



ACTUARIAL STANDARDS BOARD

**Introduction to the
Actuarial Standards of Practice**

**Developed by a
Special Task Force of the
Actuarial Standards Board**

**Adopted by the
Actuarial Standards Board
December 2004**

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

FROM: Actuarial Standards Board (ASB)

SUBJ: Introduction to the Actuarial Standards of Practice (ASOPs)

This booklet contains the final version of the *Introduction to the Actuarial Standards of Practice* (Introduction).

Background

In 1989, the ASB published a Preface to its standards written by eminent actuary Edward A. Lew. The Preface provided excellent insight into the nature of professions and the role that professionalism standards and disciplinary procedures play, with specific reference to those of the actuarial profession.

Since that time, there have been significant developments in the structure of the professionalism standards and disciplinary procedures of the actuarial profession. The ASB determined that it would be beneficial to adopt an Introduction to the standards 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. For these reasons, the ASB has withdrawn the Preface and prepared this Introduction. The relevant portions of the Preface, have been appropriately updated to reflect the developments in the structure of actuarial professionalism standards and discipline procedures since 1989, and were incorporated into a new, expanded document on actuarial professionalism published by the Council on Professionalism of the American Academy of Actuaries, titled *Structural Framework of U.S. Actuarial Professionalism*.

Exposure Draft

The exposure draft of this Introduction was issued in October 2003, with a comment deadline of March 31, 2004. Thirty-four comment letters were received. A number of these comment letters represented consensus comments from groups of individuals, including consulting firms, insurance companies, and Academy committees and practice councils. The task force carefully considered all comment letters received. A summary of the substantive issues contained in the exposure draft comment letters and the task force's responses are provided in the appendix.

As part of reviewing the Introduction, the ASB heard from a group of commentators on the exposure draft who had requested a public hearing in order to address whether the Introduction

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should contain language to encourage more rigorous standards rather than describe standards as codifying generally accepted practice.

The ASB felt that this issue went beyond the scope of the Introduction and would be better explored in some other fashion. The ASB ultimately determined that the Introduction appropriately describes the way ASOPs are currently written and will be a helpful addition to the standards literature.

The most significant changes from the exposure draft were as follows:

1. The terminology relating to the compliance with ASOPs has been revised throughout the document for consistency with that used in the *Code of Professional Conduct*.
2. Sections 3.1.2 and 3.1.3 have been expanded to elaborate on the processes by which ASOPs are determined to reflect generally accepted practice.
3. Sections 3.1.3 and 4.6.1 have been revised to clarify how ASOPs address new practices based on recent advancements in actuarial science.
4. Section 3.2.2 has been expanded to discuss actions by a principal contrary to the advice of the actuary and the fact that an ASOP is not binding upon an actuary until the effective date of the ASOP.
5. A new section 4.1 has been added explaining the manner in which the *Code of Professional Conduct* makes ASOPs binding upon actuaries.
6. A new section 4.4 has been added addressing conflicts between ASOPs.
7. A new section 4.5.1 had been added discussing the term “known” as used in the ASOPs.
8. Section 4.6 (formerly section 4.4) provides elaboration on the appropriate application of the deviation clause.

The task force would like to thank all those who commented on the exposure draft.

The ASB voted in December 2004 to adopt this Introduction.

Special Task Force on Introduction

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INTRODUCTION TO THE ACTUARIAL STANDARDS OF PRACTICE

Section 1. Overview

The Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States. For purposes of this Introduction, Financial Reporting Recommendations and Actuarial Compliance Guidelines promulgated or republished by the ASB that have not been superseded are also ASOPs. This Introduction sets forth principles that have been broadly applicable to the work of the ASB since its inception. This introductory material is intended by the ASB to be part of the standards and to carry the same weight and authority as the ASOPs themselves.

