications” even though it also addresses documentation. Does this create any confusion? If so, what would a better title be?*

Perhaps “documentation” ought to be defined in the Definitions section 2 in order to make clear that Documentation (as defined) is a form of Actuarial Communication. The transmittal letter seems to imply (under Key Changes) that the ASOP applies only to documentation that “is incorporated within an actuarial communication” – that is, stand alone documentation is not, in and of itself, an Actuarial Communication.

However, 3.6 requires Documentation (with an implied definition) be created in order to support actuarial findings within an Actuarial Communication. So, an Actuarial Communication must be documented.

A definition of what Documentation means as used in the ASOP might be helpful as the term seems to just show up in 3.6.

The title of the ASOP seems appropriate. Actuaries are reasonably expected to be aware of the content of all ASOPs in order to know which apply to work they do. If the ASOPs language is clear with respect to Documentation and the fact that it is a form of actuarial communication, then the title should not need to contain the term.

- 3. Does this draft make it sufficiently clear when the actuary should issue an actuarial report disclosing methods, procedures, assumptions, and data as opposed to issuing another form of actuarial communication that does not make these disclosures?*

The ASOP states that Actuarial Findings that are significant should be formally presented as an Actuarial Report. This is clear with the understanding that the determination of significance is subjective.

- 4. Are the added disclosure requirements in cases involving deviation clear and appropriate?*

Yes, I believe they are as clear as a general statement about deviation can be.