

Comment #22 – 9/26/13 – 1:26 p.m.

Thank you for the opportunity to comment on the Modeling exposure draft. These comments represent my personal opinion and not necessarily those of my employer.

First, I would like to pose few questions.

Has enough time been provided for transition?

Many models currently in use were selected, developed, adopted and used over long periods. In many cases, the models have been tested over the course of time, but the formal documentation may not currently be up to the requirements of the proposed standard. While I agree that better documentation is appropriate and desirable, I would ask whether a phase-in period longer than four months might be appropriate for pre-existing models.

Is the definition of “model” too broad?

I realize that it is common actuarial practice to include a wide variety of actuarial processes within the definition of a model. However, for companies developing model governance standards, a much narrower definition of business model may be appropriate. The current standard itself seems to recognize that models come in various flavors by looking to actuarial judgment in determining how many of the recommendations in the standard ought to be applied, depending on how business-critical the model in question is viewed. Maybe the standard should explicitly address the scale on which a model is judged, ranging from trivial (using my calculator to get a percentage) to major business-critical (such as economic capital, for example).

Are there too many definitions?

Maybe it is just that the use of bold font for defined terms calls attention to the subject, but it does seem like some of the definitions could be omitted without producing confusion. For example, do we really need to define what “modeling” is? There is a lot of redundancy between the scope paragraph and the definition.

In a couple of places, two consecutive defined terms appear, “model” “inputs.” Since “input” is defined as “Assumptions, data, or parameters used in a model,” do we really need to use the modifier “model”?

“Reproducible” is only used once in the draft. Does it need to appear in the definition section, or should the definition be moved to the section where the term is used?

Did the drafters use “consider” too often?

This question was also raised by another commenter. Of course, actuarial judgment should be left to the discretion of the actuary involved. However, perhaps more forceful language should be considered by the drafters, rather than the weaker counsel implied by the phrase “consider” especially in sentences that also contains phrases such as “where appropriate” or “where practical.”

Second, I would like to respond to item number 6 in the request for comments.**Too much bold font gives me a headache.**

I find it highly distracting to have bold font used for the purpose of identifying defined terms. It feels like the document is shouting at me.

A quick search for comparison with other style guides immediately turned up a style manual for the AICPA. They use bold font to indicate the term to be defined. Existing ASOPs and the current draft use

underlining for this purpose. The AICPA standard then indicates that normal font is to be used whenever the defined term appears, with one minor exception. When a definition explicitly refers the reader to another definition, for example, “See **Principal**” the bold style is used. But when a definition uses the word as part of a sentence, it is not made bold.

By way of alternative, I do like the idea suggested by another commenter, to use a different typeface. I think this is far less distracting, but still gives the reader a clear indication that the word can be found in the definition section.

Third, I would like to note possible typographical slips in some other comments.

Comment #1. I believe the author meant to use the word “prescribed” rather than “proscribed.”

Comment #9, item B. I believe the reference to section 1.2 should have been to section 1.3.

Fourth, I have comments on specific sections in the draft, as follows:

2.1 Assumptions

Assumptions are generally based on some sort of experience, and I think the sentence should conclude, “based on professional judgment and experience.”

2.8 Margin

While margins may be added for uncertainty, that is not their only purpose. For example, the IASB has suggested that the overall margin may also include an element of compensation for bearing risk, as well as the remaining margin, seen as an implicit element of contribution to surplus (profit, in other words). As another commenter suggested, I think “margin” should be defined as an adjustment for conservatism, and various reasons for conservatism might be addressed, including paying back the initial surplus required to support the business.

2.11 Model Risk

Please add “misinterpretation of model output” to the list. This goes to the question of whether the person who sees the model results understands what the model is saying.

2.12 Neutral

I second the concerns expressed by other commenters about the confusion generated by the definition and use of this term. Again, the necessary descriptive language could be used in the section where the term is used, rather than having this term in the definitions section.

2.14 Parameter

I disagree with the assertion that “Examples [of parameters] include expected values . . .” An expected value is the output of a model, not an input parameter. I would suggest replacing “expected values” with “event probabilities.” Also, the drafters should consider adding additional examples, such as the current yield curve which is commonly used in conjunction with economic scenario generators.

As another way of avoiding overuse of the term consider, I recommend that the word “considered” in this definition could be replaced by “classified as.”

3.1.2 Models Developed by Others

I like this section. Perhaps the wording can be improved, as suggested by another commenter, but this section, it seems to me, is a key element in appropriate use of models.

Carol A. Marler, MAAA, FSA
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