



**ACTUARIAL STANDARDS BOARD**

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**• EXPOSURE DRAFT •**

**Introductory Actuarial Standard of Practice**

**Comment Deadline  
May 31, 2012**

**Developed by the  
General Committee of the  
Actuarial Standards Board**

**Approved for Exposure by the  
Actuarial Standards Board  
December 2011**

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January 2012

**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Introductory Actuarial Standard of Practice

**FROM:** Actuarial Standards Board (ASB)

**SUBJ:** Proposed Introductory Actuarial Standard of Practice (ASOP)

This document contains the exposure draft of a proposed revision of the introduction to ASOPs, titled *Introductory Actuarial Standard of Practice*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments.** 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. Comments will be posted in the order that they are received. **Comments received after the deadline will not be posted.**

If you wish to use conventional mail, please send comments to the following address:

Introductory ASOP  
Actuarial Standards Board  
1850 M Street, NW, Third Floor  
Washington, DC 20036

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

**Deadline** for receipt of responses in the ASB office: **May 31, 2012**

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### Background

This Introductory ASOP is an update to the *Introduction to the Actuarial Standards of Practice*. The Introduction was adopted in 2004 to replace a Preface to the standards that was adopted in 1989. The Introduction was intended to offer actuaries guidance on the ASB’s operations, the content and format of standards, and the ASB’s intent with respect to certain terms that appear frequently in the text of the standards themselves.

The Introduction was updated in October 2008 to make clear that the ASB, in promulgating ASOPs, seeks to define an appropriate level of practice (rather than simply codifying current practices), to remove references to “prescribed statements of actuarial opinion” in light of revisions made to the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* and to conform the provisions on deviations from the ASOPs to the deviation provisions of ASOP No. 41, *Actuarial Communications*, in accordance with the ASB’s project to standardize the “deviation” provisions in all ASOPs. The ASB received a number of comments on the Introduction at the time of this 2008 revision and concluded that further review would be appropriate. This revision is a result of that review.

### Key Changes

This revision of the Introduction contains the following key changes:

1. clarifies that the Introduction itself is an ASOP by changing the name to *Introductory Actuarial Standard of Practice* and organizes the information presented in a manner similar to the other ASOPs;
2. clarifies the intent of the Introductory ASOP and other ASOPs by more closely tracking the language used in the *Code of Professional Conduct* (Code);
3. refines definitions and discussions, adds terms, and otherwise revises language to improve clarity and consistency with the use of terms in the ASOPs;
4. better defines the role and scope of ASOPs by acknowledging that the ASOPs, while binding, are not the only requirements actuaries typically observe when rendering actuarial services; and
5. moves procedural matters (for example, how ASOPs are developed and revised, and how they are organized) from the body of the Introductory ASOP to an appendix.

## Request for Comments

The General Committee would appreciate comments on all areas of this proposed ASOP as well as identification of any other areas that should be considered. In addition, the General Committee has included several new and revised terms in section 2 for which comments would be appreciated.

One goal of the changes was to clarify that the Introduction itself is an ASOP. Does changing the name to *Introductory Actuarial Standard of Practice* and organizing the information presented in a manner similar to the other ASOPs accomplish this goal? Are there additional steps or a different approach that would be more effective?

The ASB reviewed the draft at the December 2011 board meeting and approved its exposure.

### General Committee of the ASB

Michael S. Abroe, Chairperson

Paul Braithwaite	Mary Simmons
Martin Feldman	Martin M. Simons
Maria M. Sarli	Thomas D. Snook
William J. Schreiner	

### Actuarial Standards Board

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*The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment.*

*The ASB's goal is to set standards for appropriate practice for the U.S.*

**INTRODUCTORY ACTUARIAL STANDARD OF PRACTICE**

Section 1. Overview

The Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs) for use by actuaries when rendering actuarial services in the United States. The ASB is vested by the U.S.-based actuarial organizations<sup>1</sup> with the responsibility for promulgating ASOPs for actuaries rendering actuarial services in the United States. Each of these organizations requires its members, through its *Code of Professional Conduct*<sup>2</sup> (Code), to observe ASOPs when rendering actuarial services in the United States.

