



AMERICAN ACADEMY of ACTUARIES

Objective. Independent. Effective.™

December 31, 2015

ASOP No. 21 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-5805

Re: Comments on Exposure Draft of Proposed Revision to ASOP No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*

Members of the Actuarial Standards Board:

On behalf of the American Academy of Actuaries'¹ Pension Accounting Committee (“the Committee”), I am pleased to present the following comments to the Actuarial Standards Board (ASB) regarding this exposure draft. The Pension Accounting Committee’s mission is to bring to the public and the United States actuarial profession expertise regarding financial reporting for retirement plans. We appreciate the hard work of the ASB on the development of actuarial standards of practice (ASOPs) for the actuarial profession.

While the transmittal memorandum for this exposure draft identified four questions in particular to focus upon, the Committee approached issues related to those questions and others in a slightly different format. However, the comments below partially address question 3, responsibilities of the reviewing actuary and responding actuary, and question 4, guidance to the reviewing actuary and responding actuary.

Scope and Planning

Paragraph 3.1.2

Paragraph 3.1.2, Informing the Responding Actuary, states that “the reviewing actuary should, to the extent practical, inform the responding actuary about the scope and timing” of the review procedures and the type of information that will be requested.

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

In the experience of members of this committee, it is rare for the reviewing actuary to communicate with the responding actuary at this stage of an audit. In practice, it is typical for the responding actuary to be contacted by either the entity or a member of the core auditor team who is not the actuary or other specialist. In many cases, the entity or auditor team will want to maintain control of the communication process.

Paragraph 3.1.2 qualifies this practice with the phrase “to the extent practical.” This phrase may be sufficiently broad to cover the possibility that the desire of the entity or auditor team to manage communication between the reviewing actuary and responding actuary would make this direct communication impractical. However, the inclusion of communication between the two actuaries in this exposure draft implies that such direct communication is either more common than it is, or that it will become more common.

We suggest amending Paragraph 3.1.2 to explicitly allow that such communication can come through the entity or auditor team. If the ASB has concerns about communication from the reviewing actuary coming through the entity, perhaps it will be sufficient to allow such communication to come through the auditor team.

Practical vs. Practicable

Paragraph 3.1.2 uses the phrase “to the extent practical.” Paragraphs 3.1, 3.5.1, and 3.5.2 all say “to the extent practicable.” Because “practicable” is a synonym of “feasible,” we believe Paragraph 3.1.2 should be changed to “to the extent practicable,” and that the other three paragraphs are correct.

Paragraph 3.1.1

It appears to us that a comma should precede the phrase “as well as,” after “financial examination.”

The reviewing actuary should understand the relevant aspects of the scope of the financial audit, financial review, or financial examination, as well as the auditor’s or examiner’s expectations regarding the nature, extent, and timing of the reviewing actuary’s procedures, including how the results will be communicated.

A comma would make this section consistent with Paragraph 2.3, the definition of Entity:

Entity—An institution, company, corporation, partnership, government agency, university, employee benefit plan, or other similar organization that may be subject to a financial audit, financial review or financial examination, as well as the individuals who are authorized to act on behalf of the organizations.

The underline is added for emphasis in both paragraphs above.

In a sampling of other ASOPs, a comma preceded “as well as” more often than not.

Request for Information

Paragraph 3.5.1

Paragraph 3.5.1, Information Request Communication, says that, “to the extent practicable, the reviewing actuary should communicate with the responding actuary about the time frame” of the information request.

This is similar to the issue with Paragraph 3.1.2, where (in our collective experience) a specialist such as the reviewing actuary rarely (if at all) communicates directly with the responding actuary at this stage of the review process. The reviewing actuary is likely to communicate with a member of the auditor team who deals directly with the entity, and that person would then relay the communication to the responding actuary.

Again, the phrase “to the extent practicable” could make this language broad enough to cover indirect communication, but it would be clearer if Paragraph 3.5.1 explicitly stated that the communication can come through the entity or auditor as intermediaries.

Paragraph 3.5.6

Paragraph 3.5.6, Confidentiality, in the exposure draft is changed from Paragraph 3.4 of the current version of ASOP No. 21. The guidance in this exposure draft is more complete and is, in general, an improvement over the previous guidance. However, one important aspect from the current version of ASOP No. 21 is missing from the version in this exposure draft:

“Any information received by the reviewing actuary should be considered confidential, except as to the auditor or examiner, unless otherwise indicated by the entity.”

The implication in this passage from the current version of ASOP No. 21 is that the reviewing actuary should presume that all information acquired in the course of the review is confidential, unless he or she is specifically told otherwise. Although implied by the definition in the last sentence of Paragraph 3.5.6, this presumption of confidentiality is not explicitly included in the exposure draft.

The presumption of confidentiality protects the entity. It also protects the reviewing actuary from having to determine whether or not information is in the public domain. Therefore, we respectfully request that the above or similar language continue to be included to further clarify for the reviewing actuary the scope of what should be considered confidential information.

The Pension Accounting Committee appreciates the opportunity to comment on this matter and would be happy to discuss any of these items with you at your convenience. Please contact

Matthew Mulling, pension policy analyst (mulling@actuary.org; 202-223-8196) if you have any questions or would like to discuss these items further.

Sincerely,

Francis Ratna, MAAA, FSA, FIAA
Vice Chairperson, Pension Accounting Committee
American Academy of Actuaries