Appendix 2

Comments on the First Exposure Draft and Responses

The first exposure draft of this proposed revision of this ASOP, *Selection of Economic Assumptions for Measuring Pension Obligations*, was issued in January 2011 with a comment deadline of April 30, 2011. Twenty comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each.

The term “reviewers” includes the Pension Committee and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the first exposure draft.

GENERAL COMMENTS	
Comment	Two commentators suggested modifying the standard to indicate that the methods and assumptions an actuary uses would fall into two separate categories. One category would be characterized as market-consistent. The other category would be characterized as best estimate or budgetable.
Response	The reviewers believe the standard allows for this conceptual categorization but did not make any changes to formally adopt it. The reviewers note that the standard also provides for assumptions to be a combination of these two categories.
Comment	One commentator expressed concern regarding the disparate guidance provided by ASOP Nos. 6 and 27 with respect to the selection of economic assumptions for a retiree group benefit plan valuation. The commentator suggested the guidance in ASOP No. 6 pertaining to certain non-pension economic assumptions be moved to ASOP No. 27 and that ASOP No. 27 be renamed.
Response	The reviewers agreed that the guidance provided by ASOP No. 27 might differ in some respects from that provided by ASOP No. 6 due to the different types of plans being valued. They concluded that providing additional guidance within ASOP No. 6 instead of within ASOP No. 27 would be more helpful to users of the standards. The reviewers modified ASOP No. 27 to make it clear that, if there is a conflict between ASOP No. 6 and ASOP No. 27, then ASOP No. 6 would govern.
Comment	One commentator noted that the terms significant and material were used in the Exposure Draft without being defined. The commentator suggested these terms be defined.
Response	The Actuarial Standards Board is in the process of reviewing the Introduction to the Actuarial Standards of Practice. As part of this review, the Actuarial Standards Board will consider this comment.
Comment	One commentator opined that the ASOPs should not be written or interpreted in a manner that allows readers to presume that actuaries serve the “general public.” This commentator felt that any ASOP that explicitly provides for or allows a presumption that actuaries perform work for the general public will expose actuaries to unwarranted and unmanageable risk.
Response	The reviewers note that the Code of Professional Conduct identifies the responsibilities that actuaries have to the public. The reviewers do not believe that the proposed ASOP No. 27 is inconsistent with those responsibilities.

Comment Response	One commentator opined that the ASOPs should not impinge upon the terms of the engagement between an actuary and a Principal. The commentator stated that actuarial work is highly regulated and felt that the ASOPs should not require the actuary to perform additional work that is outside the scope of the engagement, is not requested by the Principal, and for which the actuary is unlikely to be compensated. The reviewers recognize that our professional standards need to strike a balance between having mandates that promote appropriate actuarial practice and that avoid requiring work that may not be requested by Principals. The reviewers believe the proposed ASOP No. 27 is suitably balanced.
Comment Response	One commentator suggested that the term "liability" should only be used when market-consistent assumptions are used for the measurement. The commentator suggested that if "best estimate" assumptions are used for the calculation, the term "actuarial present value" should be used and the term "liability" should be avoided. While the reviewers agreed that the use of the term "liability" has created confusion regarding actuarial work products, the reviewers believe that certain terminology in the actuarial community is ingrained and that the restriction of the use of certain terms is impractical.
Comment Response	One commentator suggested that if "best estimate" assumptions are used for the calculation the economic risk implications of that calculation should be disclosed. A potential new Actuarial Standard of Practice regarding pension risk disclosures and measurements is in the process of being drafted.
Comment Response	One commentator suggested that the current title of the ASOP may be inappropriately limiting. The commentator suggested renaming the ASOP to better reflect the broader circumstances to which it applies. The reviewers disagreed that the title of ASOP No. 27 is inappropriately limiting.
Comment Response	One commentator suggested that the standard be adjusted to cover economic assumptions for both pension and retiree group benefit valuations, with an accompanying change in title. The reviewers acknowledge that there are advantages and disadvantages associated with combining guidance into one standard, but at this time believe that providing guidance in separate standards is reasonable.
Comment Response	One commentator questioned the purpose of having the standard indicate that the actuary "may" do something without providing guidance as to when the actuary may or may not do it. 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. However, the ASOPs are not intended to be narrowly prescriptive. Therefore, the reviewers believe that the use of the word "may" without providing more prescriptive guidance conforms with the purpose of the ASOPs.
TRANSMITTAL MEMORANDUM	
Question 1: Is the language in section 3.1 of ASOP No. 27, indicating that assumptions can be based either on the actuary's estimate of future experience or on the actuary's observation of the estimates inherent in financial market data, clear? Do you agree that either approach produces a reasonable assumption? If not, what change do you suggest?	
Comment	Most commentators agreed that the proposed language was clear and that either approach produces a reasonable assumption. One commentator suggested that the second paragraph of section 3.1 should be deleted from the ASOP and instead added to a practice note because it is primarily educational. One commentator suggested that the ASOP should clarify that the reasonable assumption standard is not a single-point best estimate standard, and that two different assumptions may both be considered reasonable. One commentator suggested that the ASOP should clarify that a reasonable assumption for some measurements may be based a combination of the two approaches, and that section 3.1 be modified to specifically permit the adjustment of an assumption based on market observations for other factors in the financial market data that should not be included as part of the assumption. One