This Introductory ASOP sets forth principles that have been broadly applicable to the work of the ASB since its inception, and carries the same weight and authority as other ASOPs. Any Financial Reporting and Actuarial Compliance Guidelines promulgated or republished by the ASB that have not been repealed or superseded carry the same weight as ASOPs.

The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S. The ASB promulgates ASOPs through a notice and comment process described in the *ASB Procedures Manual*. The ASB has exclusive authority in the United States to determine whether an ASOP is needed in a particular actuarial practice area, to promulgate ASOPs, and to amend or withdraw ASOPs. The ASB is the final authority for determining the content of ASOPs.

ASOPs are binding on members of the U.S.-based actuarial organizations when rendering actuarial services in the U.S. While these ASOPs are binding, they are not the only considerations that affect an actuary's work. Other considerations may include legal and regulatory requirements, professional requirements promulgated by employers or actuarial organizations, evolving actuarial practice, and the actuary's own professional judgment informed by the nature of the engagement. The ASOPs provide a basic framework that will typically accommodate these additional considerations.

This Introductory standard is effective for any actuarial work performed on and after two months following adoption by the Actuarial Standards Board.

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<sup>1</sup> The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

<sup>2</sup> These organizations adopted the *Code of Professional Conduct* effective January 1, 2001.

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### Section 2. Definitions, Discussions, and Related Guidance

Each ASOP includes a list of definitions of certain terms used within it. With the exception of this Introductory ASOP, those terms are defined only for use in that particular ASOP, and the definitions can and do differ among ASOPs, reflecting different uses of language in various segments of the profession. Definitions and discussions included in this Introductory ASOP are intended to apply to all other ASOPs, if the term is used in such ASOPs, unless the ASOP includes a specific definition of the term.

ASOPs frequently use terms that, while not defined within them, are integral to an informed reading of the ASOPs. Where terms are not defined or discussed within the ASOPs, the actuary is expected to interpret a term in a straight-forward manner, consistent with the common usage of the term. If an actuary has any questions about the meaning of a specific term, the actuary should consult the Actuarial Board for Counseling and Discipline (ABCD) for guidance.

Following are some common terms used in the ASOPs:

#### 2.1 Terms of Construction

- a. *Must*—“Must” as used in the ASOPs means that, under the circumstances, the actuary has no reasonable alternative but to follow a particular course of action. Because the ASOPs are not narrowly prescriptive, “must” is used infrequently to describe the manner in which an actuary renders actuarial services under these ASOPs. However, where “must” is used, it means that the course of action is mandatory and that failure to follow the course of action will constitute a deviation from the guidance of the ASOP. In that event, the actuary is directed to ASOP No. 41, *Actuarial Communications*.
- b. *Should*—While the word “must” indicates an imperative, the word “should” indicates what is normally the appropriate practice for an actuary to use when rendering actuarial services. Situations may arise where the actuary applies professional judgment and concludes that complying with this practice would be inappropriate, given the nature and purpose of the assignment and the principal’s needs, or that under the circumstances it would not be reasonable or practical to follow the practice. However, failure to follow the course of action denoted by the term “should” does constitute a deviation from the guidance of the ASOP. In that event, the actuary is directed to ASOP No. 41.
- c. *Should Consider*—The phrase “should consider” is less prescriptive than either “must” or “should.” This phrase is used to describe an action that the actuary may choose to follow after consideration. If, in the actuary’s professional judgment, the 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.

“Should consider” may also indicate that the actuary look beyond that which is measurable and certain. For example, ASOP No. 41, section 3.2 provides that the



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actuary “should consider” the needs of the intended user. However, actuaries cannot foresee all possibilities. Actuaries may choose to document their thoughts and concerns about these issues as part of their communication of results.

