



ACTUARIAL STANDARDS BOARD

•THIRD EXPOSURE DRAFT•

**Proposed
Actuarial Standard
of Practice**

Setting Assumptions

**Comment Deadline:
April 15, 2021**

**Developed by the
Assumptions Task Force of the
General Committee of the
Actuarial Standards Board**

**Approved for Exposure by the
Actuarial Standards Board
October 2020**

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TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Setting Assumptions

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Actuarial Standard of Practice (ASOP)

This document contains the third exposure draft of a proposed ASOP, *Setting Assumptions*.

Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive appropriate consideration by the drafting committee and the ASB.

The ASB requests comments be provided using the Comments Template that can be found [here](#) and submitted electronically to comments@actuary.org. Include the phrase “ASB COMMENTS” in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter. Also, please indicate in the template if your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of responses in the ASB office: **April 15, 2021**

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History of the Standard

Assumptions are fundamental to the actuarial services performed by actuaries across all practice areas. The importance of actuarial assumptions continues to increase in the Sarbanes-Oxley environment, since the National Association of Insurance Commissioners promulgated the Model Audit Rule, and with the increased use of principle-based reserves and capital. Actuarial measurements often enter financial statements directly and are an integral part of managing the risk of an entity. In addition, the Public Company Accounting Oversight Board (PCAOB) has updated the audit guidelines for auditing financial statements that include information provided by specialists, including actuaries (see Appendix A to Accounting Standard 1105, Audit Evidence).

While certain practice-area assumption-setting standards exist (for example, ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*), and assumption-setting guidance is included within certain other standards (for example, ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*), there remain gaps in guidance. The ASB believes it would be useful to issue a standard on setting assumptions for all practice areas that will supplement the guidance that currently exists. Accordingly, in January 2016, the ASB created a multi-disciplinary task force under the direction of the General Committee to draft a standard on assumption setting for all practice areas.

First Exposure Draft

The first exposure draft was issued in December 2016 with a comment deadline of April 30, 2017. Forty-five comment letters were received and considered in making changes that are reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft was issued in March 2019 with a comment deadline of July 31, 2019. Twenty-five comment letters were received and considered in making changes that are reflected in the third exposure draft. For a summary of issues raised in these comment letters, please see appendix 2.

Notable Changes from the Second Exposure Draft

The third exposure draft reflects significant revisions to coordinate with ASOP No. 56, *Modeling*, and in response to comments received on the second exposure draft of the proposed *Setting Assumptions* ASOP.

Notable changes made to the second exposure draft are summarized below. Additional changes were made to improve readability, clarity, or consistency.

1. The term “significant” has been replaced with “material.”

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2. Section 1.1, Purpose, has been expanded to make it more consistent with section 1.2, Scope.
3. The definitions of Information Date, Prescribed Assumptions Set by Law, and Prescribed Assumptions Set by Another Party have been deleted. The term Information Date is no longer used in the ASOP, and the concept of prescribed assumptions is now only used in Section 4 to direct users to the corresponding sections of ASOP No. 41, *Actuarial Communications*.
4. Section 3.1(d) was added to take into account the balance between refined assumptions and materiality and practicality.
5. Section 3.3 (now section 3.6), Assumption Margins, was changed to acknowledge that margins can be either explicit or implicit, while providing guidance for explicit margins, and to expand the list of items to be taken into account when including an explicit margin.
6. Section 3.4, Range of Reasonable Assumptions, was added.
7. Section 3.6, Reasonable Assumptions in the Aggregate, has been deleted.
8. Section 3.9, Reliance on Assumptions Set by Another Actuary, has been deleted.
9. Section 3.10, Reliance on Assumptions Set by Others, has been deleted.
10. Section 3.11, Documentation (now section 3.9), has been revised to indicate that an actuary, if preparing documentation, “should consider,” rather than “should” prepare documentation in the manner specified, and to remove the requirement that the documentation be prepared “such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work and assume the assignment if necessary.” Note however that section 4.1(b) requires disclosure of the “information and analysis used for setting each material assumption in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumption.”

The ASB voted in October 2020 to approve this third exposure draft.

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Assumptions Task Force

Maria M. Sarli, Chairperson

| | |
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| Shawna S. Ackerman | Margaret Tiller Sherwood |
| Ralph S. Blanchard III | Mary H. Simmons |
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General Committee of the ASB

Judy K. Stromback, Chairperson

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| Ralph S. Blanchard III | Brian J. Mullen |
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The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

PROPOSED ACTUARIAL STANDARD OF PRACTICE

SETTING ASSUMPTIONS

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 **Purpose**—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services that involve setting **assumptions**, giving advice on setting **assumptions**, or assessing the reasonableness of **assumptions** set by others.
- 1.2 **Scope**—This standard applies to actuaries in any practice area when performing actuarial services that require the setting of **assumptions** for which the actuary is taking responsibility, giving advice on setting **assumptions**, or assessing the reasonableness of **assumptions** set by others.

Setting **assumptions** includes, but is not limited to, activities that may variously be referred to as developing or selecting **assumptions**, and may include an analysis of **data** or experience, industry studies, trends, economic forecasts, and other analyses, as appropriate.

Throughout this standard, any reference to setting **assumptions** also includes giving advice on setting **assumptions** and, if the actuary’s assignment includes assessing **assumptions** set by others, assessing the reasonableness of **assumptions** set by others. If the actuary’s actuarial services involve assessing the reasonableness of **assumptions** set by others, the actuary should follow the guidance in section 3 to the extent practicable.

“Judgmental adjustments or assumptions [that] can be applied to data,” as described in section 3.4(c) of ASOP No. 23, *Data Quality*, are not within the scope of this ASOP.

Other ASOPs may provide guidance on setting **assumptions**. If the actuary determines that the guidance in this standard conflicts with a practice-area ASOP, the practice-area ASOP governs. If the actuary determines that the guidance in this ASOP conflicts with a cross-practice ASOP (i.e., an ASOP that applies to all practice areas), this ASOP governs.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4. If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.

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- 1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.
- 1.4 Effective Date—This standard is effective for work performed on or after 12 months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP.

