

Comment #24 – 9/27/13 – 3:36 p.m.

I commend the ASB, its General Committee, and its Modeling Task Force on taking on this challenging project.

1. I heartily applaud differentiating defined terms. However I do not like using bold to indicate them. It gives the words apparent (and inappropriate emphasis). I prefer the font used by the IAA (medium blue dotted underline (maybe because I was the originator of same).
2. 1.2 - Delete the second paragraph - scope but move the same thoughts to 3.1.1 (see 9. below).
3. 2.1 - Delete “based on professional judgement(sic)”. All such inputs to the model should be included without restriction.
4. 2.3 - Replace “assumption variations” with “time periods” or “time divisions”.
5. 2.4 - Find a different word to replace “executable”. “Executable carries an implication of computer code. This standard should cover pencil and paper models.
6. 2.12 - I agree with other comments. Let’s not define yet another term.
7. 2.14 - consider defining parameters as “inputs to a model other than assumptions and data’.
8. 2.16 - I wonder if “to meet the needs of the principal” is unnecessary and possible restrictive. Shouldn’t the standard also apply to work not intended to meet the needs of a principal? I do not know.
9. 3.1.1 - There have been several comments on 3.1.1, I recommend replacing it with

“Nothing in this standard should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work.”

This is taken from the IAA ISAP 1 and is basically the principle of proportionality used in Solvency II in the EU.
10. 3.1.2 - Delete the phrase “and, therefore, full application of the guidance in this ASOP may not be necessary”. I do not think it is needed and it appears to make the ASOP weak.
11. 3.1.3 - Replace “If, in the actuary’s professional judgment, circumstances are such that applying some or all of the guidance in this ASOP is not appropriate,” with “If the actuary, following 3.1.1, has not applied some or all of the guidance in this ASOP,”. This connects better to 3.1.1 without changing the intent. Also reword the last sentence to “In those instances where the result of the deviation from guidance is material, the actuary should disclose that deviation from guidance as addressed in section 4.2.
12. 3.2.1 – Delete “In this evaluation”. It does not add anything.

13. 3.2.2 – Most of the second sentence is inconsistent with the title of the subparagraph. It addresses modifying the model. I suggest changing the title.
14. 3.2.4.c,d, 3.2.5.d, etc. – The term “documenting” is ambiguous and is used in several places. It can mean “disclose in the actuarial communication” (which is what I believe is intended) or “record in the actuary’s private files, without disclosure.” I believe the first meaning is intended, in which case I suggest using the word “disclose” and including a definition to state it means disclose in the actuarial communication.. If it is intended to be the second meaning, why is the guidance needed?
15. 3.2.5 – I find the structure “For example ... the actuary should ...” confusing. Guidance should not be embedded in an example. If you use the language I suggest in point 9 the second sentence could be reworded “The actuary should consider the following, for example:”, and rely on the principle of proportionality to cover “where applicable and appropriate to the intended purpose.”
16. 3.2.7.a – Consider deleting “or budget” and rely on the principle of proportionality. If the principal sets a budget constraint that is unreasonable in light of the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work, the actuary should decline the assignment.
17. 3.2.7.c – “where appropriate” in the second line is implicit in “should consider” and should be deleted.
18. 3.2.7.e – use “Disclosure” and “disclose” if that is intended, otherwise define “document, documentation.” If the latter why is the guidance needed?
19. 3.3.1.b.1 – I believe this is testing accuracy (which is important), rather than reasonableness (which is also important). Reasonableness is whether the output is stupid, even if accurate. Reasonableness should be tested, but that requires the comparison of the model output to the outside world.
20. 3.3.2 – Are governance and controls widely understood? When I read them I think of required signoffs on changes, and change logs but this does not seem to be what you are addressing.
21. 3.4.1.c – I think this would read better if “that have been used” were deleted.
22. 3.6 – You should define documentation (in section 2) and delete “or other file material.” This paragraph is a broad requirement and does not appear to be time limited. Both of these carry some legal risk for the actuary as I believe all documentation would be discoverable in a lawsuit. I urge you to consider both the scope and the intended time period of this paragraph.
23. 3.7.2 – This paragraph is difficult. It would be much more useful if it listed the other ASOPs concerned. If such a list does not exist it seems dangerous to assert that any conflicting guidance trumps this ASOP.
24. 4.1 – The list appears incomplete. For example shouldn’t 3.4.1 be referenced.

I hope these rather detailed comments will prove helpful. I would be happy to discuss any point if you feel that would be productive.

--Godfrey Perrott