

Note: This document is no longer in effect.
Interpretative Opinion No. 3 was repealed in 2002; It was replaced by ASOP No. 41,
Actuarial Communications. Interpretative Opinion No. 4 was repealed in 2001.

**INTERPRETATIVE OPINION 3:
PROFESSIONAL
COMMUNICATIONS OF ACTUARIES**

and

**INTERPRETATIVE OPINION 4:
ACTUARIAL
PRINCIPLES AND PRACTICES**

**Adopted 1970-1982 by the
American Academy of Actuaries**

**Republished 1992 by the
Actuarial Standards Board**

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April 1992

TO: Members of Actuarial Organizations Governed by the *Code of Professional Conduct* and the Standards of Practice of the Actuarial Standards Board

FROM: Actuarial Standards Board (ASB)

SUBJ: Republication of *Interpretative Opinions 3 and 4*

The *Guides and Interpretative Opinions as to Professional Conduct* have in large part been replaced by the *Code of Professional Conduct*, which took effect January 1, 1992, except for *Interpretative Opinions 3 and 4*. These two *Opinions* were left out of the new *Code* because they were considered to deal with matters of professional practice more than professional conduct.

Because of the important guidance the two *Opinions* offer to actuaries, and because a number of standards of practice make reference to the, the board has decided that they should stay in print unless and until replaced by other standards. Accordingly, they are republished in this booklet, and should be placed in the Appendixes section of the actuarial standards handbook.

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INTERPRETATIVE OPINION 3: PROFESSIONAL COMMUNICATIONS OF ACTUARIES

(Adopted 1970; Revised 1981)

INTRODUCTION

This Opinion applies to all written communications by actuaries on actuarial subjects and, unless clearly inapplicable, to oral communications as well.

OPINION

(a) *Communications.*

(1) *Important Kinds of Communications.* Several kinds of actuarial communications are of such importance as to warrant specific mention:

- (i) *Statement of Actuarial Opinion.* A statement of actuarial opinion is a formal statement of the actuary's professional opinion on a defined subject. It outlines the scope of the work but normally does not include descriptive details. The actuary takes responsibility for the opinion expressed, and must stand ready to answer for it.
- (ii) *Actuarial Report.* An actuarial report is a document, or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, to record and communicate the methods and procedures, and to ensure that the parties addressed are aware of the significance of the actuary's opinion or findings. An actuarial report customarily should describe or identify the data, assumptions, and methods used with sufficient clarity that another actuary practicing in the same field could make an objective appraisal of the reasonableness and validity of the report.
- (iii) *Statement of Actuarial Review.* A statement of actuarial review is a formally communicated appraisal of actuarial work done by another person. The actuary who signs a statement of actuarial review for public use or reliance must be free of any material financial or organizational relationship with any person whose work is being appraised or with that person's client, employer, or other affiliate. A statement of actuarial review which is not to be communicated to third parties by the client or

the employer, and which within its own text is identified as such, is not a “statement of actuarial review for public use or reliance,” and financial or organizational independence is not required.

- (iv) *Required Actuarial Document.* A required actuarial document is an actuarial communication of which the formal content is prescribed by law or regulation. A required actuarial document should meet the guidelines for an actuarial communication as well as those standards required by law or regulation.
 - (2) *Forms and Content.* The form and content of any actuarial communication should meet the needs of the particular circumstances, taking into account the knowledge and understanding of the users and the actuary’s relationship to the users.
 - (3) *Non-Independence.* Any actuarial communication made by an actuary who is not financially or organizationally independent concerning any matter related to the subject of the communication should disclose any pertinent relationship which is not apparent.
 - (4) *Reliance on Another.* An actuary who makes an actuarial communication assumes responsibility for it except to the extent the actuary disclaims responsibility by stating reliance on another person. Reliance on another person means making use of that person’s work without assuming responsibility therefor. A communication making use of any such reliance should define the extent of reliance.
 - (5) *Responsibility for Written Actuarial Communication.* Any written actuarial communication must be signed with the name of the actuary who is responsible for it. The name of an organization with which the actuary is affiliated may be incorporated into the signature, but the actuary’s responsibilities and those of the organization are not affected by the form of the signature.
- (b) *Users.*
- (1) *Direct Users.* A client or employer is the direct user of the actuary’s service, distinguished from an indirect user in that the direct user has the opportunity to select the actuary and is in a position to communicate directly with the actuary about qualifications, work, and recommendations.
 - (2) *Indirect Users.* Information prepared by an actuary may be used by another person in a way which may influence the actions of a third party. If such information is to be conveyed to any such indirect users by someone other than

the actuary, the actuary should recognize the risk of misquotation, misinterpretation, or other misuse of its actuarial aspects. The actuary should take all reasonable steps to ensure that the actuarial material is presented fairly, that the presentation as a whole is clear in its actuarial aspects and that the actuary is identified as the source of the actuarial aspects and as the individual who is available to answer questions.

- (3) *General Responsibility to Users.* An actuary has a responsibility to direct users, to whom the actuarial communications are generally directed. An actuary's obligation to observe standards of professional conduct is the same for indirect users as for direct users and whether acting as a consultant or as an employee.
- (4) *Protecting the Interests of Indirect Users.* The actuary does not normally have an obligation to communicate with any person other than the client or employer. If aware of any significant conflict between the interests of indirect users and the interests of the client or employer, the actuary should advise the client or employer of the conflict and should include appropriate qualifications or disclosures in any related actuarial communication.