- 2.1 Assumption—A value that represents expectations, represents possibilities based on professional judgment, or is prescribed by law or by others to represent expectations or possibilities.
- 2.2 Data—Numerical, census, or classification information, or information derived mathematically from such items, but not general or qualitative information. **Assumptions** are not **data**, but **data** are commonly used in the development of **assumptions**.

Section 3. Analysis of Issues and Recommended Practices

- 3.1 General Considerations—The actuary should set **assumptions** that take into account the following:
- a. the purpose of the assignment;
 - b. the guidance in ASOP No. 23, in the consideration and the choice of **data** underlying the **assumptions**;
 - c. the guidance in ASOP No. 25, *Credibility Procedures*, in the consideration of the credibility of **data** underlying the **assumptions**; and
 - d. the balance among refined **assumptions**, materiality, and practical matters such as cost and time within the scope of the assignment. The actuary is not required to set a more refined **assumption** when in the actuary's professional judgment such use or selection is not expected to produce materially different results.
- 3.2 Data or Information Used When Setting Assumptions—When setting **assumptions** for which the actuary is taking responsibility, the actuary should consider using the following **data** or information:
- a. actual experience adjusted to current conditions where applicable, to the extent it

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is available, relevant, and sufficiently reliable;

- b. other relevant and sufficiently reliable experience, such as industry experience that is properly modified to reflect the circumstances, if actual experience is not available or relevant, or is not sufficiently reliable;
 - c. future expectations or estimates, including those inherent in market **data**, when available and appropriate, or a combination of both; and
 - d. other relevant sources of **data** or information.
- 3.3 Reasonableness of Assumptions—For **assumptions** for which the actuary is taking responsibility, the actuary should set **assumptions** that, in the actuary’s professional judgment, are reasonable with each such **assumption** having the following characteristics:
- a. it is appropriate for the purpose of the assignment;
 - b. it takes into account **data** or information used when setting **assumptions**, as discussed in section 3.2; and
 - c. it is expected to have no material bias (i.e., it is not materially optimistic or pessimistic) relative to the purpose of the assignment, excluding the effect of a margin (as discussed in section 3.6).
- 3.4 Range of Reasonable Assumptions—Given the uncertain nature of the items for which **assumptions** are set, the actuary may consider various **assumptions** to be reasonable for a given measurement. Different actuaries may apply different professional judgment, so that a range of reasonable **assumptions** may develop, both for an individual actuary and across actuarial practice.
- 3.5 Consistency of Assumptions—If the assignment requires the actuary to set multiple **assumptions**, the actuary should set **assumptions** for which the actuary is taking responsibility that, in the actuary’s professional judgment, are reasonably consistent with one another to the extent the **assumptions** are related.
- 3.6 Assumption Margins—If appropriate for the purpose of the assignment, the actuary should consider including a margin in the **assumption**. A margin may be explicit or implicit. When setting an explicit margin, the actuary should take into account the following:
- a. the degree to which there is uncertainty around the **assumption** due to the following:
 - 1. lack of relevant, credible entity or industry experience **data** to support the **assumption**;

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2. the inherent or historical variability in the **data** that supports the **assumption**; or
 3. the possibility that the future may differ materially from the past in a manner that cannot be reliably predicted;
- b. the variation of uncertainty over different periods of time within the projection period of the assignment; and
 - c. the range of possibilities relative to the expectations.
- 3.7 Subsequent Events—There may be circumstances where the actuary becomes aware of an event that occurs subsequent to the date(s) through which data or other information have been considered in developing the findings included in the actuarial report and before the date of the actuarial report that could result in a material change in **assumptions**. In this instance, the actuary may, but need not, reflect this event in setting **assumptions**, unless required by the purpose of the assignment.
- 3.8 Reliance on Data or Other Information Supplied by Others—When relying on **data** or other information supplied by others, the actuary should refer to ASOP Nos. 23 and 41, *Actuarial Communications*, for guidance.
- 3.9 Documentation—The actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4, as is appropriate for the purpose of the assignment. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

- 4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 23, 25, and 41. In addition, the actuary should disclose the following in such actuarial reports:
- a. each material **assumption**;
 - b. the information and analysis used for setting each material **assumption** in sufficient detail to permit another qualified actuary to assess the reasonableness of the **assumption**;
 - c. material changes in **assumptions** since the most recent comparable actuarial report, to the extent known, relevant, and readily available; and
 - d. any explicit provisions for margins, as discussed in section 3.6.

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- 4.2 Additional Disclosures—The actuary also should include the following disclosures, when applicable, in an actuarial report:
- a. the disclosure in ASOP No. 41, section 4.2, of any prescribed assumptions set by law;
 - b. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material **assumption** selected by a party other than the actuary (for example, prescribed assumptions set by another party); and
 - c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary’s professional judgment, the actuary has deviated materially from the guidance of this ASOP.
- 4.3 Confidential Information—Nothing in this ASOP is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Assumptions have always played a fundamental role in actuarial work for every discipline. Actuaries set assumptions, give advice on setting assumptions, and assess the reasonableness of assumptions set by others.

Historically, actuaries have used various approaches to setting and evaluating assumptions. For example, actuaries have used the actual experience of the entity being modeled, relied on detailed research by experts, used sophisticated projection techniques, and relied on their own professional judgment. Most actuaries have used a combination of these and other approaches.

Assumptions are set in order to produce estimates under conditions of uncertainty. Even assumptions that are prudently developed and carefully used cannot eliminate inherent uncertainty and variability, and actual experience may differ, sometimes significantly, from the estimates derived using assumptions. These differences, by themselves, do not indicate a flawed assumption-setting process or noncompliance with standards. Similarly, the fact that different actuaries may apply different professional judgment and may choose different reasonable assumptions does not indicate a flawed assumption-setting process.

While the setting of assumptions always has been an important part of actuarial practice, the importance of disclosing assumptions is increasing with the move to more principles-based financial reporting measurements and the increased focus on whether entities are properly funded or reserved to meet their obligations. Financial audits, reviews, and examinations also have evolved significantly in recent years. Sarbanes-Oxley and the Model Audit Rule promulgated by the National Association of Insurance Commissioners also have focused attention on assumptions. Furthermore, audits and examinations are increasingly conducted on a risk-focused basis, which contributes to the need for guidance on setting assumptions.

