



ACTUARIAL STANDARDS BOARD

• EXPOSURE DRAFT •

**Proposed
Introduction to the
Actuarial Standards of Practice**

**Comment Deadline
March 31, 2004**

**Developed by a
Special Task Force of the
Actuarial Standards Board**

**Approved for Exposure by the
Actuarial Standards Board
October 2003**

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TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Interested Persons

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Introduction to the Actuarial Standards of Practice (ASOPs)

This booklet contains the exposure draft of a proposed Introduction to the actuarial standards of practice. Please review this exposure draft, and give the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the task force in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. Please include the phrase “ASOP Introduction” in the subject line of your message.

If you wish to use conventional mail, please send comments to the following address:

ASOP Introduction
Actuarial Standards Board
1100 Seventeenth Street, N.W., 7th Floor
Washington, DC 20036-4601

Deadline for receipt of responses in the ASB office: **March 31, 2004**

Background

In 1989, the ASB published a Preface to its standards written by eminent actuary Edward A. Lew. The Preface provided excellent insight into the nature of professions and the role that professionalism standards and disciplinary procedures play, with specific reference to those of the actuarial profession.

Since that time, there have been significant developments in the structure of the professionalism standards and disciplinary procedures of the actuarial profession. The ASB has also determined that it would be beneficial to adopt an Introduction to the standards to offer actuaries guidance on the ASB’s operations, the content and format of standards, and the ASB’s intent with respect to certain terms that appear frequently in the text of the standards themselves. For these reasons, the ASB has withdrawn the Preface

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and established a special task force to prepare the proposed Introduction. It is anticipated that the relevant portions of the Preface, appropriately updated to reflect the developments in the structure of actuarial professionalism standards and discipline procedures since 1989, will be incorporated into a new, expanded document on actuarial professionalism to be published by the Council on Professionalism of the American Academy of Actuaries.

Request for Comments

The task force appreciates comments on all areas of this proposed Introduction, and would like to draw readers' attention to the following areas in particular:

1. Does the proposed Introduction appropriately describe the purpose and use of the standards? If not, how should it be changed?
2. Are the explanatory subsections in section 4 of the proposed Introduction helpful in understanding commonly used terms and concepts? Do they describe those terms and concepts appropriately? If not, how should they be changed?
3. Are there additional topics that should be included in the Introduction to the standards? If so, what are they, and how should they be addressed?

The ASB reviewed the draft at the October 2003 board meeting and approved its exposure.

Special Task Force on Introduction

Jack M. Turnquist, Chairperson
William H. Odell Robert E. Wilcox

Actuarial Standards Board

William C. Koenig, Chairperson
Cecil D. Bykerk Lawrence J. Sher
Ken W. Hartwell Karen F. Terry
Michael A. LaMonica William C. Weller
Heidi Rackley Robert E. Wilcox

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INTRODUCTION TO THE ACTUARIAL STANDARDS OF PRACTICE

Section 1. Overview

The Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States. This introductory material is intended by the ASB to be part of the standards and to carry the same weight and authority as the ASOPs themselves.

Section 2. The Actuarial Standards Board

- 2.1 The ASB is vested by the U.S.-based organizations representing actuaries¹ with the responsibility for promulgating ASOPs for actuaries providing professional services in the United States. These organizations require their members, through their Codes of Professional Conduct, to comply with the ASOPs of the ASB when practicing in the United States. Actuaries who are required by their non-U.S. actuarial organizations to comply with applicable standards of practice when providing professional services should also look to these ASOPs when practicing in the United States.
- 2.2 The ASB promulgates ASOPs through a notice and comment process described in the *ASB Procedures Manual*. The ASB has exclusive authority in the United States to determine whether an ASOP is needed in a particular practice area, to promulgate ASOPs, and to amend or withdraw ASOPs when, in the ASB's judgment, such amendment or withdrawal is appropriate. The ASB is the final authority for determining the content of its ASOPs.

Section 3. Actuarial Standards of Practice

- 3.1 The Purpose of ASOPs
 - 3.1.1 ASOPs are intended to provide actuaries with a framework for performing professional assignments, and to offer guidance on relevant issues, recommended practices, documentation, and disclosure. When developing an ASOP, the ASB articulates a process of analysis, documentation, and disclosure that, in the ASB's judgment, constitutes appropriate practice within the scope and purpose of the ASOP. They are written in a manner that takes into account issues arising from limited information, time

¹ The U.S.-based organizations representing actuaries are the American Academy of Actuaries (Academy), the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries, and are referred to collectively hereafter as "U.S. actuarial organizations."

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constraints, and other practical difficulties, as well as conflicts with regulatory and other restrictions.

