

ASOP No. 44—September 2009

Appendix 2

Comments on the Fourth Exposure Draft and Responses

The fourth exposure draft of this proposed ASOP was issued in August 2006 with a comment deadline of March 1, 2007. Five comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes. Summarized below are the significant issues and questions contained in the comment letters and the responses to each. The term “reviewers” includes the Pension Committee and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the fourth exposure draft.

GENERAL COMMENTS	
Comment	Several commentators suggested various editorial changes in addition to those addressed specifically below.
Response	The reviewers implemented such changes if they enhanced clarity and did not alter the intent of the section.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.4, Effective Date	
Comment	One commentator believed the effective date should be extended until regulations concerning asset valuation methods are issued under the Pension Protection Act of 2006.
Response	The reviewers disagree and made no change. Section 1.2 addresses how to reconcile any discrepancies between applicable law and this standard.
SECTION 2. DEFINITIONS	
Section 2.4, Market Value	
Comment	One commentator suggested that the definition be revised to capture the nuance that market value is technically not the price for which an asset might potentially be sold (the “bid price”), but rather the last price for which a security was sold. The commentator recommended that the proposed standard state that the actuary may rely on brokerage statements for market value and is not required to ascertain the difference between bid price, asked price, and last sales price.
Response	The reviewers believe that the current definition, which is based on the definition of “fair value” in Statement of Financial Accounting Standards No. 157, <i>Fair Value Measurements</i> , is appropriate and made no change.

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Section 2.6, Prescribed Asset Valuation Method	
Comment	One commentator recommended that the definition be revised to include asset valuation methods selected by principals other than plan sponsors.
Response	The reviewers note that the definition is intended to be limited to those situations in which the plan sponsor is given responsibility for selecting an asset valuation method by law, regulation, or accounting standards. Thus, an asset valuation method selected by the plan sponsor or other principal in other circumstances – determining the cost of a benefit increase during collective bargaining, for example – would not be considered a prescribed asset valuation method. Hence, the reviewers made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2.6, Additional Considerations	
Comment	One commentator wrote that item (a) could be interpreted to mean that the actuary should not consider a plan’s actual investment practices when the plan has a stated investment policy. The commentator suggested that a plan’s actual investment practices should always be considered, regardless of whether the plan has a stated investment policy.
Response	The reviewers agree and changed the wording accordingly.
Section 3.3, Relationship to Market Value, and 3.4, Further Considerations for Methods Other Than Market Value (now 3.3, Selecting Methods Other Than Market Value, and 3.4, Using Methods Other Than Market Value)	
Comment	One commentator pointed out that the title of section 3.4, Further Considerations for Methods Other Than Market Value, was misleading because the section required disclosure of characteristics of asset valuations other than market value. The commentator recommended changing the section’s title to correspond to the content of the section.
Response	The reviewers agree and renamed sections 3.3 and 3.4 to be consistent with the guidance provided in those sections. In addition, the reviewers clarified that the considerations in section 3.4 are intended to apply to all asset valuation methods other than market value, whether selected by the actuary or selected by others.

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Section 3.4.1, Bias	
Comment	<p>One commentator disagreed with the requirement that the actuary disclose that an asset valuation method has significant systematic bias, believing that a full description of the asset valuation method is sufficient for the user to determine if the method is biased.</p> <p>The commentator also wrote that it is inappropriate for the proposed standard to require the actuary to disclose that a prescribed asset valuation method has bias, as it puts the actuary in a position of evaluating whether a required method has characteristics that could be considered undesirable.</p> <p>Finally, the commentator noted that the word “bias” is often used to describe the introduction of error into a statistical sample, and pointed out that describing an asset valuation method as having “significant systematic error” suggests that the use of that asset valuation method is inappropriate and that the actuary should not perform the assignment.</p> <p>Two commentators supported the requirement that the actuary disclose that an asset valuation method has significant systematic bias.</p>
Response	<p>Regarding the first point, the reviewers do not believe that a full description of a biased asset valuation method is always sufficient for all intended users to recognize that the method has bias. The reviewers revised section 4.1.5 to provide an example of a disclosure that describes significant systematic bias as a characteristic of the asset valuation method without the use of the word “bias.”</p>
Comment	<p>One commentator noted that the appropriate assumption in paragraph (a)(2) is that market values experience <i>expected returns</i> rather than <i>constant returns</i>.</p>
Response	<p>The reviewers agree and made the recommended change. A similar change was made in section 3.3(b)(2).</p>
Comment	<p>Three commentators wrote that paragraph (b) was vague and inappropriate.</p> <p>One commentator pointed out that paragraph (b) could be read to imply that any change in asset valuation method produces systematic bias if the new method results in a greater actuarial value of assets than the old method.</p> <p>One commentator was concerned that paragraph (b) required information about past changes in the asset valuation method that might not be available to the actuary. The commentator recommended that disclosure of significant systematic bias be limited to the future operation of the asset valuation method rather than the application of the asset valuation method in the past.</p> <p>Another commentator pointed out that paragraph (b) could be read to imply that many changes in asset valuation method that are decided upon after the relevant measurement date could have been influenced by market experience subsequent to the measurement date and be deemed biased.</p>
Response	<p>The reviewers agree that paragraph (b) was problematic and deleted it. Instead of considering whether changes in the asset valuation method produce systematic bias, the standard now requires the actuary to disclose the reason for any changes in asset valuation method (section 4.1.3).</p>
Section 3.6, Reviewing the Asset Valuation Method	
Comment	<p>One commentator recommended adding a reference to changes in relevant law, regulations, or accounting guidance.</p>
Response	<p>The reviewers agree and made the change.</p>

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SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1.4, Prescribed Asset Valuation Method	
Comment	One commentator opposed the requirement that the actuary disclose that, in the actuary’s professional judgment, an asset valuation method prescribed by the plan sponsor is not reasonable in light of the purpose of the measurement even though a regulator has approved the general use of that asset valuation method.
Response	The reviewers note that the standard requires the actuary to evaluate whether the prescribed asset valuation method selected by the plan sponsor is <i>reasonable for the purpose of the measurement</i> , and did not believe that general approval of an asset valuation method by a regulator indicates that the use of that method is reasonable for every measurement.
Section 4.1.6, Different Treatment of Realized and Unrealized Gains and Losses	
Comment	One commentator suggested that this section require disclosure of the possible consequences of treating realized gains and losses differently from unrealized gains and losses.
Response	The reviewers agree and made the change.
Appendix 1, Background and Current Practices	
Comment	One commentator wrote that the relevance of the appendix wasn’t clear and that it seemed unnecessary. The commentator also noted that the appendix incorrectly equated the use of market value with financial economics.
Response	The reviewers note that the appendix is provided for informational purposes and is not part of the standard. It is intended to describe current actuarial practice. However, the reviewers agree that the appendix incorrectly implied that traditional actuarial practice involved only the use of asset valuation methods other than market value, and that actuaries who apply the principles of financial economics were the only actuaries who use market value. The reviewers revised the appendix to correct this.

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