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Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of this proposed ASOP, *Setting Assumptions*, was issued in March 2019 with a comment deadline of July 31, 2019. Twenty-five comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Task Force carefully considered all comments received, and the General Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each.

The term “reviewers” includes the Task Force, General Committee, and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the second exposure draft.

| GENERAL COMMENTS | |
|-------------------------|--|
| Comment | One commentator noted that the ASOP is entirely focused on explicit assumptions and does not cover setting, identifying, or disclosing implicit assumptions. The commentator suggested including language about implicit assumptions. |
| Response | The reviewers believe the guidance is appropriate and made no change in response to this comment. |
| Comment | One commentator indicated that the language of the proposed ASOP is so open to interpretation that an actuary with the best intentions would have difficulty being compliant. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator suggested that ASOP No. 41, <i>Actuarial Communications</i> , should refer to this standard for any discussion of assumptions. |
| Response | The reviewers disagree and note that ASOP No. 41 also does not refer to practice-specific ASOPs that discuss assumptions. |
| Comment | Several commentators indicated that the standard does not currently address the concept that there is a range of reasonable assumptions, different actuaries can reasonably develop different best-estimate assumptions within an acceptable range, and guidance on this point would be useful in the standard. One of the commentators noted that appendix 1 indicates that “Similarly, the fact that different actuaries may apply different professional judgment and may choose different reasonable assumptions does not indicate a flawed assumption setting process.” |
| Response | The reviewers agree and added new section 3.4. |

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| Comment | <p>Several commentators objected to the removal of any requirement to consider the “reasonableness of results,” or the fact that the ASOP is generally applicable only to “... assumptions for which the actuary is taking responsibility ...” (sections 1.2, 3.4, 3.5, and 3.6), or the combination of these two changes.</p> <p>Two commentators indicated that the aggregate reasonableness of a set of assumptions can’t be assessed by simply looking at the assumptions themselves but can only be assessed by looking at the output of a model based on that assumption set. One of the commentators believes the requirement for aggregate reasonability more properly belongs in the Modeling ASOP, and section 3.1.6(f) of the latest exposure draft on Modeling already requires this assessment.</p> |
| Response | <p>The reviewers note that section 3.6 has been deleted and refer the commentators to the guidance provided in ASOP No. 56, <i>Modeling</i>.</p> |
| Comment | <p>One commentator requested that the proposed ASOP be more explicit on handling the situation where an actuary feels that a prescribed assumption is not reasonable, or the results produced by its use are not reasonable.</p> <p>Another commentator indicated that in the event there were “prescribed assumptions set by law or another party” that are clearly inconsistent with what the actuary feels to be appropriate, the proposed ASOP does not allow for adjusting the “assumptions for which the actuary is responsible,” and does not appear to require disclosing that the assumption is not reasonable and/or the results may be unreasonable.</p> <p>Both commentators believe this proposed ASOP should not permit the actuary to opine ONLY on the “assumptions for which the actuary is responsible.”</p> |
| Response | <p>The reviewers believe prescribed assumptions are appropriately covered by sections 3.4.4, 4.2, and 4.3 of ASOP No. 41 and made no change.</p> |
| Comment | <p>There were a number of comments on the use of the word “significant” in the ASOP (sections 3.4 “significant bias” and 4.1 “significant assumption”).</p> <p>Commentators suggested that “significant” be replaced by “material” to be consistent with ASOP No. 41 section 3.4.4 and to avoid conflict with ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i>, section 2.6 (Materiality), which states, “The guidance in ASOPs need not be applied to immaterial items.” One commentator also noted that ASOP No. 1, section 2.12 (Significance/Significant) gives three examples of “significant” events and results (none related directly to assumptions), but does not define it, and indicates that actuaries should use care in using or interpreting the word.</p> |
| Response | <p>The reviewers agree and changed sections 3.4 (now section 3.3) and 4.1 to use the term “material.”</p> |
| Comment | <p>Two commentators asked how it is determined whether an assumption is “significant,” particularly when individual assumptions may not be significant or material, but the combination is. One of these commentators indicated that there may be great variation in interpretation and thus the level of disclosure. Both commentators indicated that, if significance is left to the actuary’s professional judgment, the standard should include considerations for making that determination.</p> |
| Response | <p>The reviewers changed the term “significant” to “material,” and note that section 2.6 of ASOP No. 1 provides guidance on the meaning of the term “material,” including for “a combination of related items.”</p> |

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| SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE | |
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| Section 1.1, Purpose | |
| Comment | One commentator indicated that the purpose is inconsistent with the scope in that the purpose only refers to actuaries who are setting assumptions, while the scope also refers to actuaries who are reviewing assumptions. |
| Response | The reviewers agree and made a change in response to this comment. |
| Section 1.2, Scope | |
| Comment | Several commentators disagreed with the manner in which the assumption-setting guidance in this ASOP interacts with assumption-setting guidance in other ASOPs. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator believes that assumptions covered in section 3.4(c) of ASOP No. 23, <i>Data Quality</i> , (“judgmental adjustments or assumptions...applied to the data”) should be governed by this standard, and suggested deleting the fourth paragraph of section 1.2, which excludes such assumptions from scope. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator indicated that the first sentence should be modified to match that in the proposed Modeling ASOP, namely “This standard applies to actuaries in any practice area when performing actuarial services...” to reinforce that all practice areas are required to comply with this ASOP. |
| Response | The reviewers agree and made the change. |
| Comment | One commentator indicated that the word “trends” in the second paragraph is unclear. The commentator indicated that if it means assessing trends in data that should be understood to be part of any “analysis.” If it is intended to mean a different type of trend, it should be clarified. |
| Response | The reviewers believe the term is clear in the context of the paragraph and made no change in response to this comment. |
| Section 1.4, Effective Date | |
| Comment | Two commentators believe an effective date 12 months after adoption is too long. |
| Response | The reviewers believe the proposed effective date is appropriate and made no change. |
| Comment | One commentator found the wording of this section ambiguous, because it is not clear exactly when “actuarial work involved in setting assumptions” is performed. The commentator suggested the section be changed to reference the date the report is issued because that is the date when the selected assumptions are finalized. |
| Response | The reviewers believe the proposed effective date is appropriate and made no change in response to this comment. |
| SECTION 2. DEFINITIONS | |
| Section 2.1, Assumption | |
| Comment | One commentator indicated that the definition of an assumption includes “possibilities based on professional judgment,” even though the fourth paragraph of section 1.2, Scope, specifically excludes assumptions based on professional judgment. |
| Response | The reviewers note that the referenced paragraph of section 1.2 now reads, “Judgmental adjustments or assumptions applied to data... are not within the scope of this ASOP” and made no change to the definition in response to this comment. |
| Comment | One commentator indicated that an assumption can represent other metrics besides expectations, such as a measure of volatility or median. |
| Response | The reviewers believe that the current definition is appropriate and made no change in response to this comment. |

