



ACTUARIAL STANDARDS BOARD

**Report to CUSP on the Review of
ISAP 1 General Actuarial Practice**

September 22, 2011

*The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment.
The ASB's goal is to set standards for appropriate practice for the U.S.*

Recommendation

The ASB has determined that ISAP 1 is materially in conformance with the existing ASOPs. In particular, we believe that no action is required to revise any current ASOPs or to develop new ASOPs.

This conclusion is based primarily on ASOP No. 23, *Data Quality* and ASOP No. 41, *Actuarial Communications*, along with the ASB's Introduction to Actuarial Standards of Practice, and the U.S. Code of Professional Conduct. We have attached an analysis of ISAP 1 section by section as Exhibit 1, Conformance Analysis for ISAP 1 Exposure Draft.

We do believe that a number of concepts that are presented in ISAP 1 are addressed in such a way that the ASB may consider incorporating those concepts into the revision or development of future ASOPs. While no action is "required", it may be worthwhile to incorporate some new or revised material based on ISAP 1, if we conclude that to do so, would further enhance the quality and clarity of our standards. The following is a list of some potential areas for ASOP development or revision from ISAP 1:

Introduction 2

The language discussion on "must", "should" and "may" might be incorporated in the new Introduction that is now in development, even though we tend to believe these terms to be generally understood in common usage.

Section 3.1 Acceptance of Assignment and Section 3.9 Process Management

The U.S. does not address "business" issues (though some may be implicit in some standards). We will consider whether we should develop guidance addressing any of them. Some might be appropriate for the Introduction.

Sections 3.4.3 & 3.4.4 Reliance on Others

This is a more detailed set of requirements than we believe is necessary. How the actuary deals with determining the appropriateness of data should not be prescribed. The requirements of ASOP 23 are adequate. However, if we choose to expand the detail of ASOP 23 (see 3.6 below) some of this material could be added.

Section 3.5 Materiality

The level of detail is higher here than in ASOP 41. This guidance might be useful to incorporate in the Introduction as it is being revised.

Section 3.6 Data Quality

Generally the ISAP draft includes more detail than ASOP 23. We may want to consider modifying ASOP 23 to include some of this detail.

Section 3.8.1 Individual Assumptions and Aggregate Assumptions

The ISAP approach to individual and aggregate assumptions is somewhat different than used in the U.S. We may want to at least consider incorporating their approach in our standards.

Section 3.8.3 Alternative Assumptions and Sensitivity Testing

It is not clear whether ISAP is requiring “sensitivity testing.” U.S. standards do not typically go that far, although sensitivity testing is certainly permitted in the consideration of the risk of variation with respect to a particular result. Perhaps we should include specific material on this specific approach for the actuary who chooses to use it.

Section 3.11 Peer Review

We do not address “peer review” explicitly in any U.S. standards nor in the Code of Professional Conduct. We could consider whether a more explicit reference would be appropriate in the U.S. professional standards literature.

Language and Editorial Comments

We plan to address a number of language and editorial issues directly to the IAA in the hopes that our standard setting expertise and experience may be of some help to them as they finalize this document. For example the ISAP 1 language around deviation needs to be cleaned (“deviation from the guidance in a standard” vs. “deviation from the standard”). As another example, in the second paragraph of Introduction 1 of ISAP 1 we would suggest replacing "member associations and other relevant standard setters" with "actuarial standard setting bodies". We will provide the members of CUSP with a copy of our comment letter.

EXHIBIT 1

Conformance Analysis for ISAP 1 Exposure Draft

CONFORMANCE LEVEL KEY

1. Proposed ISAP wording is materially in conformance with one or a number of existing Actuarial Standards of Practice that have been previously issued by the ASB and no further action by the ASB is required; or,
2. Proposed ISAP wording is materially in conformance with one or a number of existing Actuarial Standards of Practice that have been previously issued by the ASB but there is some guidance included in the proposed ISAP that would not be appropriate for U. S. Actuarial practice. Therefore, no further action by the ASB is recommended; or,
3. Proposed ISAP wording is not in conformance with existing Actuarial Standards of Practice that have been previously issued by the ASB but should not be adopted as appropriate U. S. Actuarial practice. Therefore, no further action by the ASB is recommended; or,
4. Proposed ISAP wording includes some guidance that is not currently included in existing ASOPs but could be. Therefore it is recommended that the ASB consider revising current ASOPs or a developing a new ASOP to include similar guidance.
5. Proposed ISAP wording includes guidance that is not currently in existing ASOPs but is covered in the Code of Professional Conduct and/or the Qualification Standards. Therefore no further action by the ASB is recommended.

