

Title of Exposure Draft: Enterprise Risk Management

Comment Deadline: September 15, 2023

I. Identification:

Name of Commentator / Company
Daniel Lyons, MAAA, FCAS / Retired / I am submitting these comments on my own behalf.

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response
The proposed standard generally qualifies the sections of guidance to be conditional on (a) relevance at the organization receiving actuarial services, and (b) whether the services fall within the actuary's role and authority. Therefore, the ASB would like to draw the reader's attention to the following questions:	
1. Does the proposed standard cover all parts of ERM that may be relevant to actuaries practicing in the field of ERM? If not, please provide examples and explain.	It appears to cover all parts but I have not been practicing for a few years.
2. Is the guidance with the conditionality as described above—conditional on (a) and (b)—effective? If not, please propose an alternate approach.	I noticed that almost all parts of Section 3 begin with “When performing actuarial services related to ...” and §1.2 (Scope) states “..., the actuary should use the guidance in this ASOP to the extent practicable within the role and authority of the actuary.” so I think the guidance is effective. But it's my impression that ERM work product is prepared by a number of different professionals with actuaries not necessarily being in the lead. And given the breadth of actuarial training I think that actuaries can provide valuable input in just about any area of ERM work – the question is “Does all ERM work performed by an actuary constitute “actuarial services” or is it possible for an actuary to participate in some ERM work, as a good corporate citizen, with their input not constituting actuarial services?” So it might be the case that an actuary working on an ERM project would be providing actuarial services for §3.4.1 (Quantitative Components of Risk Appetite Framework) but not for his or her work on §3.2 (Risk Identification). If the Drafting Committee shares this view I suggest adding a paragraph at the beginning of section 3 stating that not all actuarial participation constitutes actuarial services and that it depends of the context of the work, the actuary's training and level of participation in specific ERM tasks. There might also be a documentation requirement for the actuary to note exactly what work constituted actuarial services and what did not.
3. Subject to the conditionality in question 2 above: a. Is the proposed guidance appropriate and sufficient? If not, please explain and suggest language. b. Does the proposed standard contain any guidance that might be impractical to apply in practice? If so, please provide examples and explain.	My impression is that this ASOP provides a comprehensive set of requirements for ERM work product that appears sufficient but perhaps not appropriate. It would not be appropriate if any actuarial participation was deemed “actuarial services” so that the ASOP held actuaries to higher standards than would be applicable to other professionals doing ERM work.

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III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	If the actuary’s actuarial services involve reviewing another actuary’s actuarial services contribution to ERM work product, the reviewing actuary should be reasonably satisfied that the other actuary’s work was performed in accordance with this standard. The reviewing actuary should use the guidance in this standard to the extent practicable within the scope of the actuary’s assignment.	I suggest adding this language before the “conflict with applicable law” sentence. It is taken from ASOP 55 and modified to apply to the ERM ASOP.
2.1	Delete the “Available Capital” definition and change §3.4.1 c. and §3.7 d. accordingly.	“Available Capital” is only used two times in this ASOP (as listed in the adjacent column) and I think the two references can be easily changed to allow this deletion.
2.4	Governance—Structures of an organization’s personnel, committees, and boards associated with management of the business that defines where authorities <u>which specifies where responsibilities</u> are held and the associated processes for <u>review, referral, notification, or decision-making and escalation.</u>	“Escalation” seems too limiting.
2.6	Internal Capital Assessment—A methodology used to calculate the additional assets necessary in excess of liabilities to withstand shocks based on an internal quantification of financial risk exposures using stochastic <u>or deterministic</u> methods or deterministic proxies . An internal capital assessment may indicate capital levels that are higher or lower than levels specified by regulators or <u>recommended by rating agencies.</u>	To me “deterministic proxies” suggests that stochastic methods are preferred and I’m not sure this is the Drafting Committee’s intent. In my experience rating agencies “suggest” a range of capital levels where the rating improves as the amount of capital increases.
2.10	Required Capital—The minimum level of excess of assets over liabilities required by regulators, <u>recommended by rating agencies, or calculated using internal assessments.</u> <u>Required Capital can vary based on the context of its determination.</u>	See my rationale for §2.6.
2.11	Risk Appetite—The levels of risks an organization is willing to take. Such risks may or may not be measurable <u>or estimated</u> financially. An organization may be willing to take on specified levels of an individual risk. For financially measurable <u>or estimable</u> risks, risk appetite may refer to individual risks or the level of aggregate risk that an organization is willing to take in pursuit of its objectives. <u>Risk appetite may change based on current or expected future market conditions.</u>	I suggest adding the last sentence to reflect the observation that capacity can be made available or can be reduced as rates, terms and conditions, etc. change.

