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Setting Assumptions  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

April 30, 2017

Dear Actuarial Standards Board:

### **Comments on Setting Assumptions Exposure Draft**

We appreciate the opportunity to comment on the Proposed Actuarial Standard of Practice (“Proposed ASOP”), *Setting Assumptions*. Also, thank you to the Assumption Setting Task Force, the General Committee, and members of the Actuarial Standards Board (“ASB”) who invested their time and effort preparing and reviewing this Proposed ASOP.

KPMG’s responses to the specific questions posed by the ASB are included in Appendix I to this letter. The remainder of this letter covers our comments on specific areas of the Proposed ASOP.

#### **Reference to PCAOB**

The last sentence of the first paragraph in the background section in the cover letter to the Proposed ASOP references the Public Company Accounting Oversight Board (“PCAOB”). The PCAOB’s mission is to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. As such, the PCAOB does not have an oversight role of actuaries. Including the PCAOB reference suggests broader applicability of the Proposed ASOP than what appears to be intended (please see ASOP Scope). We suggest that the transmittal memorandum in the final ASOP does not include any reference to the PCAOB.

#### **ASOP Scope**

The Proposed ASOP provides guidance to actuaries when performing actuarial services that include setting assumptions or assessing the reasonableness of assumptions set by others (Section 1.1). The scope of this guidance could be interpreted very broadly and we recommend that it be clarified as noted below.

We do not believe that the Proposed ASOP was intended to apply to the reviewing actuary as described in ASOP 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*. Under ASOP 21, a reviewing actuary is assisting with the financial audit, financial review, or financial examination based on the auditor’s or examiner’s scope and expected procedures, including how the results will be communicated. We believe that ASOP 21 sufficiently covers the reviewing actuary role.



The third paragraph of Section 1.2 of the Proposed ASOP states that, if there is a conflict between the Proposed ASOP and other practice area or activity specific ASOPs that provide guidance on setting assumptions, then the practice area or activity specific ASOPs will govern. ASOP 21 does not appear to meet the Proposed ASOP language about conflicts since ASOP 21 does not provide guidance on setting assumptions. We believe the scope should more clearly identify to whom the Proposed ASOP applies and to whom the Proposed ASOP does not apply. We recommend that a sentence be added to Section 1.2 that reads: “This standard does not apply to actuaries when performing actuarial services under ASOP 21 as a reviewing actuary in connection with a financial audit or financial review in accordance with generally accepted auditing standards or a financial examination for the purpose of oversight of the financial condition of an entity.”

### **Reasonable in the Aggregate**

The Proposed ASOP guidance includes assessing whether a set of assumptions is reasonable in the aggregate. The guidance appears to be appropriate in most circumstances. However, the guidance is contrary to some U.S. GAAP guidance which requires the use of explicit assumptions. Under an explicit approach to assumptions, each significant assumption used reflects the best estimate of the plan's future experience solely with respect to that assumption. Assumptions for U.S. GAAP purposes may include “Prescribed Assumptions Set by Another Party.” Please consider adding “Prescribed Assumptions Set by Another Party” to the language in Section 3.1.3 in a manner that is similar to the existing “Prescribed Assumptions Set by Law” language:

3.1.3.b.2. - if one or more prescribed assumptions set by law are used, whether the results of the analysis are reasonable treating the **prescribed assumptions set by law** or prescribed assumptions set by another party as assumptions that are deemed reasonable and are independent of the other assumptions used.

3.1.3.c. - ensure that assumptions are not set for the purpose of counteracting the effect of **prescribed assumptions set by law** or prescribed assumptions set by another party.

3.1.3.d. - determine whether material assumptions, other than **prescribed assumptions set by law** or prescribed assumptions set by another party, are reasonably consistent. The actuary should disclose any material inconsistency, and the reasons therefor, in the actuarial communication in accordance with section 4.1(d).

### **Information Date**

The actuary should consider any material changes in conditions or experience that were known to the actuary by the information date. The information date is defined as the date through which data and other information have been considered in setting assumptions. It is possible that some actuaries may confuse the information date with the valuation date as the valuation date may precede the information date. We suggest adding clarifying language that distinguishes between the information date, the valuation date, and the interaction of the two with respect to assumptions.



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### **Other Comments**

The word “material” is used throughout the Proposed ASOP. “Material” is a subjective term that can have different meanings to different actuaries even when following the definition in ASOP 1 which also includes professional judgment. For example, two actuaries may have a different opinion on whether they view a particular assumption as “material.” Please consider adding clarity about what is and what is not considered “material.”

The last paragraph of Section 3.1.3.b. reads: “If the results of the analysis using the set of assumptions are not reasonable, the actuary should review the set of assumptions to determine whether adjustments are needed.” If the actuary decides that adjustments are needed, then what is the guidance for making adjustments? We recommend adding a sentence to indicate the actuary’s responsibility for action once needed adjustments are identified.

If you have any questions, please contact Dennis Polisner at (312) 665-5254 or [dpolisner@kpmg.com](mailto:dpolisner@kpmg.com), or Stephen Eisenstein at (312) 665-1489 or [seisenstein@kpmg.com](mailto:seisenstein@kpmg.com).

Very truly yours,

**KPMG LLP**



### Appendix I – Responses to Questions for Respondents

- 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?

Yes, the assumption and methodology language in Section 1.2 is sufficiently clear.

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

Yes, in general, the proposed standard provides appropriate guidance across all areas of practice. Please see our cover letter for our comments about guidance clarification in relation to the reviewing actuary role as defined in ASOP 21.

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

Yes, in general, the proposed standard provides guidance on conflicts with practice-specific ASOPs? However, the proposed standard appears to have inconsistencies with ASOP 21. Please see our cover letter for additional comments in relation to ASOP 21.

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

It would be helpful to include other additional terms in Section 2. We propose including additional defined terms for Assumption, Material or Materiality, Material Assumption, Methodology, Prescribed Assumptions Set by Another Party, and Principal.

- 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?

The guidance Section 3.1.3(b) is clear. However, it may not be appropriate in all situations. For example, the FASB Accounting Standards Codification<sup>®</sup> related to accounting for pension and other postretirement benefit plans under U.S. GAAP requires the use of explicit assumptions. Under an explicit approach to assumptions, each significant assumption used reflects the best estimate of the plan's future experience solely with respect to that assumption. The guidance in Section 3.1.3(b) appears to contradict the FASB Accounting Standards Codification<sup>®</sup>.

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

Yes, the proposed standard appropriately addresses sensitivity analysis.



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

The disclosures about assumptions and changes in assumptions in Section 4.1 of the proposed standard are clear and appropriate.