- d. *May*—“May” as used in the ASOPs means that the course of action described is one that would be considered reasonable and appropriate in many circumstances. “May” in ASOPs is often used when providing examples (for example, factors the actuary may consider; methods that may be appropriate). It is not intended to indicate that a course of action is reasonable and appropriate in all circumstances, nor to imply that alternative courses of action are impermissible.
- 2.2 *Actuarial Services*—Professional services provided to a principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings or opinions based on actuarial considerations.
- 2.3 *Actuarial Soundness*—The phrase “actuarial soundness” can have different meanings in different contexts. The evaluation of actuarial soundness involves the application of ASOPs in conjunction with professional knowledge, judgment, and experience. In rendering actuarial services, if the actuary identifies the process or result as “actuarially sound,” the actuary should define the meaning of “actuarially sound” in that context.
- 2.4 *Known*—ASOPs frequently refer to circumstances, factors, practices of the principal, or other items that are known to the actuary. In many cases, the actuary must rely upon the principal and others acting on the principal’s behalf to supply relevant information. The actuary cannot reasonably be expected to act based on information that was not provided. Consequently, unless an ASOP clearly indicates otherwise, “known” means that the actuary had actual knowledge of the item in question at the time the actuary rendered actuarial services.
- 2.5 *Materiality*—“Materiality” is a consideration in many aspects of the actuary’s work. An item is material if its omission or misstatement could influence a decision of an intended user. When evaluating materiality, the actuary should consider the purposes of the actuary’s work and how the actuary anticipates it will be used by intended users. The actuary should evaluate materiality of the various aspects of the task using professional judgment and any applicable law (statutes, regulations, and other legally binding authority), standard, or guideline. In some circumstances, materiality will be determined by an external user, such as an auditor, based on information not known to the actuary. The provisions of ASOPs need not be applied to immaterial items.
- 2.6 *Practical*—ASOPs frequently call upon actuaries to undertake certain inquiries, perform certain analytical tests, or make disclosures if it is “practical” to do so. This term is not intended to suggest that all possible steps should always be taken to complete an assignment. A professional assignment frequently requires the actuary to choose a course of action that is likely to yield an appropriate result without being unnecessarily time-consuming, elaborate, or costly relative to the principal’s needs. Thus, it is appropriate for the actuary, exercising professional judgment, to decide that the circumstances

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surrounding a particular assignment are such that it would not be practical to undertake a particular task. (Note: ASOPs commonly use “practical” and “practicable” interchangeably.)

- 2.7 *Principal*—A client or employer of the actuary.
- 2.8 *Professional Judgment*—Actuaries bring to their assignments not only highly specialized training, but also the broader knowledge and understanding that come from experience. For example, the ASOPs frequently call upon actuaries to apply both training and experience to their professional assignments, recognizing that reasonable differences may arise when actuaries project the effect of uncertain events.
- 2.9 *Reasonable*—In many instances, the ASOPs call for the actuary to take reasonable steps, make reasonable inquiries, or otherwise exercise reason when rendering actuarial services. The intent is to call upon the actuary to exercise the level of care and diligence that, in the actuary’s professional judgment, is necessary to complete the assignment in an appropriate manner.
- 2.10 *Reliance*—Actuaries frequently rely upon others for information and professional judgments that are pertinent to an assignment. Similarly, actuaries often rely upon others to perform some component of an actuarial analysis. Accordingly, some ASOPs permit the actuary to rely in good faith upon such individuals, subject to appropriate disclosure of such reliance, if required by applicable ASOPs (for example, ASOP Nos. 23, *Data Quality*, and 41).
- 2.11 *Significance/Significant*—To an actuary, significance can have different meanings that depend on the specific situation and usage. For example, a result may be deemed to be statistically significant, if it is determined that the probability that the result was produced by random chance is small. In addition, a result may be significant in size or significant in effect. Since all of these usages are common, the actuary should take care in interpreting or using these words.

### Section 3. Purpose and Format of Actuarial Standards of Practice

- 3.1 The Purpose of ASOPs—ASOPs identify what should be considered, documented, and disclosed when rendering actuarial services.
  - 3.1.1 The ASB promulgates standards for appropriate actuarial practice. In the course of developing or revising an ASOP, the ASB seeks the input of the actuarial profession and other interested parties. This process of exposure is intended to seek input on the effect that the proposed ASOP would have on the level of practice.
  - 3.1.2 ASOPs are not intended to shift the burden of proof or production in litigation, and failure to satisfy one or more provisions of an ASOP should not, in and of itself, be presumed to be malpractice. ASOPs are intended for use by actuaries

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who are qualified to make use of them, by virtue of having the necessary education and experience to understand and apply them (see Precept 2, Qualification Standards, of the Code). Other individuals should consider obtaining the advice of a qualified actuary before making use of, or otherwise relying upon, ASOPs.