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Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
2.12	Risk Appetite Framework—A methodology used to identify, measure, and place limits on risks an organization is willing to take. <u>The risk appetite framework may include quantitative or qualitative components.</u> The risk appetite framework may contain risk appetite statements, measurement of risks, setting and monitoring of risk appetite limits, and the governance associated with risk appetite.	The added sentence comes from and should be deleted from §3.4.
2.13	Risk Appetite Limit—The level that a risk measure <u>the organization’s risk appetite</u> should not exceed for the organization to remain within the intended level of risk-taking. Risk appetite limits may be applied at an aggregate level or specifically to a risk type. They may also operate at the company level within a group.	Using “risk measure” as this definition’s building block does not seem appropriate.
2.19	Three Lines of Defense—A common model for governance of an organization’s ERM framework. The “first line” refers to business and process owners within the organization. The “second line” identifies where there is separate oversight of risk-taking activities, with some independence from the first line. The “third line” is the role undertaken by auditors, which includes reviewing the <u>compliance and effectiveness</u> of the second line and the ERM framework.	I think checking for compliance is one of the auditor’s responsibilities.
3.4.1 a.	risk metrics for each risk identified in the risk appetite <u>inventory</u> ;	Perhaps this change is too granular but I don’t think risk appetite is appropriate here.
3.4.1 c.	risk appetite limits that constrain individual risks and the aggregation of risks at or below levels supported by the organization’s available <u>required</u> capital;	See my rationale for §2.1 above.
3.7 d.	has considered the fungibility of assets accessible as available capital <u>in different parts of an organization and transferable to other parts of the organization, including restrictions or limitations on such transfers and costs of such transfers that may exist between regulated affiliates</u> ; and	I don’t know how many organizations allocate assets to liabilities and capital hence the deletion of “available capital”. I suggest adding “or limitations” because that is slightly broader than a restriction. For example, a company may not be restricted from moving assets to another company in the group but may be limited if the transfer results in a rating downgrade.
3.7 e.	has considered the quality of available assets and any conditionality <u>or terms</u> of debt to fulfill the organization’s obligations.	I think the §3.7.d. requirement of fungibility (i.e., exchanging an asset for cash) includes the concepts of asset quality and liquidity so asset quality need not be included here.


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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Consider adding a definition of "Risk Metric".	ASOP 46 contains a definition of Risk Metric and it is not carried over to this draft ERM ASOP. "Risk metric" is used many times in the draft ERM ASOP and is a key concept in ERM work product so it is appropriate that it is defined. I appreciate this is not an easy task as the draft ERM ASOP specifies that the risk appetite framework may include quantitative and qualitative components and that some risks may not be measured financially. (So can you have quantified non-financial measures?) I suggest starting with the ASOP 46 definition then adding examples of different types of measures or concepts beyond what is listed in the current ASOP 46 definition. The draft ERM ASOP also uses "risk measure" (§2.13) and "measure" (§2.12) and if Risk Metric were defined then this standard term could be used consistently throughout the ASOP.
2.5 (This is the definition of a "Group".)	The new ERM ASOP is being proposed in part because of the existence of ASOP 55. ASOP 55 defines a group as an affiliated group of individual companies, of which at least one is an insurer (emphasis added). This new ERM ASOP does not seem to be restricted to groups with at least one insurer. If it is the intent of the Drafting Committee that the ERM ASOP applies to a larger set of organizations or groups then perhaps add "if applicable" to the ASOP 55 reference in §3.8.3.

V. Signature:

Commentator Signature	Date
	9-10-2023