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Modeling
Actuarial Standards Board
1850 M Street, NW, Third Floor
Washington DC 20036-4601

September 27, 2013

Subject: ASB Exposure Draft - Modeling

To members of the Actuarial Standards Board:

Mercer is pleased to provide our response to the Actuarial Standards Board (ASB) exposure draft of a proposed standard of practice, *Modeling*. These comments were prepared by Mercer's Actuarial Resource Network, a group of senior actuaries in the Retirement Practice area representing all of the U.S. geographic areas in which Mercer operates, with input and comments from senior Mercer actuaries in other lines of business.

We would like to thank the ASB for their efforts in this area and we appreciate the opportunity to share our thoughts and insights on this proposed standard. We have also included responses to the specific questions asked in the exposure draft.

Specific questions asked by the Actuarial Standards Board

1. Does the proposed standard provide sufficient guidance to actuaries working with models?

Yes

2. Is the proposed standard sufficiently flexible to allow for new developments

Yes

3. The draft ASOP starts with a wide scope, but allows the actuary to use professional judgment to identify those instances where some guidance described in this ASOP is not appropriate or practical. Is this clear and appropriate?

We believe that the latitude to use professional judgment appropriately limits the effect of having such a broad scope. Nevertheless, we would not be averse to some narrowing of the scope.

4. In those instances where some guidance described in this ASOP is not appropriate or practical and the deviations from guidance are "not material," the actuary does not need to disclose these deviations. Is this clear and appropriate?

Yes

5. Appropriate documentation simplifies later use and development of current models as well as allowing easier review by principals and other actuaries. Section 3 contains guidance with regard to documentation. Is this guidance clear and appropriate?

Generally, yes; however, we have provided further comments below.

6. Does the use of bold font to identify defined terms improve the readability and clarity of the standard? If not, what suggestions do you have to improve the recognition of defined terms in the standard?

We had previously commented unfavorably on the use of bold font beyond the first usage of a defined term. However, our thinking has evolved on this question and we believe that, on balance, the use of bold font for defined terms improves the clarity of the standard by making it easier to identify these terms when re-reading only a portion of the standard.

Additional Comments

Sections 1.1 and 3.1

It is our opinion it should be made clear the application of this ASOP is limited to *actuarial* models.

Section 3.3.1 – Validation, Checking, and Analysis

The last sentence under item 3.3.1 b.2. currently states:

“If such reconciliation can be developed and would be appropriate to the project’s objective, the reconciliation should be documented in the actuary’s files”.

It is our opinion this sentence should be deleted as documentation is sufficiently covered under item 3.6.

Section 3.4 – Presentation of Results

Under item 3.4, the committee may want to consider whether the use of the word “any” is appropriate or necessary in the sentence,

“The actuary should present results of a realization of the model, explaining methodology, key assumptions, possible limitation, and any changes made subsequent to a prior realization”.

This sentence seems to imply even changes that do not materially impact the results should be explained. We recommend replacing “any changes” with “any material changes”.



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Thank you for the opportunity to comment on the exposure draft. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Cadenhead".

Bruce Cadenhead, FSA, EA, FCA, MAAA
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Copy: Actuarial Resource Network - Mercer

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