Section 2. The Actuarial Standards Board

- 2.1 The ASB is vested by the U.S.-based actuarial organizations¹ with the responsibility for promulgating ASOPs for actuaries providing professional services in the United States. Each of these organizations requires its members, through its *Code of Professional Conduct* (Code)², to observe the ASOPs of the ASB when practicing in the United States. Actuaries who are required by their non-U.S. actuarial organizations to observe applicable standards of practice when providing professional services should also look to these ASOPs when practicing in the United States.
- 2.2 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 practice area, to promulgate ASOPs, and to amend or withdraw ASOPs when, in the ASB's judgment, such amendment or withdrawal is appropriate. The ASB is the final authority for determining the content of its ASOPs.

Section 3. Actuarial Standards of Practice

- 3.1 The Purpose of ASOPs
 - 3.1.1 The ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome. ASOPs are intended to provide actuaries with a framework for performing professional assignments and to offer guidance on relevant issues, recommended practices, documentation, and disclosure. Each ASOP articulates a process of analysis, documentation, and disclosure that, in the ASB's judgment, constitutes appropriate practice within the scope and purpose of the ASOP.

¹ 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.

² These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

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- 3.1.2 In most instances, ASOPs are written to reflect generally accepted practice, i.e., practices that are broadly accepted by qualified actuaries as appropriate to the proper performance of a particular type of professional assignment or aspect of professional practice. In such instances, the ASB reviews the current range of practice and seeks to codify generally accepted practice, including documentation and communication. Additionally, the ASB provides supporting context to delineate how the level of practice may appropriately be achieved in specific situations. The process of exposure to the profession is intended to confirm the general range of practice and that the specific provisions and applications of the ASOP reflect generally accepted practice.
- 3.1.3 On occasion, the ASB may determine that, in one or more of its aspects, current practice should be elevated or changed in order to raise it to an appropriate level or to incorporate practices based on recent advancements in actuarial science. When a proposed ASOP involves such a determination, the ASB seeks to define an appropriate level of practice, recognizing that the adoption of an ASOP and its subsequent use by practitioners and enforcement by the U.S.-based actuarial organizations will have the effect of rendering practices described in the ASOP as “generally accepted.” Similarly, the ASB sometimes promulgates an ASOP in a new area of practice (for example, to guide actuaries in complying with the requirements of a newly enacted law or regulation). Again, the ASB seeks to define an appropriate level of practice for actuaries working in the new area.
- 3.1.4 ASOPs are intended for use by actuaries who, by virtue of having the necessary education and experience to understand and apply them, are qualified to make use of them. Other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon these ASOPs. 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.
- 3.1.5 The ASB recognizes that actuarial practice involves the identification, measurement, and management of contingent future events in environments that rarely, if ever, emerge exactly as projected. Moreover, the ASOPs are intended to provide guidance for dealing with commonly encountered situations. ASOPs take into account relevant issues arising from the scope of the assignment, limited information, time constraints, and other practical difficulties such as conflicts with regulatory or other restrictions. Actuaries in professional practice may also have to handle new or nonroutine situations not anticipated by the ASOPs. As a consequence, the actuary must be able to exercise professional judgment and relevant experience in applying an ASOP.
- 3.1.6 The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Rather, the ASOPs provide the actuary with an analytical framework for exercising professional judgment, identifying factors

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that the actuary typically should consider when faced with a particular type or aspect of professional service. The ASOPs intentionally leave significant room for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion, whether a single value or a range of values. Emphasizing process over outcome, the ASOPs recognize that actuaries can and do reasonably differ in their preferred methodologies and choices of assumptions and can reasonably reach differing opinions, even when faced with the same facts. Two actuaries could follow generally accepted practice, both using reasonable methods and assumptions, and reach appropriate results that could be substantially different.

