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Setting Assumptions
Actuarial Standards Board
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Dear Assumptions Setting Task Force:

Deloitte & Touche LLP and Deloitte Consulting LLP are pleased to respond to the request for comments from the Actuarial Standards Board (ASB) on its exposure draft for the proposed Actuarial Standard of Practice (ASOP) regarding setting assumptions.

As external auditors and actuaries that support audit teams as actuarial specialists, we support ASB's efforts to provide additional guidance on setting assumptions. We are generally supportive of the draft standard, and offer the following comments for your consideration.

RESPONSES TO THE ASB'S REQUESTS FOR COMMENTS

1. *ASB Request 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? We believe including methodology in the discussion of assumptions is sufficiently clear.*
2. *ASB Request No. 2: Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified? We believe the proposed standard provides appropriate guidance across all practice areas.*
3. *ASB Request No. 3: Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved? We believe there could be more clarity on how the proposed standard handles conflicts with practice-specific ASOPs. We would respectfully suggest that the scope section could better clarify how this standard applies to ASOP 21 for the reviewing actuary. In addition, the standard might also address how the actuary should handle conflicts with standards promulgated by other professional organizations (e.g., PCAOB, SEC, FASB).*
4. *ASB Request No. 4: Would it be helpful to define additional terms in section 2? If so, what terms? We believe it might be helpful to define the terms "material" and "consistent." With respect to term "material," we note first that materiality is defined in ASOP 1. However, since this proposed ASOP mentions audits and the PCAOB, we would respectfully suggest that more clarification could be given on how ASOP 1's definition of materiality reconciles to the PCAOB definition of materiality and how materiality, as defined by ASOP 1, is used to determine a "significant assumption" as defined in the auditing standards. The term "consistent" is used throughout the draft standard, but we believe the intent of this term could be clarified; i.e., is it sufficient for the assumptions to be consistent with each other, or should the actuary also be required to consider external factors?*
5. *ASB Request No. 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? We believe the guidance to consider the reasonableness of the results is clear. However, we think there could be further clarification regarding the responsibilities of a reviewing actuary if the results are not reasonable.*

6. *ASB Request No. 6: Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?* We believe Section 3.2 appropriately addresses the use of sensitivity analysis but we would note that the disclosure requirements, if any, of any alternative assumptions or results of sensitivity analysis performed does not appear to be addressed in Section 4 of the proposed standard.
7. *ASB Request No. 7: Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?* We believe the standard is clear and appropriate, but respectfully suggest that it would be helpful to also have guidance regarding how to disclose sufficient detail around assumptions derived from proprietary sources. We are concerned that it is unclear what is intended by limiting disclosure of rationale to "if necessary for this purpose."

OTHER COMMENTS

In Section 1, we believe that tying the effective date of this guidance to the issuance date of a report would provide better consistency in the time of implementation than tying to the information date where there could be a significant lag between the information date and the issuance date.

In Section 3, we have the following specific questions and concerns that we would ask you to consider:

- 3.1.1(c): To what extent is the actuary required to find/discover available and relevant information?
- 3.1.2: How is a deficiency in data defined? Should the documentation include the rationale behind the method to make any data adjustments? Should the documentation of assumptions include support for why the adjustment is reasonable? If an adjustment is well known/used in actuarial work (i.e., another qualified actuary would know why/how the adjustment was made by simply naming it, e.g., Berquist Sherman adjustment), what further documentation if any would be needed?
- 3.1.3(c): What are the responsibilities of the actuary if it appears assumptions have been set to counteract the effect of assumptions prescribed by law? We have some concern that "ensure" may be too strong of a word to use in this section of the guidance. Especially in the case of a reviewing actuary, there may be difficulties in complying with this guidance as currently drafted.
- 3.1.4: We believe the standard should require the same disclosure for adjustments for projected favorable deviation as for projected adverse deviation. Additionally, we believe the standard should be clarified that both implicit and explicit adjustments should be disclosed.
- 3.4: We believe it is unclear what is required when relying on industry data. Actuaries often make the assumption that industry data is a good fit for the purpose used. However, the actuary is likely unable to assess whether the selected assumption is actually a reasonable representation of the industry. Must this reliance and uncertainty be disclosed?

In Section 4.1, our question is whether there is a need to call out "actuarial report." ASOP 41 would consider the totality of communications to be the "report" if there is no actual report issued. We believe that "actuarial communication" as used and defined as in ASOP 41 would appear to be sufficient. Also, in Section 4.1(a), we would suggest revising the standard to require disclosure of implicit adjustments as well as explicit.

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We appreciate the opportunity to provide these comments for your consideration. If you have any questions or would like to discuss these issues further, please contact Paul Drogosch of Deloitte & Touche LLP at (203) 761-3100 (pdrogosch@deloitte.com) or Judy Stromback of Deloitte Consulting LLP at (612) 397-4024 (jstromback@deloitte.com).

Sincerely,

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