



ACTUARIAL STANDARDS BOARD

The Actuarial Standards Board (ASB), the standard-setting body for actuaries in the United States, is pleased to provide these comments on ISAP 1 for the IASSC and its General Committee as they seek to develop a final version.

Questions from the IASSC:

1. *Is the guidance clear and unambiguous?*

For the most part, yes. However, there are a few items discussed below where some clarification would be helpful, such as sections 3.4.2 and 3.8.3. In addition, sections 1 and 2 should be restricted to establishing the scope and making definitions and not include guidance. The Guidance should be provided in section 3.

2. *Is the guidance at the right level of detail, or should it be more or less detailed?*

Some of the guidance introduces unnecessary detail, such as the definition of Employed Actuary. Other guidance, such as in sections 3.4.3 and 3.4.4 is too prescriptive and should allow more latitude to the actuary.

3. *Is the guidance on when to issue an actuarial report and what should be covered in the report appropriate?*

Some of the requirements for the content of the report are too prescriptive and detailed, such as in section 4.2.3. Sections 4.1, 4.2.1 and 4.2.5 would seem to be sufficient for guidance on when to issue a report and on constructing a report.

4. *Are there other matters that should be included in this standard on general actuarial practice? Are there some included here that should not be?*

There are several areas where this ISAP gives guidance on business practices which, while certainly worthwhile advice, should not be included as part of an actuarial standard. Furthermore, some of the items should more appropriately be part of a code of professional conduct rather than a standard of practice. Sections 3.1 and 3.9.1 are examples of this sort of item.

We provide more detail for our responses to questions 1-4 in the comments by sections below.

5. *The intent is to use the same format for future ISAPs. Is the format of this ISAP appropriate?*

We believe that the format is generally appropriate, but recommend that the IASSC retain a sense of flexibility should an alternate format prove more appropriate for a particular standard developed in the future.

6. *Is the change in nomenclature (from IASP to ISAP) appropriate?*

We agree with the change to the "ISAP" nomenclature, which we believe will help avoid any confusion with the standards of other standard setting bodies.

Comments by sections of ISAP 1:

Introduction 1

In the second paragraph we would suggest replacing "member associations and other relevant standard setters" with "actuarial standard setting bodies". It is the standard setting bodies that should be considering whether to adopt or endorse ISAP 1, not the member organizations (unless they are also acting as the standard setting body).

Introduction 2

Language: We would suggest that if you are going to address "must", "should" and "may" in the standard, that you should also discuss the concept of "should consider". We do not currently address these terms in our standards as we believe these terms to be generally understood in common usage. The IASSC may want to consider a similar approach.

Second bullet: The last sentence could be removed and a reference to section 4.3 should then be added to the previous sentence.

Section 1. Purpose, Scope, and Cross References

1.2 Scope: The second paragraph of this section provides some guidance relative to Deviation and does not seem appropriately included here; rather it should refer the reader to section 4.3 on Deviation.

Section 2. Definitions

2.5 Employed Actuary: We find the use of this term both confusing and potentially inappropriate. All actuaries are in one way or another "employed", even if self-employed. In addition the approach of identifying employed actuaries, as you defined them, and establishing separate guidance for them (see ISAP 1 sections 3.1.2, 3.3, 3.11, and 4.1.4) creates two levels of guidance, implying that one group is being held to a higher standard of practice than another. We would ask that you reconsider this approach and only provide different guidance based on the circumstances of the assignment rather than the employment status of the actuary. This commentary also applies to sections 3.3 and 4.2.4.

2.12 Professional services: There are many different kinds of professional services that an actuary might perform. Setting a standard that relates to non-actuarial services puts the actuary in a difficult competitive position given that many of the competitors will not have to comply with the standard. We would suggest that you consider using the term "actuarial services" as more appropriate to the subject of ISAP 1.

2.14 Report: As with 2.12, we think "actuarial report" may be a better term to use.

Section 3. Appropriate Practices

3.1 Acceptance of Assignment: This appears to be material that covers appropriate business practices rather than actuarial practice requiring standards of practice. We typically include this type of material in

professionalism courses (Fellowship Admission Course, Associateship Professionalism Course). We do not believe it belongs in a standard of practice.

3.4 Reliance on others:

3.4.1 The list of disclosures should include identification of the responsible party who prepared the information that the actuary relied on.

3.4.2 The circumstances under which this would happen are unclear. Presumably, it is when the actuary is assuming responsibility for work performed by others. You may want to review this section’s wording for clarity. We would also suggest that you move the words “the actuary should” from the a and b to the end of the stem of this section. **3.4.3 and 3.4.4** This is a more detailed set of requirements which we believe to be unnecessary. In other words, how the actuary deals with determining the appropriateness of data should not be prescribed.

Deleted: ¶

3.6 Data Quality:

3.6.3 Testing and validation: In our ASOP No. 23, Data Quality, we specifically state that the actuary is not required to audit data. We believe that the word “verify” implies virtually the same thing as audit, and we believe that is far too stringent a requirement for this actuarial standard of practice. In many cases, the actuary has no means by which to verify data provided to him. Perhaps the term “review” would be a potential alternative.

3.8 Assumption Setting:

3.8.3 Alternative assumptions and sensitivity testing: It is not clear whether ISAP 1 is requiring “sensitivity testing.” U.S. standards do not typically go that far, although sensitivity testing is certainly permitted. The IASSC should consider changing the title, as the language neither defines nor even requires sensitivity testing, per se.

3.11 Peer Review: “Peer review” is not explicitly addressed in any U.S. standards or in the Code of Professional Conduct. Not all actuaries are in a position to obtain a full peer review and use other means for quality control. To require peer review of all actuaries would give a significant market advantage to larger firms as small firms will be challenged to do a full peer review in all circumstances. This topic might be better addressed in an appendix on practices that can be beneficial, but are not required. Alternatively, a sentence could be added such as “the actuary should determine if, in the actuary’s professional judgment, a peer review would be appropriate.”

3.12 Documentation: In promulgating ASOP 41, Actuarial Communications, the ASB decided that specifying what material should be retained and for how long was not appropriate. We view this as a business decision, highly dependent on the law of the jurisdiction, and would recommend that the IASSC consider the same approach. If the IASSC wishes to suggest appropriate approaches to documentation, we would suggest it be covered in an appendix.

Section 4. Communications and Disclosures

4.2 Report: Section 4.2.2 would be more appropriately addressed in section 3. Section 4.2.3 seems excessively prescriptive, especially in light of the requirements of 4.2.1.b. Section 4.2.4 is discussed above concerning employed actuaries. Further, this section concerns Code of Conduct type material and is prescriptive. Section 4.3 should note in the text that it is deviation *from the guidance* in the ISAP that is of interest and not deviation from the ISAP.

We hope the IASSC finds these comments helpful. We would be happy to discuss these comments or any other questions the IASSC may have regarding the ASB's thoughts on ISAP 1.