

Comment #16 – 10/28/16 – 8:54 p.m.

1. Section 1.1 includes “developing”. We’re not clear on what this entails, given that you already have designing, building, and modifying in that sentence. We’d suggest deleting it, or, if there’s another aspect we’re not seeing, explaining that other aspect somewhere—maybe Appendix 2 in response to this comment. (Same issue in 3.3 and probably elsewhere.)
2. Section 2.12: We infer from this definition that a simple model is one that is pointless because you either can already predict the result or can readily get the info somewhere else. That’s a strange definition, since then why would you bother having the model? We agree that the concept of excluding simple models (in the normal sense of the term) from the scope of the ASOP is sensible, but by defining the term in such an unusual way, the ASOP would still cover a model as simple as calculating an annuity factor. Pension actuaries use that model numerous times each day—it’s already been selected, evaluated, etc.—and forcing you to go through the ASOP requirements for what should be a one or two minute task is not sensible. Providing examples of simple models might also be useful.
3. Section 3.1, second paragraph. The need to disclose something in the situations described in this paragraph presents difficulties. For example, consider a scenario where a client calls and asks for a rough, nonbinding guesstimate as to how many people will retire in each of the next 10 years. The actuary builds a quick model to do that, and relays the info to the client. It’s non-material and not heavily relied upon, so would seem to fall under this par. But are you supposed to notify the client that the model was not deemed subject to the guidance of the ASOP? They won’t know what you’re talking about and won’t care and will wonder why you’re bothering to tell them that. Now suppose that the client comes back to you and asks for the same info, but assuming that x number of people are laid off in the next year. So you modify your model and provide the figures. Are you going to tell the client once again that it’s not subject to standards? At that point this not very useful disclosure will start becoming an annoyance to the principal and make actuarial standards look silly.

And what happens in a situation where you have a more complex project, and you create a model to get information that you will need to perform the next step of the project? Do you disclose to yourself, or do you prepare a list of similar models that were all created for this project and disclose them all? It just seems like busy work that benefits no one except attorneys looking for some way to pin the actuary with a technical violation of standards.

Lastly, if my boss—another actuary—assigns me the task of creating a model whose results she will then use to perform the next step of the project, how would I know whether the results will have a material financial effect, and even

if I did, how would I document that I disclosed to my boss that the model was not subject to guidance in the ASOP?

We think it would make more sense here to have the requirement be that the actuary consider whether disclosing this information is useful in the given situation.

Submitted by,

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