

ROSS HEALTH ACTUARIAL

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December 30, 2015

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Re: ASOP 21 – Exposure Draft Comments – Audits etc.

Dear Board Members:

Scope Limitation – Mergers and Acquisitions, IPO's

I suggest the ASOP scope be clarified. Actuaries can provide valuation services which are similar in effect to the obvious scope of the ASOP. Given the very high potential for litigation in the M&A and IPO arena, it would be helpful if the ASOP would explicitly state whether it applies.

Please note that I am indifferent as to whether the ASOP would apply. However, I feel it would be beneficial to be explicit on this point.

Definitions of Responding and Reviewing Actuary - Principal

The definitions 2.10 and 2.11 of the responding and reviewing actuary might be simplified. Specifically:

- The responding actuary is the actuary whose principal is the entity being audited, reviewed, etc.
- The reviewing actuary is the actuary whose principal is the auditor or examiner etc.

The Precepts invoke the ASOP's with respect to actuarial work, which is provided with respect to a principal. Referring to the principal in the definitions 2.10 and 2.11 would be a more immediate and direct application of the Precepts/ASOP's framework.

Conflict of Interest

Item 3.3 requires disclosure of potential conflicts by the reviewing actuary. I would argue that this applies equally to the responding actuary. Although this may be relatively less likely or infrequent, limiting this disclosure to the reviewing actuary doesn't seem right. One could note that the Precepts adequately cover this point for the responding actuary. However, this observation would suggest that item 3.3 is not needed at all.

Communication

Item 3.4 describes communication from the responding actuary, including:

- “The responding actuary may involve other individuals in responding to the auditor or examiner.”

My comment here concerns whether the communication from the responding actuary is “unfiltered.” This goes to basic Precept issues regarding control of work product, and concerns that the work is not used to mislead others. Even disregarding a principal intent on deception, there remains the possibility of miscommunication and misinterpretation.

You may want to consider clarification on this point.

General

To some extent, the ASOP may exceed the general scope and tone of an ASOP by being overly prescriptive, and by addressing points which are not essentially matters of actuarial practice. For example, item 3.5.3 discusses disagreements on provision and use of information. The standard either goes too far, or not far enough:

- The reviewing actuary should request information that is necessary as a matter of actuarial practice. The ASOP’s will generally address this point.
- There may be a difference of actuarial opinion as to what information is necessary. The Precepts, and Annotation 10-1, address this point.
- As such, the 3.5.3 wording goes too far.

Conversely, 3.5.3 provides inadequate guidance:

- What if the disagreement remains, and some data is not provided?
- What disclosure is required? Does this result in a qualified opinion? Does the qualified opinion result in a qualified audit opinion?
- Suppose, in the opinion of the reviewing actuary, the need for the requested information passes a “bright line” test, and is not simply a matter of a difference in actuarial opinion. Assuming the refusal to provide the data emanates from the responding actuary, is there an unresolved material violation of the ASOP’s?
- If so, the draft ASOP does not state whether the audit/review is an “adversarial environment.” This point would determine the responsibility of the reviewing actuary to report the situation to the ABCD under Annotation 13-2 of the Code.

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If you have any questions, please contact me at (715) 381-1345.

Respectfully submitted,

A handwritten signature in blue ink that reads "Timothy M. Ross". The signature is written in a cursive style with a large, stylized 'T' and 'R'.

Timothy M. Ross, FSA, MAAA