Comment #18 – 9/20/13 – 8:21 p.m.

ASB COMMENTS – Modeling Exposure Draft Guidance

September 20, 2013

Dear ASB:

Among other things, my 9/8/13 note suggested additions to, and possible combination of, Sections 3.2.1 and 3.2.5. I have two further suggestions.

For convenience, I have printed the entire suggested new 3.2.1 below. Additions to the Exposure Draft are in italics, with today’s new items also marked “**”. If this approach is adopted, the list probably needs polishing for parallel grammatical structure.

Thank you for your consideration.

Sincerely,
Mary Jo Napoli, FSA, MAAA

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(3) Section 3.2.1, Designing, Building, or Developing the Model for the Intended Application and Section 3.2.5, Model Structure

I found the need for a more complete list of considerations in each of these sections, but the result was duplication. I suggest eliminating 3.2.5, “Model Structure” and moving it into 3.2.1; other approaches could be used. Here is a combined, expanded and slightly reorganized list. Suggested additions are italicized.

The actuary should consider how the structure of the Model meets its Intended Purpose. For example, where applicable and where appropriate for the Model’s Intended Purpose, the actuary should consider the following:

- which provisions and risks specific to a contract, plan or asset are material and appropriate to reflect in the Model, including consideration of factors which could change these risks over time;

- the degree of approximations used, including the Granularity and completeness of contracts, assets, or Model Inputs; event timing; replicating portfolios; and future company actions (such as selection of disinvestment assets);

- the causal relationships recognized;

- whether deterministic or stochastic results are needed and whether there is capability for stress testing, sensitivity analysis, and other identification of volatility around expected results;

- whether the projection of future results might be materially influenced by the existence of choices and options available to the Organization and its members (that is, company management and policyholders, or plan sponsors and plan participants) and counterparties (such as debtors whose bonds are assets of the Organization);
f. whether the time needed to complete a Realization will meet the Intended Purpose;

g. **whether the adaptability and flexibility of each aspect of the Model will meet the Intended Purpose**

h. **whether the Implementation needs to be compatible with other Implementations (such as administrative systems and Models to be integrated with the one under consideration)**

i. **whether the Organization has the resources to use and maintain the Model for its Intended Purpose; and**

j. whether documenting the rationale for any of the above would be appropriate.