INTRODUCTION AND SECTION 1 - PURPOSE, SCOPE, AND CROSS REFERENCES

ISAP Section	Relevant ASOP	Conformance Level	Comments
Introduction1	N/A	N/A	
Introduction2	Introduction and Dictionaries of English Language	1	The language discussion on “must”, “should” and “may” might be referred to the General Committee for incorporation in the new Introduction. However, we tend to believe these terms to be generally understood in common usage. If these terms are to be discussed, then “should consider” should be discussed as well.

1.1. Purpose	All	1	These provisions are standard elements of our ASOPs.
1.2. Scope	All	1	These provisions are standard elements of our ASOPs. The second paragraph of this section provides some guidance relative to Deviation and does not seem appropriately included here and we will suggest that the reader be referred to section 4.3 on Deviation.
1.3. Cross Reference	41	1	These provisions are standard elements of our ASOPs. While not exactly the same as in 41, the intent and result are the same.
1.4. Effective Date	All	1	These provisions are standard elements of our ASOPs.

SECTION 2 - DEFINITIONS

ISAP Section	Relevant ASOP	Conformance Level	Comments
2.1. Actuary	Code of Professional Conduct	5	<p>ISAP - An individual member of one of the member associations of the IAA.</p> <p><u>Code</u> - An individual who has been admitted to a class of membership to which the Code applies by action of any organization having adopted the Code. When the term "actuary" is used without being capitalized, it refers to any individual practicing as an actuary, regardless of organizational membership or classification.</p>

2.2. Adoption Date	N/A	N/A	ISAP - The date on which this ISAP was adopted as a final document by the IAA. ASOP - N/A
2.3. Communication	41	1	ISAP - An oral or written statement issued by an actuary with respect to professional services. ASOP - (Actuarial Communication) - A written, electronic, or oral communication issued by an actuary with respect to actuarial services.
2.4. Effective Date	N/A	N/A	ISAP - The date from which a standard setter who has adopted or endorsed this ISAP determines it applies to those actuaries within its jurisdiction. ASOP - N/A
2.5. Employed Actuary	N/A	2	ISAP - An actuary employed by the principal or an enterprise affiliated with the principal. ASOP - N/A
2.6. Entity	8, 42	1	ISAP - The enterprise that is, in whole or part, the subject of the professional service. ASOP - (Health Plan Entity) - An insurance company, health maintenance organization, hospital or medical service organization, self-insured health benefit plan sponsor, governmental health benefit plan sponsor, or any other health benefit plan sponsor from which health filings are required. (ASOP No. 8) (Risk-Assuming Entity) - The entity with respect to which the actuary is determining liabilities associated with health benefit plans or risk-sharing arrangements. (ASOP No. 42)

2.7. IAA	N/A	N/A	ISAP - The International Actuarial Association ASOP - N/A
2.8. Intended User	41	1	ISAP - Any legal or natural person (usually including the principal) that the actuary intends to use the work product at the time the actuary provides professional services to the principal. ASOP - Any person who the actuary identifies as able to rely on the actuarial findings.
2.9. Opinion	28, 32, 36	1	ISAP – An opinion expressed by an actuary and intended by that actuary to be relied upon by the intended users. ASOP – (Statement of Actuarial Opinion) – [1] A formal statement of the actuary’s professional opinion on a defined subject. (ASOP Nos. 32 and 36) [2] An opinion expressed by an actuary in the course of performing actuarial services and intended by that actuary to be relied upon by the person or organization to which that opinion is addressed. (ASOP No. 28)
2.10. Principal	17, 19, 41, 43, 44	1	ISAP - The party who has the right to provide direction to the provider of professional services. The principal will usually be the client or the employer of the responsible actuary. ASOP – [1] A client or employer of the actuary. (ASOP Nos. 17, 41, and 44) [2] The actuary’s client or employer. (ASOP No. 19) [3] The actuary’s client or employer. In situations where the actuary has both a client and an employer, as is common for consulting actuaries, the facts and circumstances will determine whether the client or the employer (or both) is the principal with respect to any portion of this standard. (ASOP No. 43)