	commentator suggested that the practice of setting assumptions based on estimates inherent in financial market data is limited to discount rate and inflation assumptions, and therefore would be more appropriately discussed in those sections of the ASOP rather than the overview. One commentator suggested that the approach of basing assumptions on the observation of estimates inherent in financial market data is inconsistent with U.S. pension law, and if the dual approach is retained, that the ASOP elaborate on limitations of using this approach. Another commentator also suggested that this approach is much less well understood than basing the assumptions based on the actuary's estimate of future experience, and that the standard should provide examples of the specific assumptions for which the financial market data approach is appropriate.
Response	The reviewers generally agreed with the comments regarding the second paragraph of section 3.1 and have redrafted section 3.6 of the second exposure draft to reflect many of the above comments.
Question 2: Section 3 clarifies that there is no explicit link between an investment return assumption and discount rate. Does this create challenges for any existing actuarial processes? If so, please provide a description of the actuarial practice and how the new standard creates a problem. Is the removal of the material in section 3.6.2 of the current standard, which addresses the building-block method and the cash flow matching method, appropriate? Are the examples in section 3.7 of ASOP No. 27 sufficient to communicate the various purposes for which actuaries may need to choose a discount rate?	
Comment	Most commentators did not suggest any challenges for existing actuarial processes. One commentator did not agree with the concept of eliminating the link, and suggested that the link be maintained but with additional clarification that the link depends on the context. Another commentator stated that asserting that no explicit link exists between an investment return assumption and a discount rate assumption overstates the degree of separation between the two, and may create challenges for some actuarial practices outside the single-employer corporate plan sponsors. Several commentators agreed that removal of the material in section 3.6.2 was appropriate provided that it is subsequently addressed in a practice note. One commentator suggested that the material in section 3.6.2 could be removed if subsequently included in a practice note, but stated that the information is important and relevant to actuaries and other users of the ASOPs, and recommended that the language not be removed until the practice note is published. One commentator stated that the building block approach remains applicable and should not be removed. One commentator suggested specific modifications to section 3.7 to further clarify that the discount rate examples either anticipate investment earnings or reflect current market measurements. One commentator stated that additional examples of the different purposes would be helpful.
Response	The reviewers made no changes to the proposed standard as a result of the comments. The reviewers believe that the proposed standard allows current practice to continue and provides room for new practices to evolve.
Question 3: Do you agree that a reasonability standard is an appropriate way to set economic assumptions? If not, why not?	
Comment	Most commentators agreed that a reasonability standard is appropriate. One commentator expressed concern that the standard as written is circular and does not provide sufficient specificity to allow an actuary to know in advance whether the selected assumption is reasonable or not. Another commentator expressed concern that elimination of the best-estimate range concept may cause "actuary-shopping" among plan sponsors, and may have the effect that the actuary's assumptions would be more likely to be challenged and more difficult to defend. One commentator expressed concern that the reasonability standard conflicts with the best-estimate range approach contemplated by statute for Internal Revenue Code and ERISA purposes, and suggested that the proposed framework for setting assumptions will require an actuary to caveat the choice of an assumption on the conservative end of the "best estimate" range methodology, and suggested that the revision may result in a compliance nightmare that would outweigh the benefits of the revision. One commentator expressed concerns about including the criteria of not anticipating significant cumulative gains or losses to be produced over the measurement period in the reasonableness standard, and suggested that the definition be expanded to a separate section discussing the various factors that might be considered.
Response	After consideration of these and other comments received, the reviewers redrafted the language on

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<tr><td></td><td>reasonable assumptions. The proposed standard retains reasonability, but does not define a reasonable assumption in terms of actuarial gains and losses.

The reviewers do not see the standard as circular, nor do they feel the need to provide specificity as to what significant or time period means. The standard relies on the actuary’s professional judgment to make these determinations.

