

Comment #23 – 9/27/13 – 12:57 p.m.

Comments on proposed ASOP for Modeling

Requested comments:

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

The ASOP appears to be at an appropriate level of detail for an area which has a broad area of practice. I would strongly urge the Academy to create a practice not group to develop and take a practice note on this topic through at least two iterations. That exercise will point out any insufficiencies that may eventually need to be addressed.

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

Section 3.1.3 allows for deviation even in circumstances where the where the effect is material provided disclosure is made. In my opinion, deviation with disclosure allows flexibility. Should new developments emerge that consistently require deviation; that would indicate the need to update the ASOP. I would be incumbent on the members who are seeing deviations consistently to raise this with the ASB.

3. The draft ASOP starts with a wide scope, but allows the actuary to use professional judgment to identify those instances (such as those involving minimal reliance by the user, or resulting in a non-material financial effect) where some guidance described in this ASOP is not appropriate or practical. Is this clear and appropriate?

I completely agree that professional judgment in many instances as described is completely appropriate. However, the disclosure that the professional judgment caused a deviation from the guidance is worthwhile as it requires the actuary to lay out their decision-making process. That effort is never wasted.

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?

What is not material at one point in time may become material in the future. If the model is TRULY a one-off exercise that will not be repeated and the results are ‘not material,’ then a non-disclosure should cause no issues. However, any model which will be used on a continuing basis should have its deviations disclosed. However, the frequency of the disclosure may be something that could be altered – however, it comes down to the fact that this is protection for the actuary and we should recognize that the protection/‘safe harbors’ do require an effort on our part to be reached.

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?*

I saw the following significant mentions of documentation – 3.2.2, 3.2.4.c, 3.2.7e, 3.6. They give a very general view of what documentation should cover and is at an appropriate level for an ASOP. A practice note would be an appropriate to provide more information about documentation as well as discussing ‘best practices.’

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?*

The use of an alternative font does significantly improve readability and clarity. Whether it is the bold font or possibly italic or other alternative font, I have no opinion. Whatever is decided, it should be standardized across all the ASOP’s. It may make sense to reformat prior ASOP’s using the decided standard once a decision is reached.

Additional comments:

- It might be worthwhile to clarify the difference between precision and accuracy in the context of granularity (2.3). Note this paragraph from Wikipedia:

In the fields of science, engineering, industry, and statistics, the accuracy of a measurement system is the degree of closeness of measurements of a quantity to that quantity's actual (true) value. The precision of a measurement system, also called reproducibility or repeatability, is the degree to which repeated measurements under unchanged conditions show the same results. Although the two words precision and accuracy can be synonymous in colloquial use, they are deliberately contrasted in the context of the scientific method.

I am uncertain whether the author is referring to precision in the context of granularity or is accuracy the more pertinent term.

- Margin (2.8) should be applicable to an assumption but not to data as the ASOP defines the two terms.
- It may be worth demonstrating with examples the thoughts behind the differences between data, assumptions and parameters. The few examples under the definition of parameter are insufficient. A common understanding is important.
- Section 3.1.2 – An important question is how does an actuary show (through documentation) the three understandings of a model which they have not developed.
- Section 3.1.3 – I am concerned that the standard of ‘material’ regarding disclosures about deviations may potentially be too loose. Materiality changes over time (especially in the accounting definition) and disclosure, unless required to be done periodically for a ‘re-used’ model, could potentially never occur.

- Section 3.6 – The discussion of ‘retention’ has no parameters. Could this potentially be interpreted as unlimited? I suggest some reference to requirements associated with where results are used or a default of X years.
- Section 4, in general – Disclosures should in general be occurring, situation where they do not should be significantly limited.

--Michael DuBois