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| Comment | One commentator indicated that many assumptions are not a single value and suggested that the beginning of this definition be changed to something like “A value or set of values...” or “A numerical representation...” |
| Response | The reviewers believe that the current definition is appropriate and made no change in response to this comment. |
| Comment | A commentator indicated that there is some confusion likely between assumptions and conclusions. The commentator suggested that this could be clarified by stating that the conclusion of a previous step may be an input to a subsequent step and therefore an assumption when viewed from the perspective of the subsequent step. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | <p>Commentators had many different and conflicting opinions about the definition of assumptions. One commentator indicated that many actuaries consider method choice to be an assumption and suggested this standard use the phrase “numeric value” in the definition, despite the redundancy, to be clear that methods are not covered. However, some commentators noted that assumptions aren’t always values, but they can be assumptions about how things work (for example, that a random variable is lognormally distributed), or formulas/methodologies chosen for projections, and that the standard should be clear that it does cover such “assumptions.” One commentator suggested using language from the appendix like “Values or methods developed and used in actuarial models or projections in order to produce estimates under conditions of uncertainty. These values and methods may represent expectations, possibilities based on professional judgment, or may be prescribed by law or by others.”</p> <p>Another commentator noted that many of the current standards of practice use “Assumptions and Methods” in combination in the terminology, and this treatment of assumptions exclusively would be a departure from that practice. The commentator indicated that it is not clear whether the selection of data and/or the methodology of aggregating data are considered assumptions. The commentator suggested revising the definition of “assumption” to clarify that assumptions are not numerical values and do not include the choice of data, the approach to aggregate data, or methodology. The commentator also suggested having a different definition based on the purpose of assignment.</p> |
| Response | The reviewers note that this standard only addresses assumptions that are values and made no change in response to these comments. |
| Comment | One commentator indicated that this definition should clarify that assumptions are values that are not known at the time the work product is developed, to contrast them with data, which are known values. |
| Response | The reviewers note that the definition includes the phrase, “A value that represents expectations, represents possibilities, or...” and made no change in response to this comment. |
| Comment | One commentator noted that the natural way to parse the definition of “assumption” is: A value that (a) represents expectations, (b) represents possibilities based on professional judgment, or (c) may be prescribed by law or by others. The commentator noted that values could satisfy (c) even if they are clearly not assumptions and suggested amending the definition to, “A value that represents expectations, represents possibilities based on professional judgment, or is prescribed by law or by others to represent expectations or possibilities.” |
| Response | The reviewers agree and made the change. |

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| Section 2.2, Data | |
| Comment | Two commentators noted that the definition of “data” is not consistent with the definition in the fourth exposure draft of the proposed Modeling ASOP, although it does match exactly the definition in ASOP No. 23. The commentators believe the definitions should be consistent between Modeling and this ASOP, and in fact should be consistent across all ASOPs. One commentator indicated that ideally, a single definition of “data” would appear in ASOP No. 1, unless there is a compelling reason to maintain separate definitions. |
| Response | The reviewers note that, other than in ASOP No. 1, terms are defined for use only in the specific ASOP. Therefore, the reviewers made no change in response to this comment. |
| Comment | One commentator indicated that “classification information” is listed as a form of data, but the commentator believes that “classification information” is the qualitative metadata that describes the classification system and believes the ASOP is trying to reference categorical counts and not metadata. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator indicated that the definition of “data” should not include “information mathematically derived from such items.” The commentator indicates that regression coefficients are mathematically derivable from the inputs, but the standard should not treat them as data, because they are conclusions, or at the very least indications based on data and assumptions, and they are potentially assumptions for a subsequent step. The commentator indicated that most mathematical manipulation relies on additional assumptions for its validity, so it is not appropriate to call the output “data.” The commentator acknowledges that this deviates from the definition of “data” in ASOP No. 23 but believes that is justified because this standard needs to contrast “data” and “assumptions” in a way that is not relevant in ASOP No. 23. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator believes that qualitative information does sometimes need to be treated as data (for example, customer names, images, and sound files) and suggested a definition of “data” of “Objective information taken to be a direct representation of fact. Assumptions are not data, but data are commonly used in the development of assumptions.” |
| Response | The reviewers disagree and made no change in response to this comment. |
| Section 2.3, Information Date | |
| Comment | Two comments were received on section 2.3, Information Date. |
| Response | The reviewers deleted this section as the term no longer appears in the guidance of the ASOP. |
| Section 2.4, Prescribed Assumption Set by Another Party | |
| Comment | One commentator indicated that section 2.4 and section 2.5 provide definitions of two different sources of “prescribed” assumptions, but the ASOP does not provide different treatment or requirements for the two different sources, which is confusing. |
| Response | The reviewers deleted this definition as this term is no longer used in section 3 of the ASOP and is only used in section 4 when referring users to the corresponding section of ASOP No. 41. |