The reviewers are not concerned with any disparity between how the IRS sets its assumptions and the reasonability standard, given the exemptions for use of prescribed assumptions.</td></tr>
<tr><td colspan="2">Question 4: Do you agree that the guidance on arithmetic and geometric returns is appropriate? Should the consequences of the use of geometric or arithmetic returns be disclosed?</td></tr>
<tr><td>Comment

Response</td><td>While some commentators agreed that the guidance is appropriate, opinions on this topic vary widely. Several commentators stated a belief that either approach may be reasonable depending on the purpose of the measurement. One commentator stated that the language as written gives greater credence to the geometric average, and suggested that the language be reworded to portray both types of return as equally reasonable. Another commentator also suggested further emphasis that the arithmetic return continues to be reasonable and allowable. Several other commentators stated that all economic assumptions should be geometric and that arithmetic averages have no merit, that an actuary using arithmetic averages should disclose the fact and also disclose the equivalent geometric average, and that the standard should be clarified to explicitly state when the use of arithmetic averages is appropriate. One commentator requested further clarification on the appropriate investment horizon to consider when setting this assumption. One commentator did not support disclosure of the consequences of the use of geometric or arithmetic returns because there is no compelling reason for this particular choice to be singled out for additional disclosure that is not required of other assumption decisions.

The second exposure draft does not promote forward looking expected geometric returns or forward looking expected arithmetic returns, but allows for either.

The reviewers believe that further educational efforts are needed in this area and have included an appendix on this topic. The reviewers agreed with the commentator who pointed out that the forward looking expected geometric return depends on time horizon (ties to the concept of “variance drain”) but believe that further clarification of the appropriate investment horizon to consider is beyond the scope of this standard.

The reviewers encourage additional study and education on this issue.</td></tr>
<tr><td colspan="2">Question 5: Do you agree the guidance in section 3.6.3(d) regarding active investment management is appropriate?</td></tr>
<tr><td>Comment

Response</td><td>Most commentators agreed that this guidance was appropriate. One commentator suggested that this section be removed as it is educational and adds nothing worthwhile to the ASOP that is not already obvious to most actuaries. One commentator suggested clarifying language for this section.

The reviewers agreed with the clarifying language suggested, and the section has been modified accordingly.</td></tr>
<tr><td colspan="2">Question 6: Is the guidance in section 3.15.6 on the use of expert advice clear and sufficient?</td></tr>
<tr><td>Comment

Response</td><td>Most commentators agreed that this guidance was clear and sufficient. One commentator suggested the language be broadened by substituting the phrase “expert views” for “expert advice” to reflect the fact that information can be obtained from experts without specifically obtaining their advice. Another commentator recommended changing the title of this section to “Reliance on Other Experts” to acknowledge that the actuary may rely on information that is not restricted to advice, and suggested that investment advisors, other actuaries and economists be added to the current list of possible experts. One commentator suggested that this section is educational and should be removed. One commentator expressed concern that the guidance may imply that the selection and advice is only being endorsed by the actuary rather than the actuary doing the selecting and advising.