(c) *Miscellaneous.*

- (1) *Conflict with Professional Judgment.* If the service requested by a client or employer produces a result which conflicts materially with the actuary's professional judgment, the actuary should advise the client or employer of the conflict and should include appropriate qualifications or disclosures in any related actuarial communication.
- (2) *Advocacy.* When an actuary acts, or may seem to be acting, as advocate for a client or employer, the nature of that relationship should be disclosed to directly interested parties. The actuary should support the position of the client or employer only to the extent the actuary is satisfied that that position is professionally supportable, recognizing that honest differences of opinion may exist. The actuary's professional judgment should not be subordinated to the judgment of others.
- (3) *Responsibility Not Dependent on Fee.* The waiving of a fee for professional services, either partially or totally, does not relieve the actuary of the need to observe professional standards.
- (4) *Documentation.* Records and other appropriate documentation of the actuary's work should be maintained by the actuary and retained for a reasonable period of time. Documentation should be sufficiently complete so that another actuary practicing the same field could follow the work.

- (5) *Availability of Documentation.* Documentation should be available to the actuary's client or employer, and it should be made available to other persons when the client or employer so requests, assuming appropriate compensation and provided such availability is to otherwise improper. In the absence of specific agreement between an actuary and the client or employer, ownership of documentation is normally established by law.
- (6) *Obligation Imposed by Law.* Laws and regulations may establish restraints and obligations on the part of the actuary toward designated publics. The requirements of laws and regulations are binding; but when such requirements are in conflict with professional standards, they should be recognized as flowing directly from the laws and regulations and not from professional considerations.

INTERPRETATIVE OPINION 4: ACTUARIAL PRINCIPLES AND PRACTICES

(Adopted 1982)¹

INTRODUCTION

A requirement common to all actuarial procedures is that assumptions and methods be selected and applied with integrity, informed judgment and perspective in relation to the circumstances applicable to the particular situation and the purpose for which the results are intended. Assumptions and methods may appropriately be different in calculations related to the same period or moment in time but intended for different purposes. It therefore would be inappropriate to prescribe inflexible guides for the performance of the actuary's work.

On the other hand, there is merit in adopting statements of principles relating to the appropriate application of actuarial science in its various aspects. The making and the observing of such statements tends to minimize both the possibility of misunderstanding or misinterpretation by those who rely on the actuary's work and the likelihood of need for disciplinary action under the Academy's Bylaws.

The Opinion addresses the question of soundness or principles and practices used by the actuary as distinct from "actuarial soundness" of a specific financing arrangement. "Actuarial soundness" is neither an absolute nor a unique concept, but must be considered in relation to the problem at hand and the accuracy with which future experience can be predicted. Therefore, general opinions as to "actuarial soundness" should be avoided, wherever possible, and an opinion as to the adequacy of a given financing arrangement with respect to specifically defined objectives, assumptions or requirements should be substituted, where appropriate, or otherwise be appended.

¹ Revised in 1990 to reflect the creation of the Actuarial Standards Board.

OPINION

(a) *Generally Accepted Actuarial Principles and Practices.*

Guide 4(b) requires the actuary to “exercise due diligence to ensure. . .that the methods employed are consistent with the sound actuarial principles and practices established by precedents or common usage within the profession. . .” Such “sound actuarial principles and practices” constitute Generally Accepted Actuarial Principles and Practices.

(b) *Sources of Generally Accepted Actuarial Principles and Practices.*

Sources of Generally Accepted Actuarial Principles and Practices emerge from the utilization and adoption of concepts described in actuarial literature. Such literature includes, but is not limited to, the Actuarial standards and Actuarial Compliance Guidelines adopted by the Actuarial Standards Board, the Recommendations and Interpretations published under the auspices of the American Academy of Actuaries²; the professional journals of recognized professional actuarial organizations (including the Statements of Principles promulgated by the Society of Actuaries and the Casualty Actuarial Society); recognized actuarial textbooks and study materials; and applicable provisions of law and regulations; and may include standard textbooks or other professional publications in related fields such as mathematics, statistics, accounting, economics and law.

(c) *Standards of Practice and Compliance Guidelines.*

An actuary working in a specialized field should take into consideration any published Standard of Practice or Compliance Guideline of the Actuarial Standards Board.

An actuary who uses principles or practices which differ materially from any published Standard of Practice or Compliance Guideline must be prepared to support the particular use of such principles or practices and should include in an actuarial communication appropriate and explicit information with respect to such principles and practices.

An actuary may wish to take into consideration an exposure draft of other version of a proposed Standard of Practice or Compliance Guideline. Any such proposed Standard of Practice or Compliance Guideline is subject to withdrawal or to revision prior to adoption. If an actuary uses any such proposal it should be identified clearly as such, and measures should be taken to assure that the user appreciates the possible consequences of using a proposal that is subject to withdrawal or revision.

² In July 1988, the Actuarial Standards Board became the authority establishing actuarial standards of practice. The AAA Recommendations and Interpretations were determined by the ASB to be actuarial standards of practice, to remain in force until replaced by new standards adopted by the ASB.

When dealing with a specific situation not covered by a published Standard of Practice or Compliance Guideline, the actuary should be aware of relevant precedent and generally available literature in deciding what constitutes Generally Accepted Actuarial Principles and Practices.

(d) *Professional Judgment Prevails.*

In all cases the professional judgment of the actuary should prevail.