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| Section 2.5, Prescribed Assumptions Set by Law | |
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| Comment | One commentator suggested rewording this definition as, “A specific assumption that is mandated by applicable law (statutes, regulations, and other legally binding authority); or a specific assumption that is selected from a range or set of assumptions where the range or set of assumptions from which the selection is made is deemed to be acceptable by applicable law (statutes, regulations, and other legally binding authority).” |
| Response | The reviewers deleted this definition as this term is no longer used in section 3 of the ASOP and is only used in section 4 when referring users to the corresponding section of ASOP No. 41. |
| Comment | One commentator indicated that the phrase “for this purpose” implies that there is a contradictory ASOP. The commentator asked if assumptions set by sponsoring government entities are not prescribed assumptions set by law, what are they? The commentator indicated that if they are assumptions set by other parties, the ASOP should say so. |
| Response | The reviewers deleted this definition as this term is no longer used in Section 3 of the ASOP and is only used in Section 4 when referring users to the corresponding section of ASOP No. 41. |
| Suggested Additional Definitions | |
| Comment | One commentator noted that although “information date” is defined, “information” is not a defined term. |
| Response | The reviewers note that the term “information date” is no longer used in the ASOP and made no change in response to this comment. |
| Comment | Two commentators suggested adding a definition for “experience” or “actual experience” (used in 3.2[b] and [a]). |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | Two commentators indicated it would be helpful for “margin” to be a defined term. |
| Response | The reviewers do not believe “margin” requires a definition that differs from the ordinary English definition and made no change in response to this comment. |
| Comment | One commentator indicated that without a definition of “margin” it would not be clear that the bias inherent in using risk neutral assumptions would be acceptable under section 3.4(d) by virtue of being included within the definition of margin. |
| Response | The reviewers note that section 3.4(d) (now section 3.3[c]) requires that an assumption be “expected to have no material bias (i.e., it is not materially optimistic or pessimistic) relative to the purpose of the assignment” and made no change in response to this comment. |
| Comment | Several commentators indicated that section 3.2(c) discusses use of market data when setting assumptions, and that the word “market” should be defined. For example, do we mean the financial markets, industry information, or something else? |
| Response | The reviewers do not believe “market” requires a definition that differs from the ordinary English definition and made no change in response to this comment. |
| SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES | |
| Comment | One commentator indicated that section 3 includes some disclosure requirements and asked whether they should be moved to section 4. |
| Response | The reviewers note that sections 3.9 and 3.10, which referenced disclosures, have been deleted. |

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| Comment | One commentator noted that sections 3.7-3.11 and 4.2 do not match the standard language of other recently exposed ASOPs. For example, section 3.7 references ASOPs Nos. 41 and 23, but the nearly identical section 3.8 in the ASOP No. 2, <i>Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts</i> , exposure draft only references ASOP No. 23 and names it. Also, section 4.2 includes disclosures specific to the ASOP, while in other exposures all such disclosures are consolidated in section 4.1, with section 4.2 reserved for the specific requirements of ASOP No. 41. |
| Response | The reviewers note that sections 3.9 and 3.10 have been deleted, and further note that the language in this ASOP may vary from the language in other ASOPs but is appropriate guidance for setting assumptions. However, the reviewers agreed in part and moved the disclosures specific to this ASOP from section 4.2 to section 4.1. |
| Comment | One commentator indicated that sections 3.7 and 3.8 provide no guidance other than to refer the reader to other ASOPs, and section 3.10 only provides a disclosure requirement. The commentator believes that each section should contain guidance. For example, in section 3.8 the actuary could be guided to check data or other information supplied by others for reasonableness and appropriateness. |
| Response | The reviewers note that section 3.10 has been deleted. The reviewers believe that the references to other ASOPs in section 3.8 are helpful and made no change in response to this comment. |
| Comment | One commentator indicated that sections 3.5 and 3.6 should be combined by replacing the concepts of “reasonably consistent” and “reasonable in the aggregate” with the single concept of “collectively reasonable.” |
| Response | The reviewers note that section 3.6, Reasonable Assumptions in the Aggregate, has been deleted, and made no change in response to this comment. |
| Comment | One commentator indicated that section 3 should be re-arranged to put sections 3.4, 3.5, and 3.6 as the first three sections in section 3 because doing otherwise buries the lead. |
| Response | The reviewers note that section 3.6 has been deleted but agree that some reorganization was appropriate and made some changes in response to this comment. |
| Section 3.1, General Conditions | |
| Comment | Two commentators indicated that this section should include text related to materiality. |
| Response | The reviewers agree and added section 3.1(d) in response to this comment. |
| Comment | One commentator noted that this section specifically mentions ASOP No. 23 and ASOP No. 25, <i>Credibility Procedures</i> , but not all ASOPs that address assumptions, and indicated that either all should be cited or none should be cited. |
| Response | The reviewers note that the references to ASOP Nos. 23 and 25 are with respect to data, not assumptions, and made no change in response to this comment. |
| Comment | One commentator indicated that an actuary setting an assumption should take into account the data to which the assumption will be applied, in addition to the data underlying the assumption, and that this should be added as a consideration. |
| Response | The reviewers believe this is addressed by sections 3.1(a) and 3.3(a), requiring an assumption to be appropriate for purposes of the assignment, and made no change in response to this comment. |
| Comment | One commentator suggested that in section 3.1(a) “purpose” be changed to “intended purpose” for consistency with other ASOPs, such as the proposed Modeling ASOP, and that the same change should be considered in other places in the proposed ASOP, such as in sections 3.3, 3.4(a), 3.4(d), and 3.11. |
| Response | The reviewers disagree and made no change in response to this comment. |

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| Comment | Two commentators indicated that the activity required to “identify” assumptions is not clear could imply an explicit documentation requirement for every assumption, and recommended that the stem be changed to begin “The actuary should set assumptions that...” |
| Response | The reviewers agree and made the change. |
| Comment | One commentator indicated that, although assumptions should be set as of the measurement date, the actuary may know of changes that occur after the measurement date and the ASOP should clarify that the actuary can, but is not required to, use the knowledge of changes in circumstances. |
| Response | The reviewers believe that this concern is adequately addressed by revised section 3.7, Subsequent Events. |
| Comment | One commentator indicated that assumptions should not be set and then used indefinitely, and the proposed ASOP does not provide guidance about the need to periodically review assumptions or update the information date. |
| Response | The reviewers note that several sections discuss the purpose of the assignment. The reviewers made no change in response to this comment. |
| Comment | One commentator noted that the proposed ASOP does not specifically discuss several general characteristics of assumptions that are very important and are included in ASOP Nos. 27 and 35. The commentator believes that it is important to address the period over which the measurement is being made, the balance between the cost of using refined assumptions and materiality, and the ability to use unbiased and immaterial rounding. |
| Response | The reviewers added section 3.1(d) to address materiality and costs. The reviewers note that several sections discuss the purpose of the assignment. |
| Section 3.2, Information Used When Setting Assumptions (now Data or Information Used When Setting Assumptions) | |
| Comment | One commentator indicated that (a), (b), and (c), and possibly (d), should be joined by “and” rather than “or”, because an actuary should consider using each of these sources. |
| Response | The reviewers agree and made the change. |
| Comment | One commentator indicated that section 3.2 of the ASOP refers to “information” as the source for assumptions, but that is not consistent with sections 3.1, 3.3, and 3.8 that refer to data as the source of assumptions. |
| Response | The reviewers agree and changed the language to reference “data or information.” |
| Comment | One commentator indicated that section 3.2(a) should discuss adjustments to expected future conditions. |
| Response | The reviewers note that section 3.2(c) indicates that the actuary should consider “future expectations, or estimates, including those inherent in market data, when available and appropriate, or a combination of both,” and made no change in response to this comment. |
| Comment | One commentator indicated that it is not clear how “actual experience” in section 3.2(a) differs from the “other relevant and sufficiently reliable” experience in 3.2(b). |
| Response | The reviewers believe the language is clear and note that section 3.2(b) includes an example (“industry experience that is properly modified to reflect the circumstances”) and made no change in response to this comment. |