The reviewers agreed with the suggestion to broaden the language from advice to views, and the second exposure draft has been revised accordingly</td></tr>
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Question 7: Do you agree that it may be appropriate for the actuary to include conservatism in his or her assumptions? Are the disclosure requirements for a conservative assumption sufficient?	
Comment	Most commentators agreed that conservatism may be appropriate provided it is disclosed. One commentator suggested that a wider ranging discussion of risks should also be required. One commentator suggested that some sensitivity analysis also be required to indicate the impact of the conservatism on the results. One commentator expressed concern that an adjustment for conservatism may not be reasonable because risk may not be perceived similarly by all interested parties, and that such an adjustment might conflict with the reasonableness concept. One commentator suggested that the standard should be drafted to incorporate a requirement that an element of conservatism or optimism must be within the range of reasonability.
Response	The reviewers agreed with the comment that risk may not be perceived similarly by all interested parties. The phrase “conservatism” has been changed to “adverse deviation” in the second exposure draft. While this change does not eliminate the concern about risk perception, the reviewers believe the new phrase better describes the intent of the language.
Question 8: Do you agree it is appropriate to require the actuary to provide rationale for assumptions or changes in assumptions? If so, do you agree that the proposed changes represent the appropriate approach?	
Comment	Several commentators agreed that requiring the actuary to provide rationale for assumptions and changes in assumptions is appropriate, and that the proposed changes represent an appropriate approach. One commentator that agreed with the proposed approach also suggested clarifying this section to specifically allow actuaries to reference prior communications to comply with these requirements. Other commentators oppose this additional disclosure and believe the requirement would add a significant burden on the profession. Concerns expressed include increased compliance and litigation risk, possible interference with contractual arrangements with the principal that prohibit disclosure of confidential information, and substantial additional work not requested by the principal and therefore for which the actuary may not be compensated. One commentator opposing the additional disclosures suggested that this type of disclosure is in the realm of ASOP No. 41, that the costs associated with the required disclosures should be considered relative to the cost of the underlying assignment, and that the detail required in a disclosure should be tempered by the needs of the principal or user and the nature of the assignment. Another commentator suggested that disclosures about rationale should be limited to assumption changes.
Response	The reviewers believe that, in spite of the possible drawbacks of requiring disclosure of assumption rationale, the proposed language will lead to a more thorough actuarial assumption setting process. The proposed language in the second exposure draft has been changed to indicate the rationale can be brief and the actuary can reference a previously published work product. The reviewers note that precept 9 of the *Code of Professional Conduct* states that the actuary should not disclose confidential information and this standard should not be interpreted to invalidate the *Code of Professional Conduct*. The standard does not require disclosure of confidential information.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator expressed support for the exposure draft’s removal of paragraph 1.1(c) from this section of the current ASOP.
Response	The reviewers agreed and removed the paragraph.
Section 1.2, Scope	
Comment	One commentator expressed concern that ASOP No. 27 defers to ASOP No.4 if conflicts arise between the ASOPs.
Response	ASOP No. 4 is the umbrella standard for all pension measurements including cost and contribution determinations, and the reviewers believe it should govern in the event of a possible conflict between the two standards.

Comment Response	One commentator suggested that the language be modified to indicate that a plan sponsor may be ultimately responsible for selecting the assumptions, within the constraints imposed by relevant accounting standards or statutory requirements. The reviewers believe the language in the exposure draft regarding prescribed assumptions in the exposure draft is clear and sufficient and did not make any changes.
Section 1.4, Effective Date	
Comment Response	Several commentators suggested that the standard be effective for actuarial valuations based upon a measurement date as opposed to the production date of the actuarial valuation. One commentator suggested that the effective date of the standard be structured so that it would not require the actuary to use a different standard to establish the economic assumptions during a plan year. The reviewers agreed with these comments and changed the effective date to apply to the plan's measurement date.
SECTION 2. DEFINITIONS	
Section 2.4, Merit Scale	
Comment Response	Several commentators opined that the term "scale" was out of date. One commentator suggested the phrase to be changed to "Merit Increase Assumption." The reviewers agreed with the concerns and, taking into account the use of the phrase in the standard, changed the phrase to Merit Adjustments.
Section 2.5, Prescribed Assumption	
Comment Response	One commentator suggested that the standard clarify that a prescribed assumption is a specific assumption that is mandated or selected by a principal. The reviewers believe that the current definition was adequate and retained it.
Section 2.6, Productivity Growth	
Comment Response	One commentator pointed out that the standard references productivity growth and productivity increases and wondered if there were two different concepts. The reviewers made changes in section 3 to consistently address productivity growth. No changes were made to the definition in section 2.
Section 2.7, Real Return	
Comment Response	Commentators noted that this section was obsolete. The reviewers agreed and removed it from the standard.
Section 2.8, Real Risk-Free Return	
Comment Response	Commentators noted that this section was obsolete. The reviewers agreed and removed it from the standard.
Section 2.9, Risk Premium	
Comment Response	Commentators noted that this section was obsolete. The reviewers agreed and removed it from the standard.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Overview	
Comment Response	Several commentators suggested language changes to this section. The reviewers deleted the second paragraph and moved the guidance contained therein to the body of the standard.