- 3.1.3 The ASOPs are intended to provide guidance for dealing with commonly encountered situations. Actuaries in professional practice may also have to handle new or non-routine situations not anticipated by the ASOPs. In all situations, the actuary should exercise professional judgment in rendering actuarial services.
- 3.1.4 The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. The ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. Rather, the ASOPs provide the actuary with an analytical framework for exercising professional judgment, and identify factors that the actuary typically should consider when rendering a particular type of actuarial service. The ASOPs allow for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion, and recognize that actuaries can reasonably reach different conclusions when faced with the same facts. For example, because actuarial practice commonly involves the measurement of uncertain events, there will often be a range of reasonable assumptions, and two actuaries could follow a particular ASOP, both using reasonable methods and assumptions, and reach different but reasonable results.
- 3.1.5 There are situations where applicable law (statutes, regulations, and other legally binding authority) may require the actuary to deviate from the guidance of an ASOP. Where requirements of law conflict with the guidance of an ASOP, the requirements of law shall govern. The ASOPs provide guidance on this and other situations where the actuary deviates from the guidance of an ASOP (see section 4.5).
- 3.1.6 Unlike the ASOPs, which are binding upon actuaries, other actuarial literature provides information that an actuary might choose, but is not required, to consider when rendering actuarial services. For example, practice notes published by the American Academy of Actuaries describe various methods actuaries may use, but do not establish standards of practice and are not binding upon actuaries. Similarly, research papers, learned treatises, study notes, actuarial textbooks, journal articles, and presentations at actuarial meetings can be informative, keeping the actuary abreast of developments as actuarial science evolves, but do not establish binding requirements upon the actuary.
- 3.1.7 Each ASOP has a specified effective date. Prior to that date, exposure drafts of the ASOP, and the ASOP itself from the date of its publication to its effective date, form part of the literature of the actuarial profession; actuaries may look to them at their discretion for advisory guidance. An ASOP is not binding until the

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effective date of the ASOP. Unless specified otherwise, in the case of a revision to an existing ASOP, the existing ASOP is binding until the effective date of the revised ASOP.

- 3.2 The Format of ASOPs—Each ASOP document includes (1) a transmittal memorandum, (2) the ASOP itself, and (3) one or more supporting appendices.<sup>3</sup> The transmittal memorandum and the appendices are not part of the ASOP and are nonbinding, but may be useful to the actuary in interpreting the standard.

### **Section 4. Compliance with ASOPs**

- 4.1 ASOPs are binding upon actuaries. Failure to comply with an applicable ASOP can breach the Code that requires the work performed by actuaries or under their direction to satisfy applicable ASOPs. Such breaches subject the actuary to the profession's counseling and discipline processes.
- 4.2 Actuaries should take a good faith approach in complying with ASOPs, exercising good judgment and professional integrity. It is not appropriate for users of ASOPs to make a strained interpretation of the provisions of an ASOP.
- 4.3 Actuaries should comply with those ASOPs that are relevant to the task at hand; not all ASOPs will apply. An ASOP should not be interpreted as having applicability beyond its stated scope and purpose. Most, but not all, ASOPs are task-specific, dealing with particular kinds of actuarial services. A few ASOPs, however, deal more broadly with particular aspects of many types of actuarial services (such as ASOP Nos. 23 and 41, and this Introductory ASOP). Actuaries are responsible for determining which ASOPs apply to the task at hand.
- 4.4 When an actuary believes that multiple ASOPs have conflicting provisions when applied to a specific situation and none provide explicit guidance concerning which governs, the actuary should apply professional judgment and may wish to contact the ABCD for confidential guidance on appropriate practice.
- 4.5 The ASOPs make specific provision for those situations where the actuary is required to or deems it appropriate to deviate from one or more provisions of an ASOP. It is not a breach of an ASOP to deviate from one or more of its provisions if the actuary does so in the manner described in the ASOP, including making the disclosures related to the deviation as required in such ASOP and in ASOP No. 41.