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| Comment | <p>One commentator indicated that despite the responses to comments on the first exposure draft, stating that the word "model" is not included in the standard, the word "modeled" appears in section 3.2(b). The commentator suggested that this be reworded by replacing "such as industry experience that is properly modified to reflect the circumstance being modeled" with "such as industry experience with appropriate modifications to reflect the situation under consideration."</p> <p>The commentator however preferred the simpler approach of simply deleting the clause entirely from section 3.2(b), and treating adjusted data as the conclusion of a step that began with data (industry data) and assumptions (resulting in those proper modifications) as inputs, and concluding with an assumption (not data) underlying the next step. The commentator believes that treating adjusted data as data is a slippery slope.</p> |
| Response | The reviewers modified the language in section 3.2(b) to remove the word "modeled." |
| Comment | <p>Many commentators indicated that this section is unclear. Several commentators indicated that it was not clear what "or a combination of both" means in "The actuary should consider: "future expectations or estimates inherent in market data when available and appropriate, or a combination of both." Another commentator indicated that "future expectations" is not clear (future expectations of what?) Two commentators suggested rewording as "future expectations, or estimates inherent in market data, or a combination of both, when available and appropriate."</p> |
| Response | The reviewers clarified the language. |
| Section 3.3, Assumption Margins (now section 3.6) | |
| Comment | One commentator indicated that this section and section 3.4(d), Reasonableness of Assumptions, could be in conflict with one another to the extent that an implicit margin is included in the assumption, rather than an explicit one. |
| Response | The reviewers clarified the language in sections 3.4 (now 3.3) and 3.3 (now 3.6) in response to this comment. |
| Comment | A number of commentators indicated that the reasons given for including a margin seem to be too limited. Various suggestions were made for added consideration including the inherent or historical variability in the assumption itself, the possibility that the future may differ significantly from the past in a manner that cannot be predicted, the sensitivity of the results to the assumptions, and the materiality of the assumption. |
| Response | The reviewers agree and modified the language in this section in response to these comments. |
| Comment | Two commentators indicated that a cross practice standard should not mention "margins" as margins are used in only a narrow subset of actuarial work. One of the commentators indicated that the more general language around documenting assumptions ipso facto requires documentation of any margins used and calling out margins as one element of assumptions to be disclosed calls into question the rigor with which other elements must be disclosed. |
| Response | The reviewers disagree and made no change in response to these comments. |
| Comment | One commentator suggested adding text related to strategic considerations of margins (for example, M&A sell-side vs buy-side). |
| Response | The reviewers believe this level of detail is not appropriate for an ASOP and made no change in response to this comment. |
| Comment | One commentator noted that section 3.3(a) refers to "company or industry" data, but the entity being examined might not be a "company," and so recommended referring to "entity or industry" data. |
| Response | The reviewers agree and made the change. |

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| Comment | One commentator indicated that it unclear whether the phrase “time horizon of the assignment” refers to the time period during which the assumption may have an effect (which could be 20+ years) or the time horizon during which the assumption will be used (e.g., setting a pricing assumption to be used for pricing only in 2020)? |
| Response | The reviewers modified the language to clarify the concept. |
| Section 3.4, Reasonableness of Assumptions (now section 3.3) | |
| Comment | One commentator objected to the use of the term “reasonable,” indicating that it is not defined, can’t be defined, and that actuaries often prefer the term “not unreasonable.” The commentator suggested using “not unreasonable” in the last sentence before the listing of items a-d: “For this purpose, an assumption is not unreasonable [or “considered not unreasonable”] if it has the following characteristics:” |
| Response | The reviewers note that the term “reasonable” is discussed in ASOP No. 1 and made no change. |
| Comment | One commentator recommended ordering (c) before (b). |
| Response | The reviewers modified the language in response to this comment by moving the concept of professional judgement from section 3.4(b) into the stem of section 3.4 (now section 3.3) and deleting section 3.4(c) because experience is already addressed in section 3.2. |
| Comment | One commentator recommended adding a sentence such as, “The actuary should understand the sensitivity of measures of the assignment’s purpose to the values of the assumption,” and suggested this section as an appropriate place. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator noted that this section requires that, to meet the definition of a reasonable assumption, an assumption must reflect the actuary’s professional judgment. The commentator suggested requiring that, for similar assignments, the actuary compare his or her historical professional judgment to what actually happened to determine if their judgment is skewed, and whether such results evidence bias. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator noted that this section 3.4 lists the characteristics of reasonable assumptions and indicated that the use of professional judgment in selecting a reasonable assumption in and of itself is not a characteristic of a reasonable assumption. The commentator recommended revising the stem of section 3.4 to read, “For assumptions for which the actuary is taking responsibility, the actuary should set assumptions that are reasonable based on the actuary’s professional judgment,” and deleting section 3.4(b) from the list of characteristics. |
| Response | The reviewers agree and made a change in response to this comment. |
| Comment | One commentator indicated that an actuary should be required to consider future expectations, not just past experience, in assessing the reasonableness of assumptions. |
| Response | The reviewers note the consideration of future expectations is discussed in section 3.2(c). The reviewers deleted section 3.4(c) because experience is already addressed in section 3.2. |
| Comment | One commentator indicated that in order to keep this section consistent with section 3.2, this section should read “it takes into account information, as guided by section 3.2” rather than “it takes into account experience, as discussed in section 3.2.” |
| Response | The reviewers deleted section 3.4(c) because experience is already addressed in section 3.2. |