Section 3.2, Identifying Types of Economic Assumptions	
Comment Response	One commentator suggested that the term “compensation scale” be changed to “compensation increase assumption.” While the reviewers agreed and made wording changes, the reviewers note that section 3.2 has been completely rewritten.
Comment Response	One commentator suggested that the “rate of payroll growth” be listed as a separate economic assumption in this section. The reviewers agreed and added section 3.11.3 in this second exposure draft.
Section 3.3, General Considerations	
Comment Response	One commentator suggested that section 3.3(d) and the concluding paragraph of section 3.3 be moved to section 3.4, General Selection Process. The General Selection Process section has been rewritten.
Comment Response	One commentator requested clarification of what constituted “appropriate” recent and long-term historical economic data. The reviewers note that an actuary should use professional judgment in determining what recent and long-term historical data is appropriate given the circumstances of the situation.
Section 3.4, General Selection Process	
Comment Response	One commentator suggested some rewording to this section. The reviewers agreed, and this section has been rewritten.
Section 3.5, Selecting an Inflation Assumption	
Comment Response	One commentator suggested that this section differentiate between the process of selecting a market-consistent inflation assumption and a best estimate inflation assumption. The reviewers note that significant parts of section 3 have been rewritten. The reviewers believe the proposed language in section 3.6.1 of the second exposure draft provides the actuary with sufficient guidance on estimates and market observations without being overly prescriptive.
Comment Response	One commentator suggested that section 3.5 was educational and that it should be removed. The commentator believed that the principles of section 3.4 applied. The reviewers believe that the guidance in this section is not merely educational and have retained the section.
Section 3.5.2, Select and Ultimate Inflation Rates	
Comment Response	One commentator suggested that this section be clarified to indicate that an actuary may choose a single inflation rate or select and ultimate inflation rates. The reviewers believe that the existing wording is clear in this regard and made no changes.
Comment Response	One commentator questioned whether the inclusion of this section indicated a preference of the ASB for an actuary to use select and ultimate inflation rates. The reviewers believe that the current wording of the section does not convey a preference.
Section 3.6, Selecting an Investment Return Assumption	
Comment Response	One commentator questioned why there was a list of considerations in this section when section 3.6.3, Considerations, already has a list of considerations. The reviewers agreed with this comment and changed the wording in this section.

Comment Response	One commentator indicated that the investment return assumption should correspond to a time horizon and that the standard is silent in this regard. The commentator noted that the standard discusses a measurement period that may or may not be a time horizon over which an investment assumption is or should be made. The commentator suggested replacing measurement period with time horizon. The reviewers disagreed with the suggestion to replace the phrase "measurement period." The reviewers note that assumptions need to apply for the entire measurement period. Section 2.4 of the proposed standard defines the measurement period as the period subsequent to the measurement date during which a particular economic assumption will apply in a given measurement
Comment Response	One commentator suggested that the section be clarified to indicate that anticipated returns on future assets be considered only if appropriate for the purpose of the measurement. The reviewers agreed and revised the language accordingly.
Section 3.6.1, Data	
Comment Response	One commentator suggested that the last sentence of this section relating to the development of investment return ranges using stochastic simulation models is now obsolete since the notion of "ranges" has been removed from the standard. The reviewers disagreed with the commentator's interpretation of the standard's language. While the notion of a best estimate range has been removed from the standard, under the proposed standard an actuary may choose a reasonable investment return assumption from a range of alternatives. The use of stochastic simulation models may still be used by an actuary to assist in determining this reasonable range. However, to avoid confusion, the term "range" has been deleted from the last paragraph of this section.
Section 3.6.3, Considerations	
Comment Response	Many commentators indicated that the wording in section 3.6.3(j), Arithmetic versus Geometric Return, needed clarification. Many commentators indicated a strong preference for a geometric return assumption and saw no place for an arithmetic return assumption. Other commentators suggested that either type of assumption was reasonable depending on the purpose of the measurement, but thought that the current wording could be construed as indicating preference of one type over the other. One commentator suggested that the standard indicate what the preferred time horizon should be if the actuary selects a geometric return assumption. The reviewers have changed the language in this section and have added appendix 3. The reviewers believe that the current wording of the section does not convey a preference.
Comment Response	One commentator indicated that the wording in section 3.6.3(d), Investment Manager Performance, was educational and should be removed. The reviewers disagreed. The language is retained in the proposed standard.
Comment Response	Two commentators suggested that administrative expenses be added to section 3.6.3(e), Investment Expenses. One commentator suggested that the standard make clear that explicit recognition of these expenses would be also permitted. The reviewers agreed and changed the language accordingly.