## **Appendix**

### **Background and Additional Information**

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<sup>3</sup> With respect to how the ASOP document is organized, the current ASOP format differs from that of some earlier ASOPs, but all ASOP documents contain similar content, as described in the Appendix to this *Introductory ASOP*.

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

### Clarification of Language

As the ASB revises ASOPs, it strives to improve clarity and consistency in language. For example, the 2010 update to ASOP No. 41, *Actuarial Communications*, included changes in definitions to be more consistent with those found in the *Code of Professional Conduct* (Code) and in the recently revised Qualification Standards, and also incorporated language to help create consistency in the treatment of deviation language within all ASOPs. Similarly, in this Introductory ASOP, a number of definitions and discussions of terms used in many of the ASOPs have been added and, where the terms added also appear in the Code, they have been made consistent. In addition, an effort has been made to replace undefined terms or phrases with phrases that include defined terms or are used in the Code.

### Role and Scope of ASOPs

The Introductory ASOP has been revised to better define the role and scope of ASOPs. While ASOPs are binding on actuaries rendering actuarial services in the U.S., the Introductory ASOP now more directly acknowledges that actuaries are subject to a range of requirements and considerations that may affect how they do their work. These include legal and regulatory requirements, their employer's peer review or other quality assurance processes and policies, continuing education requirements, the Code, and the actuary's own professional or ethical standards. Because the ASOPs are not overly prescriptive, and allow for disclosed deviations, the ASOP framework is designed to accommodate the actuary's providing high quality actuarial services and acting with integrity, taking all appropriate considerations into account. The Academy's Council on Professionalism publishes advisory Applicability Guidelines to assist actuaries in identifying the ASOPs that may be relevant.

### Development of ASOPs

Proposals for developing new ASOPs and revising existing ones come from a variety of sources, such as individual actuaries, actuarial firms, professional committees, the ABCD, the ASB committees, and the ASB itself. If it accepts a proposal, the ASB assigns it to the appropriate committee or task force to begin the project.

The process of developing a new ASOP or revising an existing ASOP usually begins with the identification of practices that the ASB believes are appropriate to the proper performance of a particular type of actuarial service. After reviewing the current range of practices, the ASB determines whether it is appropriate under the circumstances to develop a new or revise an existing ASOP to reflect emerging issues in actuarial practice, recent advancements in actuarial science, or for other reasons.

Organization of ASOPs

The ASB strives to organize all ASOPs in a similar fashion to the extent feasible. The ASOP document includes a transmittal memorandum, the ASOP itself, and appendices. The transmittal memorandum provides brief background information and a description of the key issues related to the development or revision of the ASOP. The appendices (1) provide additional background and historical issues, (2) describe current or alternative practices, and (3) summarize the major issues raised in the exposure process and their disposition by the drafting committee. Additional appendices may also contain supporting documents, bibliographies, or illustrative examples.

Each ASOP begins with two sections that (1) summarize briefly the scope, cross references, and effective date of the ASOP, and (2) define certain terms used within the ASOP.

The scope identifies the intended application of the ASOP to the work of the actuary. In some instances, the actuary serves as an advisor to a principal and does not actually make decisions or take actions on the principal's behalf. In those instances, the ASOP may indicate in its scope to what extent the ASOP addresses the actuary's role in advising the principal. However, the ASOPs are not intended to make the actuary responsible if the principal acts contrary to the actuary's advice.

The other two sections of ASOPs typically (1) provide an analysis of issues and recommended practices and (2) address communications and disclosures.

The Analysis of Issues and Recommended Practices section is organized into major topics or issues, or major tasks involved in rendering actuarial services within the ASOP's scope. Emphasis is placed on providing the actuary with an appropriate analytical framework for completing an assignment that is within the scope of the ASOP.

Communications or disclosures pertinent to the subject of the ASOP and applicable limitations are identified in the Communications and Disclosures section and in ASOP No. 41. Where appropriate, reference may be made to applicable provisions of the Code. This section also includes a description of what an actuary should do when, in the actuary's professional judgment, a deviation from the guidance in the ASOP is deemed to be appropriate.