- 3.1.7 There are situations where legislative or regulatory bodies or other professional organizations have established rules or requirements that are not in accordance with generally accepted actuarial principles and practice or where an actuary is prevented from applying professional judgment. To deal with these situations, the ASB provides guidance on compliance in such environments. ASOPs that focus on compliance issues typically contain the word “compliance” in their titles.
 - 3.1.8 Unlike the ASOPs, which actuaries are required to observe, the actuarial literature provides information that an actuary might choose, but is not required, to consider when providing professional services. Practice notes published by the Academy, for example, describe various methods actuaries use to satisfy an ASOP or to comply with a legal or regulatory requirement, but do not purport to codify generally accepted practice and are not binding upon actuaries. Similarly, 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. Practice also evolves as actuarial research and literature document new methods and improved techniques, and generally accepted practice frequently comes into use through the profession’s collective adoption of techniques described in the actuarial literature. However, unlike the ASOPs, such literature is not binding upon the actuary, and the actuary can legitimately exercise professional judgment in deciding whether and how to make use of such materials.
- 3.2 The Format of ASOPs—Each ASOP document contains (1) a transmittal memorandum, (2) the ASOP itself, and (3) one or more supporting appendices.³
- 3.2.1 The transmittal memorandum and the appendices are not part of the ASOP and are nonbinding. The transmittal memorandum provides background information and a description of the key issues related to the development of the ASOP. The appendices (1) provide the background and historical issues involved and describe current or alternative practices and (2) summarize the major issues raised in the exposure process and their disposition by the drafting committee. Additional

³ 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 sections 3.2.1–3.2.3 of this Introduction.

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appendices may also contain supporting documents, bibliographies, or illustrative examples.

- 3.2.2 Each ASOP begins with two sections that (1) summarize briefly the purpose, scope, cross references, and effective date of the ASOP, and (2) define the special terms used within the ASOP.
- a. The purpose and scope identify 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.
 - b. 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, i.e., actuaries are not required to ensure that professional services performed by them or under their direction satisfy the ASOP until the effective date of the ASOP, because in adopting the ASOP the ASB may have defined a new practice or elevated practice, as described in section 3.1.3 above. In the case of a revision to an existing ASOP, the existing ASOP is binding until the effective date of the revised ASOP.
 - c. Each ASOP contains a list of definitions of terms used within it. 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.
- 3.2.3 The other two sections of the ASOP (1) provide an analysis of issues and recommended practices and (2) address communications and disclosures.
- a. The Analysis of Issues and Recommended Practices section is organized by major topics or issues, or by major tasks involved in completing assignments within the ASOP's scope. Emphasis is placed on providing the actuary with an appropriate analytical framework for completing the assignment that is within the scope of the ASOP.
 - b. The Communications and Disclosures section includes an appropriate statement concerning whether the ASOP calls for the issuance of a statement of actuarial opinion as described in the Academy's Qualification Standards. It also contains a clause that describes what an actuary should do when, in the actuary's professional judgment, a deviation from one or

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more provisions of the ASOP is deemed to be appropriate. Special communications or disclosures pertinent to the subject of the ASOP and applicable limitations are identified in this section. Where appropriate, reference may be made to applicable provisions of the Code.

Section 4. Compliance with ASOPs

- 4.1 Actuaries are required by *Precept 3* of the Code to ensure that work performed by them or under their direction satisfies applicable ASOPs. ASOPs are, therefore, binding upon actuaries because failure to follow an applicable ASOP can breach the Code, rendering the actuary subject to the profession's counseling and discipline processes.
- 4.2 Actuaries are expected to take a good faith approach in applying ASOPs, exercising good judgment and common sense; it would be inappropriate for any user of an ASOP to make a strained interpretation of the provisions of the ASOP.
- 4.3 Actuaries should observe 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, of the ASOPs are task-specific, dealing with particular kinds of professional services performed by actuaries. A few ASOPs, however, deal more broadly with particular aspects of many types of actuarial assignments (for example, ASOP No. 23, *Data Quality*). Actuaries are responsible for identifying the ASOPs that apply to the task at hand. The Academy's Council on Professionalism publishes advisory Applicability Guidelines to assist actuaries in identifying the ASOPs that may be relevant.
- 4.4 The ASB seeks to avoid creating conflicts between the ASOPs. When an actuary believes that two ASOPs have conflicting requirements when applied to a specific situation and neither ASOP provides explicit guidance concerning which of the two takes precedence, the actuary is encouraged to contact the Actuarial Board for Counseling and Discipline (ABCD) for confidential guidance on appropriate practice. Where two ASOPs have differing but not conflicting requirements, the ASB anticipates that the actuary will apply professional judgment to harmonize the two ASOPs in a reasonable fashion. The actuary may choose to seek confidential guidance from the ABCD to support the actuary's judgment.
- 4.5 ASOPs frequently use a few terms that, while not defined within them, are integral to an informed reading of the ASOPs. For example:
 - 4.5.1 *Known*—ASOPs frequently refer to circumstances, factors, practices of the principal, or other information or items that are known. The ASB recognizes that, in many cases, the actuary relies upon the principal and others acting on the principal's behalf for information and cannot reasonably be expected to act based on information that was not provided to the actuary. Consequently, unless an ASOP clearly indicates otherwise, "known" means that the actuary had actual

