

ASB Comments
American Academy of Actuaries
1850 M Street, NW Suite 300
Washington, DC 20036

Subject: Comments on Proposed Actuarial Standard of Practice on Setting Assumptions

Dear Sir or Madame:

We would like to thank the Task Force for their efforts in preparing the proposed standard, and we appreciate the opportunity to provide comments. The opinions represent only those of the undersigned, and do not represent the position of our employer.

In general we support the creation of this standard. Our answers to the specific issues requested are as follows:

1. *In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. The standard addresses this issue by including such methodology in the discussion of "assumptions" in section 1.2. Is this sufficiently clear?*

A definition of "assumption" and a definition of "methodology" would make this clearer. Citing an example of when they are separable and when they are not might be helpful (e.g. if the methodology is a "risk-neutral valuation", then a portion of the discount rate assumption is determined to be risk-free rates. Conversely, a "real-world valuation" would give much more flexibility in setting the discount rate assumption with respect to the methodology).

2. *Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?*

Yes, it does provide appropriate guidance.

3. *Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?*

Yes, it is clear.

4. *Would it be helpful to define additional terms in section 2? If so, what terms?*

As stated in (1), a definition for "assumption" and "methodology" would be helpful. Further, given the amount of guidance on "consistency", the board might consider whether the common meaning for "consistency", whatever this might be, is sufficient, or whether a definition is necessary. Finally, the definition for "data" should be aligned with the new definition in ASOP 23.

Where it is difficult to define terms, it is helpful to give examples.

5. *Is the guidance in section 3.1.3(b) that the actuary should consider the reasonableness of the results from using the assumptions, and not simply the reasonableness of each individual assumption, clear and appropriate?*

Yes, we believe they are clear and appropriate.

6. *Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?*

Yes, however the board might consider a statement concerning the fact that a higher degree of uncertainty for an assumption, might lead to more need for sensitivity testing. Similarly, an example of when sensitivity analysis may not be as necessary, such as when it is known from prior analysis to be of low risk, or materiality, with respect to the final work product.

7. *Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?*

Yes, we believe they are clear and appropriate.

Again, thank you for the opportunity to comment.

Sincerely,

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