



AMERICAN ACADEMY of ACTUARIES

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April 14, 2021

Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036
Via email to comments@actuary.org

Re: ASB Comments—Comments on Third Exposure Draft of the Setting Assumptions ASOP

Members of the Actuarial Standards Board:

The Pension Committee of the American Academy of Actuaries¹ is pleased to present the following comments to the Actuarial Standards Board (ASB) regarding the third exposure draft of *Setting Assumptions*, a proposed actuarial standard of practice (ASOP). We believe much good work has been done to improve the clarity of the proposed ASOP. Nevertheless, we have some comments on the current exposure draft.

Following are our specific comments on various sections of the proposed ASOP:

- In the “History of the Standard” on page iv, mention is made of the updates the Public Company Accounting Oversight Board (PCAOB) has made to the audit guidelines for auditing financial statements that include information provided by specialists, including actuaries. Specific reference is made to Appendix A to Accounting Standard 1105, Audit Evidence. We believe the reference should be to “Auditing Standard” 1105. We think it would be consistent to also refer to the same PCAOB document in the fifth paragraph of Appendix 1 (underline indicates suggested additional wording):

“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, including updated guidance on evaluating assumptions used by specialists in the PCAOB audit guidelines (Appendix A to

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Auditing Standard 1105, Audit Evidence). 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.”

- In order to improve consistency with requirements in ASOP Nos. 23, 25, 41, and 56, we think Section 3.1(a) should be revised to indicate that assumptions take into account the “intended purpose” of the assignment and not just the “purpose”. For example, ASOP No. 56 specifically provides that when an actuary is using a model, the actuary should “make reasonable efforts to confirm that the model structure, data, *assumptions*, governance and controls...are consistent with the *intended purpose*.” (Emphasis added). A similar revision should be made to other references to “purpose” in Sections 3.3(a), 3.3(c), 3.6, 3.7 and 3.9.
- Section 3.3 lists three characteristics of reasonable assumptions. However, the characteristic in Section 3.3(b) requires an actuary to “take into account”, which does not appear to be consistent with Section 3.2 which only says the actuary “should consider” four things when setting assumptions. We read these as two inconsistent requirements. For example, an actuary may consider other relevant sources of data or information and decide, using their professional judgement, that the other sources are not needed to set the assumption because future expectations are *more* relevant to the purpose of the assignment. However, Section 3.3(b) says that everything in Section 3.2 must be taken into account so the assumption would appear to not be reasonable even though, in the actuary’s professional judgement, the assumption should be reasonable. We suggest a revision to the wording in Section 3.3(b) so it is consistent with the wording in Section 3.2 by substituting “considers” for “takes into account”, as follows (underline indicates suggested wording change):

“b. it considers data or information used when setting assumptions, as discussed in section 3.2; and”

- Section 3.6 lists three things the actuary should “take into account” when setting an explicit margin. However, we believe there is a large degree of professional judgement that is required in setting an explicit margin because of the many courses of action that an actuary should evaluate. Therefore, we suggest that that the wording be changed to say the actuary “should consider” instead of “take into account” these three things when setting an explicit margin. This is consistent with the description of the phrase “should consider” in ASOP No. 1, which states in Section 2.1(a):

“For example, the phrase “should consider” is often used to suggest potential courses of action. If, after consideration, in the actuary’s professional judgment an action is not appropriate, the action is not required and failure to take this action is not a deviation from the guidance in the standard.”

- As currently drafted, Section 3.6 (a) lists three things the actuary should take into account with respect to the degree of uncertainty around the assumption when setting an explicit margin. However, it is not clear that all three of these items will exist in all situations, and sometimes more than one may apply to the situation. We suggest adding the words “any

of” to this Section in order to better allow for all potential situations, as follows (underline indicates suggested additional wording):

“a. the degree to which there is uncertainty around the **assumption** due to any of the following.”

- Section 4.1 only refers to ASOP Nos. 23, 25, and 41 when discussing required disclosures around actuarial assumptions in actuarial reports that are in other ASOPs. However, there are many other ASOPs that have required disclosures about actuarial assumptions (for example, ASOP Nos. 27, 35, 56, etc.). We suggest either a general reference be made to all applicable ASOPs instead of listing specific ASOPs that have required disclosures about actuarial assumptions, so the reference will remain current with any future changes in or additions to the ASOPs.
- 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 “analysis” can be quite voluminous and generally includes details that we believe are better suited in documentation under Section 3.9. In addition, it would be consistent with Section 3.7 of ASOP No. 56 to provide this level of detail for another qualified actuary in documentation and not in disclosure. We suggest that Section 4.1(b) be revised as follows:

“b. a description of the information and analysis used for setting each material assumption in sufficient detail to permit the intended user to understand ~~another qualified actuary to assess the reasonableness~~ the appropriateness of the **assumption**.”

We believe this disclosure is consistent with Section 2.4 of ASOP No. 41 which defines an actuarial report as:

“The set of actuarial documents that the actuary identifies as relevant to specific actuarial findings that is available to an intended user.”

We appreciate the ASB giving consideration to these comments. Please contact Philip Maguire, the Academy’s pension policy analyst (maguire@actuary.org), if you have any questions or would like to arrange a convenient time to discuss this matter further.

Respectfully submitted,

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