2.11. Professional Judgment	Introduction	1	<p>ISAP - The judgment of the actuary based on specialized training and experience.</p> <p>Introduction to ASOPs – (discussed in section 4.5.3 of the Introduction.)</p>
2.12. Professional Services	41	1	<p>ISAP - Services provided to a principal that may include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.</p> <p>ASOP – (Actuarial Services) - Professional services provided to a principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.</p>
2.13. Recognized Actuarial Practice	N/A	N/A	<p>ISAP - A practice or practices that are generally recognized within the actuarial profession as appropriate to complete professional services under an ISAP or the applicable professional standards of practice adopted by the IAA member association in the applicable reporting jurisdiction.</p> <p>ASOP – N/A</p>
2.14. Report	32, 41	1	<p>ISAP - An actuary’s communication presenting the results of professional services.</p> <p>ASOP – (Actuarial Report) - [1] A document, or other written presentation, prepared as a formal means of conveying an actuary’s professional conclusions and recommendations; recording and communicating the methods, procedures, and assumptions; and providing the parties addressed with the actuary’s opinion or findings. (ASOP No. 32) [2] The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user. (ASOP No. 41)</p>

2.15. Responsible Actuary	41	1	<p>ISAP - The <u>actuary</u> who is responsible for the <u>work product</u>.</p> <p>ASOP – Concept discussed in ASOP No. 41</p>
2.16. Sponsor	N/A	N/A	<p>ISAP - The party who has commissioned the <u>professional services</u>. The <u>sponsor</u> will often, but not always, be the <u>principal</u>.</p> <p>ASOP – N/A</p>
2.17. Work Product	36	1	<p>ISAP - The totality of the professional services provided by an actuary to intended users including any opinion or report, as well as any supporting calculations and documentation.</p> <p>ASOP – (Actuarial Work Product) - The result of an actuary’s work. The term applies to the following actuarial communications, whether written or oral: statements of actuarial opinion, actuarial reports, statements of actuarial review, and required actuarial documents.</p>
2.18. Written Statement	41	1	<p>ISAP - A document in any recorded form including but not limited to paper, word processing or spreadsheet files, e-mail, web site, slide presentations, audio or video recordings.</p> <p>ASOP – (Actuarial Document) An actuarial communication in any recorded form (such as paper, e-mail, spreadsheets, presentations, audio or video recordings, web sites, and court or hearing transcripts). Notes taken by someone other than the actuary are not considered actuarial documents.</p>

SECTION 3 – APPROPRIATE PRACTICES

ISAP Section	Relevant ASOP	Conformance Level	Comments
3.1.1. Acceptance of Assignment	N/A	5	This appear to be material that is typically included in professionalism courses (FAC, APC) and is covered by the Code of Conduct or Qualification Standards
3.1.2. Acceptance of Assignment	ASOP 41, section 4.1	2 and 5	Disclosures about pertinent items are included in ASOP 41 with respect to items a and c. The remainder is common sense and a professionalism issue.
3.2. Knowledge of Relevant Circumstances	ASOP 41, sections 3.4 and 4.1	1	This is covered in specific ASOPs (ASOP 5 and 42, for example)
3.3. Employed Actuaries	ASOP 41, sections 3.3, 3.4 and 3.6	1	
3.4. Reliance on Others	ASOP 41, section 3.4.3 Introduction, section 4.5.5	1	
3.4.1. Reliance on Others	ASOP 41, sections 3.4.3 and 4.1.3 g ASOP 23, sections 3.4 and 3.5	1	