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| Comment | One commentator noted that the proposed standard says that in order to be reasonable an assumption must take experience into account, but indicated that it is not clear whether the experience requirement can be met through the use of market data or other sources of information as included in section 3.2, because the wording only mentions experience. The commentator suggested using the words “relevant information” or specifically mentioning “experience, market data or another relevant source of information” so that it is clear that an assumption can be reasonable even in the absence of experience data. |
| Response | The reviewers deleted section 3.4(c) because experience is already addressed in section 3.2. |
| Comment | One commentator noted that appendix 1 indicates that “the fact that different actuaries may apply different professional judgment and may choose different reasonable assumptions does not indicate a flawed assumption-setting process,” but this section indicates that assumptions are “expected to have no significant bias.” The commentator is concerned that the language appears to imply that the “optimistic or pessimistic” differences that would naturally arise in some contexts (for example, M&A buy-side vs. sell-side) may be in violation of this ASOP. |
| Response | The commentator asked that the reviewers consider whether the language “relative to the purpose of the assignment” sufficiently allows for disagreement when actuaries have a shared goal (for example, performing an appraisal). The reviewers note that ASOP No. 1 provides that, “Because actuarial practice commonly involves the estimation of uncertain events, there will often be a range of reasonable methods and assumptions, and two actuaries could follow a particular ASOP, both using reasonable methods and assumptions, and reach different but reasonable results.” The reviewers also added section 3.4, Range of Reasonable Assumptions, to address this issue. |
| Comment | One commentator suggested deleting this section because a number of methodologies in the P&C practice that do not include margins nonetheless produce estimates that are both appropriate and statistically biased. The commentator indicated that credibility procedures and hierarchical models are often introduced in situations where unbiased estimators would be inappropriate and would produce results that are unstable and vary dramatically over time. The commentator indicated that, as phrased, this section would preclude use of very useful and long-standing tools. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | Two commentators indicated that actuaries often need to set assumptions that they know are biased when assessing risk. One of the commentators suggested appending to the current language a phrase such as “or when alternative assumptions are used for the assessment of risk” consistent with the wording in ASOP No. 27, <i>Selection of Economic Assumptions for Measuring Pension Obligations</i> , and ASOP No. 35, <i>Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations</i> . |
| Response | The reviewers note that the section includes the phrase “relative to the purpose of the assignment” and made no change in response to this comment. |
| Comment | A commentator indicated that 3.4(d) should be deleted as unnecessary because the assumption must already be appropriate for the assignment, reflect relevant experience, and be based on an actuary’s judgment. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | A commentator asked how the requirement that a reasonable assumption “is expected to have no significant bias (i.e., it is not significantly optimistic or pessimistic) relative to the purpose of the assignment, except when a margin is included (as discussed in section 3.3)” applies in situations where a range is used for an assumption, and asked for clarification whether “relative to the purpose of the assignment” gives the actuary latitude to create assumption ranges including pessimistic and optimistic assumptions. |
| Response | The reviewers added section 3.4, Range of Reasonable Assumptions, to address this issue. |

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| Comment | Two commentators indicated that requiring assumptions to be unbiased “except when a margin is included” appears to only allow an assumption to be either optimistic or pessimistic if the difference between the assumption and the best estimate is quantified and disclosed in section 4.3. The commentators noted that a requirement that all margins be explicitly identified would complicate assumption setting and documentation of assumptions. |
| Response | The reviewers modified the language in section 3.3 (now section 3.6) in response to this comment. |
| Section 3.5, Consistency of Assumptions | |
| Comment | Several commentators indicated that all of the assumptions, including those for which the actuary is not taking responsibility, should be reasonably consistent. One of the commentators suggested that, at a minimum, and consistent with section 3.4.4 of ASOP No. 41, language should be included indicating that the actuary must disclose if an assumption selected by another party significantly conflicts with the actuary’s professional judgment. |
| Response | The reviewers refer the commentators to ASOP No. 41 and made no change in response to these comments. |
| Comment | One commentator suggested that, to be consistent with section 3.6, the words “in the actuary’s professional judgment” be added to read, “If the assignment requires the actuary to set multiple assumptions, the actuary should set assumptions for which the actuary is taking responsibility that, in the actuary’s professional judgment, are reasonably consistent with one another.” |
| Response | The reviewers agree and made the change. |
| Comment | One commentator indicated that the wording in this section is awkward and suggested the following wording: “If the assignment requires the actuary to set and take responsibility for multiple assumptions, the actuary should set assumptions that are reasonably consistent with one another.” Another commentator indicated that this section discusses consistency requirements when the actuary is setting assumptions for which the actuary is taking responsibility but, under the ASOPs, an actuary can’t set an assumption without taking responsibility for it, and that the phrasing of this sentence suggests that there might be assumptions set by the actuary other than those for which the actuary is taking responsibility. The commentator noted that actuaries may use assumptions without taking responsibility for them, but only if the assumptions were set by another party and the actuary properly discloses the reliance. The commentator suggested the language closely mirror the language in the latest exposure drafts of ASOP Nos. 27 and 35 that reads, “If the assignment requires the actuary to set multiple assumptions, the actuary should select assumptions that are consistent with the other assumptions selected by the actuary, unless an assumption considered individually is not material. The actuary is not required to select assumptions that are consistent with assumptions not selected by the actuary.” |
| Response | The reviewers disagree and made no change in response to these comments. |
| Comment | One commentator suggested that the ASOP should specify requirements or recommended approaches when multiple assumptions are set by different actuaries instead of one actuary. |
| Response | Regarding specific requirements when multiple assumptions are set by different actuaries, the reviewers refer the commentator to ASOP No. 41. Regarding the request for recommended approaches, the reviewers note ASOP No. 1, section 3.1.4, states “the ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment....” Therefore, the reviewers made no changes in response to these comments. |