- 3.1.2 In most instances, ASOPs are written to reflect generally accepted practice, i.e., practices that, over time and through common use, have come to be broadly accepted by qualified actuaries as appropriate to the successful performance of a particular type of professional assignment or aspect of professional practice. In most cases, the ASB promulgates a standard only when practice with respect to a particular type or aspect of actuarial work has evolved to the point where it can be codified as an ASOP. The ASB then confirms, through exposure to the profession, that the proposed standard reflects generally accepted practice.
- 3.1.3 In certain instances, the ASB writes an ASOP in a new area of practice (for example, to guide actuaries in complying with the requirements of a newly enacted law or regulation). In a very few instances, the ASB may determine that the minimum acceptable level of practice should be more clearly delineated or elevated. In these instances, the ASB seeks to define an appropriate level of practice, recognizing that the adoption of an ASOP and its subsequent use by practitioners and enforcement by the U.S. actuarial organizations will have the effect of rendering practices described in the ASOP as “generally accepted.”
- 3.1.4 ASOPs are not intended to shift the burden of proof or production in litigation, and failure to comply with an ASOP should not be deemed malpractice per se. ASOPs are intended for use by actuaries who, by virtue of having the necessary education and experience to understand and apply them, are qualified to make use of them. Other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon these ASOPs.
- 3.1.5 The ASOPs are not narrowly prescriptive, and neither dictate a single approach nor mandate a particular outcome. The ASB recognizes that actuarial science involves the identification, measurement, and management of contingent future risks in environments that rarely, if ever, emerge exactly as projected. Moreover, the ASOPs are intended to provide guidance for dealing with commonly encountered situations. However, actuaries in professional practice also have to handle new or nonroutine situations not anticipated by the ASOPs. In any event, the actuary must have recourse to the exercise of professional judgment and relevant experience.
- 3.1.6 The ASOPs, unlike the rules-based standards of some other professions, do not attempt to dictate every step and decision in an actuarial assignment. Rather, the ASOPs provide the actuary with an analytical framework for exercising professional judgment, identifying factors that

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the actuary typically should consider when faced with a particular type or aspect of professional service. The ASOPs intentionally leave significant room for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion. Emphasizing process over outcome, the ASOPs recognize that actuaries can and do reasonably differ in their preferred methodologies and choices of assumptions and can reasonably reach differing opinions, even when faced with the same facts. Similarly, two actuaries could follow generally accepted practice, both using reasonable methods and assumptions, and reach appropriate results that appear to be substantially different.

- 3.1.7 There are situations where legislative or regulatory bodies or other professional organizations have established rules or requirements that are not in accordance with generally accepted actuarial principles and practice, or where an actuary is prevented from applying professional judgment. To deal with these situations, the ASB provides guidance on compliance in such environments. ASOPs that focus on compliance issues typically contain the word “compliance” in their titles.
- 3.1.8 Unlike the ASOPs, with which actuaries are required to comply, the actuarial literature provides information that an actuary might choose, but is not required, to consider when providing professional services. Practice notes published by the Academy, for example, describe various methods actuaries use to comply with an ASOP or a legal or regulatory requirement, but, as stated therein, do not purport to codify generally accepted practice and are not binding upon actuaries. Similarly, learned treatises, study notes, actuarial textbooks, journal articles, and presentations at actuarial meetings can be informative, keeping the actuary abreast of developments as actuarial science evolves, but do not establish binding requirements upon the actuary. Practice also evolves as actuarial research and literature document new methods and improved techniques, and generally accepted practice frequently comes into use through the profession’s collective adoption of techniques described in the actuarial literature. However, unlike the ASOPs, such literature is not binding upon the actuary, and the actuary can legitimately exercise professional judgment in deciding whether and how to make use of such materials.
- 3.2 The Format of ASOPs—Each ASOP document contains (1) a transmittal memorandum, (2) the ASOP itself, and (3) one or more supporting appendices.¹

¹ With respect to how the ASOP document is organized, the current ASOP format differs from that of some earlier ASOPs, but all ASOP documents contain similar content, as described in sections 3.2.1–3.2.3.

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- 3.2.1 The transmittal memorandum and the appendices are not part of the ASOP and are nonbinding. The transmittal memorandum provides background information and a description of the key issues related to the development of the ASOP. The appendices (1) provide the background and historical issues involved and describe current or alternative practices and (2) summarize the major issues raised in the exposure process and their disposition by the drafting committee. Additional appendices may also contain supporting documents, bibliographies, or illustrative examples.
- 3.2.2 Each ASOP begins with two sections that (1) summarize briefly the purpose, scope, cross references, and effective date of the standard, and (2) define the special terms used within the ASOP.
- 3.2.3 The other two sections of the ASOP (1) provide an analysis of issues and recommended practices, and (2) address communications and disclosures.
- a. The analysis of issues and recommended practices section is organized by major topics or issues, or by major tasks involved in completing assignments within the ASOP's scope. Emphasis is placed on providing the actuary with an appropriate analytical framework for completing the assignment that is within the scope of the ASOP.
 - b. Communications and disclosures include an appropriate statement concerning whether the ASOP calls for the issuance of a prescribed statement of actuarial opinion (PSAO) and a clause that describes what an actuary should do when, in the actuary's professional judgment, a deviation from the ASOP is deemed to be appropriate. Special communications or disclosures pertinent to the subject of the ASOP and applicable limitations are identified in this section. Where appropriate, reference may be made to applicable provisions of the *Code of Professional Conduct*.