Comment	One commentator stated that an asset's value is its market value and describing a value as depressed is not economically valid. The commentator stated that the fact that assets may have to be sold at depressed values due to illiquid markets should not be a consideration in selecting the investment return assumption.
Response	The reviewers understand the commentator's view that an asset's value is its market value and that describing a value as depressed is purely subjective. However, the reviewers believe that volatility is an important consideration for setting an investment return assumption. The actuary may wish to include a margin for adverse deviation and volatile investments may require more adverse deviation than less volatile investments.
Comment	One commentator suggested that the removal of the best estimate range and the fact that actuaries can rely on the advice of investment professionals in the determining the investment return assumption may make the assumption more difficult to defend.
Response	The reviewers disagreed. While the actuary may consider the advice of investment professionals in selecting an investment return assumption, the actuary must still meet the requirements of the standard for selecting the assumption.
Comment	One commentator suggested that this section include only considerations relating to the actuary's unbiased estimate of the investment return assumption. Any conservatism that the actuary may consider incorporating should be covered under section 3.15 of the standard.
Response	The reviewers agreed with this comment and have addressed this issue in 3.6 (e) of the second exposure draft.
Comment	One commentator suggested that section 3.6.3(b), Reinvestment Risk, be renamed Expectations for Reinvestment. One commentator suggested that this section be deleted as it currently stands or, if not deleted, be reworded to include a more detailed discussion of the issues involved.
Response	The reviewers agreed that the title of this section should be changed and have changed it to "Effect of Reinvestment." The reviewers disagreed with the suggestion to delete or rewrite the section.
Comment	One commentator suggested wording changes to section 3.6.3(d), Investment Manager Performance.
Response	The reviewers believe the section is sufficient as drafted and made no changes.
Section 3.6.4, Multiple Investment Return Rates	
Comment	One commentator suggested that this section be reworded to indicate that different investment return rates may be used for separates pools of assets and that any reference to obligations be removed.
Response	The reviewers agreed with this comment and made appropriate changes.
Section 3.6.5, Form of Benefit	
Comment	Two commentators questioned whether this language was appropriate in a section covering the considerations for an investment return assumption. The commentators suggested that references to investment return in this section be changed to discount rate and that the language be moved.
Response	The reviewers agreed that the guidance in Section 3.6.5 of the exposure draft was better placed elsewhere in the standard. The reviewers believe the guidance in section 3.9 and 3.11 of the second exposure draft provides guidance for the topics contained in Section 3.6.5 of the exposure draft.
Section 3.7, Selecting a Discount Rate	
Comment	One commentator felt the standard should state that anticipated investment return should be used to determine pension expense for state and local governmental retirement plans. Another commentator felt the standard should state that the discount rate for determining the present value of a payment stream that has a cash flow matched by a portfolio of assets should be the explicit return on those assets.
Response	The reviewers believe the actuary should have the discretion to determine the discount rate appropriate for the purpose of the measurement and made no change.

Comment Response	Some commentators felt that actuaries who prepare pension "liabilities" should do so using only the "observed" market-place discount rates. The reviewers discuss the challenges with the word "liability" in the transmittal memo to the exposure draft of ASOP No. 4 that was published concurrent with this exposure draft. The reviewers appreciate the comment but have not made any changes in the exposure draft as a result.
Comment Response	One commentator suggested that the standard identify two main purposes driving the selection of a discount rate. One purpose is to anticipate investment earnings and the other purpose is to reflect market conditions. The reviewers believe the Actuarial Present Value Type language in the exposure draft of ASOP No. 4 published concurrently with this exposure draft addresses this comment.
Comment Response	Some commentators accentuated the connection between the purpose of the measurement and the selection of the discount rate. The reviewers agreed and believe the exposure draft makes this point sufficiently.
Comment Response	One commentator suggested that the standard should require the actuary to use a discount rate equal to rates implicit in the annuity market when that actuary is doing a settlement or defeasance measurement. The reviewers believe the language in the exposure draft indicates it would be reasonable for an actuary to use the discount rate suggested by the commentator in settlement or defeasance measurements, but the reviewers believe the language leaves appropriate room for the actuary to use judgment in the measurement, and made no change.
Comment Response	One commentator felt that "prices for obligations with similar characteristics in financial markets" do not exist (section 3.7(d) of the first exposure draft). The reviewers acknowledge that transparent market prices for exact or very close replicas of pension obligations do not exist. The reviewers believe that marketplace annuities or debt instruments are sufficiently similar to pension obligations and have sufficiently transparent prices that the actuary can follow the guidance in the exposure draft, and made no change.
Comment Response	One commentator suggested that the standard include more guidance on scenarios where non-market discount rates would be appropriate. The reviewers believe that more guidance in this area is provided in the exposure draft of ASOP No. 4 that was published concurrently with this second exposure draft.
Comment Response	One commentator suggested the standard outline two groups of assumptions. One group consists of market-consistent assumptions and the other group consists of budgeting assumptions used for funding purposes. The reviewers believe that there are many purposes of a measurement. Depending upon the purpose of a measurement, the second exposure draft provides for reasonable assumptions to be based upon the actuary's estimate of future experience, on the actuary's observation of the estimates inherent in financial market data, or on a combination of the two.