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| Section 3.6, Reasonable Assumptions in the Aggregate | |
| Comment | Several comments were received on the guidance or necessity of section 3.6, Reasonable Assumptions in the Aggregate. |
| Response | The reviewers deleted this section and refer the commentators to the guidance provided in ASOP No. 56, <i>Modeling</i> . |
| Section 3.9, Reliance on Assumptions Set by Another Actuary | |
| Comment | Several comments were received on the guidance in section 3.9 Reliance on Assumptions Set by Another Actuary. |
| Response | The reviewers note that section 3.9 has been deleted. |
| Section 3.10, Reliance on Assumptions Set by Others | |
| Comment | Several comments were received on the guidance in section 3.10, Reliance on Assumptions Set by Others. |
| Response | The reviewers note that section 3.10 has been deleted. |
| Section 3.11, Documentation (now section 3.9) | |
| Comment | Several commentators believe that the preparation of documentation in a form such that another actuary qualified in the same practice area could assume the assignment if necessary is tremendously difficult and unnecessarily burdensome. These commentators believe the requirement of enabling another actuary to understand the conclusion reached and/or be able to assess the reasonableness of the work is sufficient, and noted that much more than assumptions (for example, data, computer code, proprietary information) may be needed in order for another actuary to assume an assignment. These commentators suggest that the phrase “or could assume the assignment if necessary” be deleted. |
| Response | The reviewers modified the language in response to this comment. |
| Comment | One commentator indicated that, to improve clarity and reduce redundancy, the second sentence should be changed to match that in the documentation section (i.e. section 3.6) of the fourth exposure draft of the proposed Modeling ASOP (“The actuary should consider preparing such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work or could assume the assignment if necessary.”) |
| Response | The reviewers believe that the language in revised section 3.9 is appropriate and no changes were made in response to this comment. |
| Comment | One commentator indicated that “degree of documentation” was not clear and suggested “scope” or “extent” instead of “degree.” The commentator also suggested adding the language shown in italics here: “The degree of such documentation should be based on the professional judgment of the actuary, may vary with the complexity and purpose of the actuarial services, <i>and may also vary with the complexity and purpose of the assumption being documented.</i> ” |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator noted that section 4.3 of ASOP No. 41 discusses documentation regarding assumptions and methods set by someone other than the actuary and asked whether this section is intended to supersede that guidance when the “someone else” is an actuary. |
| Response | The reviewers note that section 4.3 of ASOP No. 41 is about disclosure, not documentation, and made no change in response to this comment. |
| SECTION 4. COMMUNICATIONS AND DISCLOSURES | |
| Section 4.1, Required Disclosures in an Actuarial Report | |
| Comment | One commentator questioned whether the required disclosures apply to insignificant assumptions. |
| Response | The reviewers note that ASOP No. 1 states, “The guidance in ASOPs need not be applied to immaterial items.” Accordingly, the reviewers made no change in response to this comment. |

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| Comment | One commentator recommended changing this section to read “a description of each set of assumptions as appropriate.” |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator asked whether, because assumptions are defined as values, “a description of each significant assumption” is intended to mean the description of what the assumption represents or a description in more general terms of what the loss development factors are. The commentator suggested revising this section to “a description of what each significant assumption or set of assumptions represents.” |
| Response | The reviewers modified the language in this section to no longer require “a description” of each material assumption. |
| Comment | Two commentators indicated that the requirement that the actuary disclose “the information and analysis used for setting each significant assumption in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumption” is overly burdensome. |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator suggested adding the words “If applicable” to read as follows: “If applicable, the information and analysis used for setting each significant assumption in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumption.” |
| Response | The reviewers disagree and made no change in response to this comment. |
| Comment | One commentator indicated that the term “actuarial finding” may not be familiar to all actuaries, is not defined in this proposed ASOP, and although it is defined in ASOP No. 41, only ASOP No. 1 definitions are automatically considered part of other ASOPs. The commentator therefore recommended including a definition in this ASOP or referring to the definition in ASOP No. 41. |
| Response | The reviewers note that the term “actuarial findings” is no longer used in section 4.1. The term “findings” is now used in section 3.7, but the reviewers believe the term is clear and made no change in response to this comment. |
| Comment | One commentator asked whether for the required disclosure of “material changes in significant assumptions” the actuary can comply by evaluating whether the change in assumption has a material effect on the results of the analysis. |
| Response | The reviewers believe the language is sufficiently clear and made no change in response to this comment. In addition, the reviewers note that ASOP No. 1, section 2.6 indicates that “an item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user” and that “In some circumstances, materiality will be determined by an external user, such as an auditor, based on information not known to the actuary.” |
| Comment | One commentator indicated that the requirement to document changes in assumptions since the most recent similar analysis is unduly burdensome and does not make sense when the prior report may not be recent or relevant. |
| Response | The reviewers added the word “relevant” to this section in response to this comment. |
| Comment | One commentator indicated that this section is ambiguously phrased – namely, it is not clear whether “to the extent known and readily available” modifies “material changes” or “most recent actuarial findings.” |
| Response | The reviewers believe the revised language is sufficiently clear and made no change in response to this comment. |

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| Section 4.2, Additional Disclosures | |
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| Comment | One commentator recommended that the actuary disclose whether a margin is needed, and if so, why it is needed, the margin sensitivity, and any limitations the margin may have. |
| Response | The reviewers believe the revised language in section 4.1(d) is sufficient. Therefore, the reviewers made no change in response to this comment. |
| Comment | One commentator indicated that the actuary should not only be required to explicitly disclose the amount of any margins, but also their combined effect on the final result of the analysis. |
| Response | The reviewers disagree and made no change in response to this comment. The reviewers note the language on disclosure of margins is in revised section 4.1. |
| Comment | One commentator indicated that section 4.2(d) is redundant, since ASOP No. 41 already requires this disclosure. |
| Response | The reviewers note this is a reference to ASOP No. 41 and made no change in response to this comment. |
| Comment | Two commentators indicated that this section refers the reader to ASOP No. 41, section 4.2, for prescribed assumptions set by another party, and the reader then turning to ASOP No. 41 will find no help. One of the commentators suggested deleting “and prescribed assumptions set by another party” from section 4.2(d). |
| Response | The reviewers agree, made this change to revised section 4.2(a), and added “prescribed assumptions set by another party” as an example in revised section 4.2(b). |