Section 4. Compliance with ASOPs

- 4.1 Actuaries comply with an ASOP by analyzing the issues and completing the process described, then documenting their work and communicating their findings, including required disclosures, in the manner described in the standard. Actuaries are expected to take a good faith approach to compliance with ASOPs, exercising good judgment and common sense. It is inappropriate for an actuary or any other user of an ASOP to make a strained interpretation of the requirements of an ASOP.
- 4.2 Actuaries are required to comply with those ASOPs that are relevant to the task at hand. Not all ASOPs will apply. An ASOP should not be interpreted as providing

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binding guidance or being otherwise enforceable beyond its stated scope and purpose. Most, but not all, of the ASOPs are task-specific, dealing with particular kinds of professional services performed by actuaries. A few ASOPs, however, deal more broadly with particular aspects of many kinds of actuarial work (for example, ASOP No. 23, *Data Quality*). Actuaries are responsible for identifying the ASOPs that apply to the task at hand. The Academy's Council on Professionalism publishes Applicability Guidelines to assist actuaries in identifying the ASOPs that may be relevant.

- 4.3 Each ASOP contains a list of definitions of terms used within it. Those terms are defined only for use in that particular ASOP, and the definitions can and do differ between ASOPs, reflecting different uses of language in various segments of the profession. The ASOPs also frequently use a few terms that, while not defined within the ASOPs, are integral to an informed reading of the ASOPs. For example:

4.3.1 *Practical/Practicable*—The ASOPs frequently call upon actuaries to undertake certain inquiries, perform certain analytical tests, or make disclosures if it is “practical” or “practicable” to do so. Neither of these terms is intended to suggest that all possible steps should always be taken to complete an assignment. To the contrary, the constraints of a professional relationship or assignment and the specifics of a given environment frequently require the actuary to choose a course of action that will have a high expectation to yield an appropriate result without being unnecessarily time-consuming, elaborate, or costly relative to the principal's legitimate need. Thus, it is appropriate for the actuary, exercising professional judgment, to decide that the circumstances surrounding a particular assignment are such that it would not be “practical” or “practicable” to undertake a particular task. The actuary might choose to disregard items that, in the actuary's judgment, are not material, or to not make a particular communication, so long as the actuary's work complies with generally accepted practice.

4.3.2 *Professional judgment*—Actuaries bring to their work not only highly specialized training, but also the broader knowledge and understanding that come from experience. The ASOPs frequently call upon actuaries to thoughtfully apply both training and experience to their professional work, recognizing that reasonable differences of opinion are appropriate, if not inevitable, when professionals undertake to project the effect of contingent future events. The actuary's use of professional judgment should be such that another qualified actuary would recognize the reasonableness of the actuary's process of analysis even if the other qualified actuary might disagree with the actuary's conclusions.

4.3.3 *Reasonable*—In many instances, the ASOPs call for the actuary to take reasonable steps, make reasonable inquiries, or otherwise exercise reason

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when performing a professional service. The intent is not to require the actuary to go beyond what the actuary deems to be appropriate under the circumstances, given the nature of the assignment and the professional relationship and relevant business considerations. Rather, the intent is to call upon the actuary to exercise the level of care and diligence that, in the actuary's professional judgment, is consistent with generally accepted actuarial practice and necessary to complete the assignment in an appropriate manner.

- 4.3.4 *Reliance*—The ASOPs recognize that actuaries are frequently required to rely upon accountants, attorneys, auditors, management, trustees, and others for information that is critical to an analysis, and that an actuary often will not be in a position to independently verify the accuracy or completeness of the information provided. Similarly, actuaries often rely upon their colleagues to perform some component of a larger actuarial analysis in circumstances where it would be inappropriate or impractical for the actuary to redo the colleagues' work or where the actuary would not be qualified to do so. For these reasons, assuming the actuary has no reason to believe that such reliance would be inappropriate, the ASOPs permit the actuary to rely in good faith upon such individuals, subject to appropriate disclosure of the nature and extent of such reliance.
- 4.4 The ASOPs expressly permit the actuary to deviate from a prescribed practice, so long as the actuary appropriately documents the deviation and is prepared to defend it.
 - 4.4.1 A “deviation clause” is included in each ASOP in recognition that actuaries are frequently called upon to render professional services in situations that differ to some extent from those contemplated when the ASOP was adopted. It is not a breach of an ASOP to deviate from its requirements if the actuary does so in the manner described in the deviation clause. The circumstances of an assignment or constraints associated with it may be such that it would be inappropriate for the actuary to conform strictly to the ASOP and, thereby, fail to take those circumstances or constraints into account in an appropriate manner.
 - 4.4.2 Deviation from the requirements of an ASOP may need to be “defended,” e.g., the actuary may be called upon to explain a deviation to a principal or another actuary. Ultimately, the actuary may need to defend the basis for the actuary's decision to deviate from a particular ASOP before the actuarial profession's disciplinary bodies. However, a deviation from an ASOP should not be considered a per se violation of the actuary's responsibility to provide professional services with appropriate skill and care.