Comment	One commentator pointed out that the actuary who wants to develop a market discount rate will need guidance on the following items: ▪ How to set discount rates when there is no deep and liquid market in securities whose cash flows match the cash flows of the liabilities; ▪ Whether perceived anomalies in the markets justify a departure from using the discount rates implicit in marketable securities; ▪ How to extend a yield curve to time periods where no securities are being traded; ▪ Whether swaps, Treasury bonds, or some other securities are most appropriate for setting a yield curve; and ▪ How to value embedded options.
Response	The reviewers believe this information is educational and is better handled outside of the standard.
Section 3.8, Selecting a Compensation Scale	
Comment	Two commentators suggested language changes to this section.
Response	The reviewers believe that the existing language was appropriate and clear.
Comment	One commentator suggested that the merit and seniority component of the compensation increase assumption has more in common with a demographic assumption as opposed to an economic assumption and therefore this portion of the compensation increase assumption should be covered under ASOP No. 35.
Response	The reviewers acknowledge that the compensation increase assumption does have both demographic and economic assumption characteristics. However, the reviewers believe that keeping the assumption in ASOP No. 27 is reasonable and made no changes.
Section 3.8.2, Measurement-Specific Factors	
Comment	One commentator suggested section 3.8.2(d), Compensation Volatility, use the term “might” rather than “may.” The commentator felt “might” better conveys the idea that this is one possible option among many, rather than a preferred or prescribed approach.
Response	The reviewers note that the use of “may” in ASOPs is consistently meant to imply a choice and does not indicate a preference. Therefore, no change was made.
Comment	One commentator questioned whether section 3.8.2(e), Expected Plan Termination, should be expanded to cover situations where a plan is frozen.
Response	The reviewers agreed and expanded the language to cover situations where a plan is expected to be frozen.
Section 3.8.3, Multiple Compensation Scales	
Comment	One commentator suggested that this section be clarified to indicate the use of a single compensation scale is acceptable.
Response	The reviewers believe that the existing language with respect to single and multiple compensation scales is adequate.
Comment	One commentator suggested the inclusion of a subsection d that covers “salary spiking.”
Response	The reviewers agreed with the salary spiking comment and changed language to reflect possible increases in compensation late in a participant’s career.
Section 3.9, Selecting Other Economic Assumptions	
Comment	One commentator suggested that this section is educational and should be deleted.
Response	The reviewers disagreed and made no change.

Section 3.9.2, Cost-of-Living Adjustments	
Comment Response	One commentator suggested minor language changes to this section. The reviewers believe that the existing language is clear and made no changes.
Section 3.9.3, Growth of Individual Account Balances	
Comment Response	One commentator suggested including language that discusses optionality (greater of two or more credit rates) and the complex valuation issue for floor-offset plans. Guidance in this area is provided in the exposure draft of ASOP No. 4 that was published concurrently with this second exposure draft.
Section 3.11, Consistency among Economic Assumptions Selected by the Actuary	
Comment Response	Two commentators suggested including language that discusses the consistency among components of the actuary's economic assumptions other than the inflation assumption. A few commentators also suggested some other minor language changes. The reviewers agreed and made appropriate changes.
Section 3.15.1, Conservatism	
Comment Response	One commentator wondered whether conservatism should apply to market-consistent measurements. The reviewers note that for some measurement purposes, like measuring a settlement present value, the actuary may want to include a provision for adverse deviation in a market-consistent measurement.
Comment Response	One commentator suggested that section 3.6.3 be expanded to include risk-related adjustments and that conservatism be included in that section. The reviewers changed the title, Conservatism, to Adverse Deviation but believe that adverse deviation is a consideration applicable to all economic assumptions and therefore did not change the placement of this language.
Comment Response	One commentator suggested that, if conservatism is used, some sensitivity analysis should be disclosed indicating the impact of the conservatism on the results. The reviewers note that section 4.1.1 of the exposure draft was changed to require the actuary to disclose any provision for adverse deviation.
Comment Response	One commentator suggested that the reasonability standard was broad enough and that an additional level of conservatism was not appropriate. The reviewers disagreed and made no change.
Comment Response	One commentator suggested including language in this section to indicate that, unless an actuary discloses that conservatism was used in the selection of an assumption, it would be understood that no conservatism was used in the selection of such assumption. The reviewers disagreed and made no change.
Comment Response	One commentator endorsed the use of conservatism in the selection of assumptions but viewed the Exposure Draft as biased towards selecting aggressive or optimistic assumptions. The reviewers disagreed and made no change.
Section 3.15.3, Cost Effectiveness	
Comment Response	One commentator suggested changing the guidance in this section from "should" to "may" since an end user could ask for work that is not cost effective. The reviewers do not believe that current language precludes the actuary from fulfilling end user requests for work of this nature. The language directs the actuary to balance refined assumptions with cost effectiveness.