3.4.2. Reliance on Others	ASOP 41, sections 3.4.3 and 3.4.4 ASOP 23, sections 3.4 and 3.5	1	The circumstances under which this would happen are unclear. Presumably, it is when the actuary is assuming responsibility for work performed by others.
3.4.3. Reliance on Others	ASOP 23 sections 3.6 and 3.7	2	This is a more detailed set of requirements which is unnecessary. In other words, how the actuary deals with determining the appropriateness of data should not be prescribed. The requirements of ASOP 23 are adequate.
3.4.4. Reliance on Others	ASOP 23 sections 3.6 and 3.7	2	This is a more detailed set of requirements which is unnecessary. In other words, how the actuary deals with determining the appropriateness of data should not be prescribed. The requirements of ASOP 23 are adequate.
3.5. Materiality	ASOP 41, sections 3.2, 3.3 and 3.5	2*	The level of detail is higher here. This guidance may be useful and appropriate to incorporate in the Introduction, which is presently undergoing revision and likely expansion.
3.6.1. Sources of Data	ASOP 23	1	This explicit requirement is not in ASOP 23, although it may be in some practice-specific ASOPs (e.g., ASOP 5, section 3.4)
3.6.2. Sufficient and Reliable Data	ASOP 23, section 3.7	1	
3.6.3. Testing and Validation	ASOP 23, sections 3.5 and 3.7	3	ASOP 23 specifically states that the actuary is not required to audit data (Scope 1.2)
3.6.4. Data Deficiencies	ASOP 23, sections 3.1	1	Note that 3.1 requires disclosure but does not suggest any of the steps at the end in a and b. Disclosure is required.

3.7.1. Selection of Assumptions and Methodology	41 + many others	1	
3.7.2. Reasonableness of Assumptions	41 + many others	1	
3.7.3. Internal Changes	41 + many others	1	
3.7.4. External Circumstances	41 + many others	1	
3.8.1. Individual Assumptions and Aggregate Assumptions	41 + many others	1	ISAP approach to individual and aggregate assumptions is somewhat different than used in the U.S
3.8.2. Internal Consistency of Assumptions	41 + many others	1	
3.8.3. Alternative Assumptions and Sensitivity Testing	41 + many others	4	It is not clear whether ISAP is requiring "sensitivity testing." U.S. standards do not typically go that far, although sensitivity testing is certainly permitted. The ISAP should consider changing the title.
3.8.4. Assumptions Requested by the Principal	41 + many others	1	
3.9.1. Process Controls	None	4	The ISAP explicitly addresses "Process Management." The U.S. does not (may be implicit in some standards.)
3.9.2. Reasonableness Checks	None	4	The ISAP explicitly addresses "Process Management." The U.S. does not (may be implicit in some standards.)

3.9.3. Sensitivity of Results	None	4	The ISAP explicitly addresses “Process Management.” The U.S. does not (may be implicit in some standards.)
3.10. Responsibility for Assumptions and Methodology	41	1	ISAP seems to be modeled on the new ASOP 41.
3.11. Peer Review	None	2	“Peer review” is not explicitly addressed in any U.S. standards nor in the Code of Professional Conduct.
3.12. Documentation	41	3	Item 6 in the Summary of Key Changes in the ASOP 41 transmittal letter states: “The ASB has decided that specifying what material should be retained and for how long is not appropriate for this standard (except as may be provided in section 3.8).”

SECTION 4 – COMMUNICATION AND DISCLOSURES

ISAP Section	Relevant ASOP	Conformance Level	Comments
4.1. Communication	41	1	These sections are very close to the wording of ASOP 41 Sections 3.1.1 to 3.1.4. and identical in intent and result.
4.2. Report	41	1	These are essentially the same as ASOP 41 Section 3.2.
4.2.1. Content	41	1	
4.2.2. Legal, Legislative, Regulatory, or Supervisory Constraints	41	1	Consistent with ASOP 41 Section 3.3.

4.2.3. Specific Disclosures	41	1	Consistent with ASOP 41 Sections 3.1.4, 3.2, 3.4.6,
4.2.4. Actuaries Other Than Employed Actuaries	None	1	Taken together the ASOPs, the Code of Professional Conduct, and the Qualification Standards essentially cover this material to the extent it needs to be covered in the US.
4.2.5. Shorter Reports	41	1	Consistent with ASOP 41 Section 3.3.
4.3. Deviation from Guidance in this Standard	41	1	Consistent with ASOP 41 Section 4.4.