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knowledge of the item in question at the time the actuary performed professional services under the ASOP.

- 4.5.2 *Practical/Practicable*—ASOPs frequently call upon actuaries to undertake certain inquiries, perform certain analytical tests, or make disclosures if it is “practical” or “practicable” to do so. Neither of these terms is intended to suggest that all possible steps should always be taken to complete an assignment. To the contrary, the constraints of a professional relationship or assignment and the specifics of a given environment frequently require 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 legitimate needs. Thus, it is appropriate for the actuary, exercising professional judgment, to decide that the circumstances surrounding a particular assignment are such that it would not be practical or practicable to undertake a particular task. The actuary might choose to disregard items that, in the actuary’s professional judgment, are not material to the purpose and nature of the assignment.
- 4.5.3 *Professional judgment*—Actuaries bring to their assignments not only highly specialized training, but also the broader knowledge and understanding that come from experience. The ASOPs frequently call upon actuaries to thoughtfully apply both training and experience to their professional assignments, recognizing that reasonable differences of opinion are appropriate, if not inevitable, when professionals undertake to project the effect of contingent future events. The ASB anticipates that the actuary’s use of professional judgment will be presented in such a way that another qualified actuary would recognize when and where judgment has been applied, even if the other qualified actuary might disagree with the resulting conclusions.
- 4.5.4 *Reasonable*—In many instances, the ASOPs call for the actuary to take reasonable steps, make reasonable inquiries, or otherwise exercise reason when performing a professional service. The intent is not to require the actuary to go beyond what the actuary deems to be appropriate under the circumstances, given the nature of the assignment and the professional relationship and relevant business considerations. Rather, the intent is to call upon the actuary to exercise the level of care and diligence that, in the actuary’s professional judgment, is consistent with generally accepted actuarial practice and necessary to complete the assignment in an appropriate manner.
- 4.5.5 *Reliance*—The ASOPs recognize that actuaries are frequently required to rely upon non-actuaries such as other professionals, management, and trustees for information and professional opinions that are pertinent to an assignment. Similarly, actuaries often rely upon their actuarial colleagues to perform some component of a larger actuarial analysis in circumstances where it would be inappropriate or impractical for the actuary to redo the colleagues’ work or where the actuary would not be qualified to do so. Accordingly, the ASOPs usually

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permit the actuary to rely in good faith upon such individuals, subject to appropriate disclosure of such reliance.

- 4.6 The ASOPs make specific provision for those situations where the actuary 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 “deviation clause.”
- 4.6.1 A deviation clause is included in each ASOP in recognition that actuaries are frequently called upon to render professional services in situations that differ to some extent from those contemplated when the ASOP was adopted or where, in the professional judgment of the actuary, the application of new practice based on recent advances in actuarial science would be more appropriate. The circumstances of an assignment or constraints associated with it may be such that it would be inappropriate for the actuary to conform strictly to the ASOP and, thereby, fail to take those circumstances, constraints, or advancements into account in an appropriate manner.
- 4.6.2 The deviation clause requires an actuary who departs materially from any of the provisions of an ASOP to include, in any actuarial communication disclosing the results of the actuarial assignment, an appropriate statement with respect to the nature, rationale, and effect of such departures.
- 4.6.3 The ASOPs require the actuary to be prepared to “defend” or “justify” deviations from one or more provisions of an ASOP. This means that the actuary should be prepared to defend the basis for the decision to deviate to the actuarial profession’s disciplinary bodies. Failure by the actuary to provide a substantive and reasonable logic for such a deviation could be considered a violation of the actuary’s responsibility under Precept 1 of the Code to provide professional services with appropriate skill and care. The actuary may also be called upon to explain a deviation and the reasons for the deviation to a principal or other intended users of the actuary’s work.