Section 3.15.4, Rounding	
Comment Response	One commentator suggested including language to make it clear that the rounded assumption should meet the reasonability standard. The reviewers have redrafted the language regarding reasonability and believe this issue is addressed appropriately in the second exposure draft.
Section 3.15.5, Subsequent Events	
Comment Response	Two commentators suggested deleting the phrase “that is unique to a plan or plan sponsor” from this section. The reviewers agreed and deleted “that is unique to a plan or plan sponsor” from this section.
Comment Response	One commentator suggested adding language to make it clear that subsequent events should not be recognized if it would result in a violation of the law. In addition, the same commentator suggested adding language that makes it clear that an actuary is not required to disclose a subsequent event if it would violate proprietary or confidential information. The reviewers believe that the existing language in this ASOP and ASOP No. 41 is sufficiently clear on this point. The reviewers also note that precept 9 of the Code of Professional Conduct addresses the actuary’s responsibility regarding confidential information.
Section 3.15.6, Advice of Experts	
Comment Response	One commentator thought this section is educational and should be removed. The reviewers disagreed and made no change.
Comment Response	One commentator suggested substituting the phrase “expert views” for “expert advice.” One commentator suggested changing the title to “Reliance on Other Experts.” In addition, the commentator suggested additions to the list of experts. The reviewers agreed and changed the title of this section to “Views of Experts.” The reviewers believe the sample list of professionals does not need to be lengthened and that the phrase “other professionals” provides flexibility.
Comment Response	One commentator suggested rewording the section to make it clear that the actuary is doing the selecting of and advising on the assumptions, and not just endorsing others. The reviewers believe the existing language in this ASOP, ASOP No. 4 and ASOP No. 41 make it clear that the actuary is still responsible for following standards when assumptions are selected by the actuary or by another party, and made no change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1.1, Economic Assumptions	
Comment Response	One commentator suggested that the standard state clearly that there may be some measurements for which a reasonable assumption would be based on a combination of estimates and observations and that section 4.1.1 on disclosures should be modified accordingly. The reviewers agreed and made changes accordingly.

Section 4.1.2, Rationale for Assumptions; Section 4.1.3, Changes in Assumptions	
Comment	The language below is repeated from the discussion of Question 8 of the transmittal memo. Several commentators agreed that requiring the actuary to provide rationale for assumptions and changes in assumptions is appropriate, and that the proposed changes represent an appropriate approach. One commentator that agreed with the proposed approach also suggested clarifying this section to specifically allow actuaries to reference prior communications to comply with these requirements. Other commentators oppose this additional disclosure and believe the requirement would add a significant burden on the profession. Concerns expressed include increased compliance and litigation risk, possible interference with contractual arrangements with the principal that prohibit disclosure of confidential information, and substantial additional work not requested by the principal and therefore for which the actuary may not be compensated. One commentator opposing the additional disclosures suggested that this type of disclosure is in the realm of ASOP No. 41, that the costs associated with the required disclosures should be considered relative to the cost of the underlying assignment, and that the detail required in a disclosure should be tempered by the needs of the principal or user and the nature of the assignment. Another commentator suggested that disclosures about rationale should be limited to assumption changes.
Response	The reviewers believe that, in spite of the possible drawbacks of requiring disclosure of assumption rationale, the proposed language will lead to a more thorough actuarial assumption setting process. The proposed language in the second exposure draft has been changed to indicate the rationale can be brief and the actuary can reference a previously published work product. The reviewers note that precept 9 of the Code of Professional Conduct states that the actuary should not disclose confidential information and this standard should not be interpreted to invalidate the Code of Professional Conduct. The standard does not require disclosure of confidential information.
Section 4.1.4, Changes in Circumstances	
Comment	Some commentators felt this language was inappropriate and should be deleted. Some commentators noted that this issue was already handled by ASOP No. 41.
Response	The reviewers agreed and changed the language to direct the actuary’s attention to ASOP No. 41.
Section 4.2, Prescribed Assumption(s)	
Comment	One commentator suggested that the language be coordinated with guidance in ASOP No. 41.
Response	The reviewers changed the language to be consistent with the proposed revision of ASOP No. 4.