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Appendix

Comments on the Exposure Draft and Task Force Responses

The exposure draft of the *Introduction to the Actuarial Standards of Practice* was issued in October 2003, with a comment deadline of March 31, 2004. Thirty-four comment letters were received. A number of these comment letters represented consensus comments from groups of individuals, including consulting firms, insurance companies, and Academy committees and practice councils. 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 comment letters received. Summarized below are the significant issues and questions contained in the comment letters and the task force’s responses to each. Unless otherwise noted, the section numbers and titles used below refer to those in the exposure draft.

GENERAL COMMENTS	
Comment	A number of commentators suggested various editorial changes in addition to those addressed specifically below.
Response	The task force implemented such suggestions if they enhanced clarity and did not alter the intent of the section.
Comment	A significant number of commentators welcomed the Introduction and found it to be very useful for working with and providing a better understanding of the ASOPs. One commentator believed that it was ill considered and poorly drafted.
Response	The task force wishes to thank those commentators who showed their support.
Comment	Several commentators addressed issues that the task force believed were beyond the scope of the Introduction. Some of the issues raised related to whether the ASOPs should address “best practice” or “cutting-edge” practices as opposed to generally accepted practices, whether the ASOPs should provide more specific guidance in certain areas, and problems encountered with particular ASOPs. One commentator questioned both the necessity for ASOPs and the operations and authority of the ASB in general.
Response	The task force forwarded these comments to the ASB for its review and consideration. (Please see the transmittal memorandum for a related discussion.)
Comment	One commentator questioned why, in spite of the explanation given in the Background of the transmittal memorandum, it was believed necessary to develop the Introduction and how it forms a part of the ASOPs themselves.
Response	The task force believed the Background of the transmittal memorandum provided a sufficient level of explanation and also noted that section 1, Overview, states that the Introduction carries the same authority as an ASOP.
Comment	One commentator suggested that a paragraph be added to the Background of the transmittal memorandum focusing on why the establishment and adherence to ASOPs is so important to society. Another commentator suggested mentioning how ASOPs relate to the other elements of professionalism.
Response	The task force noted that the Council on Professionalism’s recently published discussion paper <i>Structural Framework of U.S. Actuarial Professionalism</i> discusses such issues.
Comment	One commentator believed that the Introduction targets a broader audience than just actuaries and should say so. Also, each ASOP should explicitly identify its target audience.
Response	The primary audience of the Introduction is the members of the actuarial profession who are affected by ASOPs. This audience is identified in the scope of each ASOP. The transmittal memorandum of each ASOP

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	recognizes that other parties may be interested in the ASOPs, but such interested parties are not directly targeted.
Comment	One commentator believed that the Introduction should provide guidance on how to deal with conflicts between ASOPs, conflicts with principle statements, and issues relating to work products subject to standards of practice of more than one jurisdiction.
Response	The task force added what is now section 4.4 to discuss conflicts and refers the commentator to the Council on Professionalism’s discussion paper <i>Application of Professional Standards in International Practice</i> .
Comment	One commentator believed that the guidance provided inadvertently increases the liability of actuaries.
Response	The Introduction codifies the existing manner in which ASOPs are written and how they are intended to be applied, which should reduce liability. In the opinion of the task force, failure to provide guidance could have an adverse effect.
Comment	Several commentators noted that various terms are used to describe practice in accordance with the ASOPs, including “appropriate practice,” “minimum acceptable level of practice,” “recommended practice,” “appropriate level of practice,” and “generally accepted practice” and suggested that the latter term be used throughout.
Response	The task force reviewed the use of those terms and revised the language where appropriate.
Comment	One commentator believed that the Introduction implied that actuaries must comply with the ASOPs and that they are “binding upon actuaries.” The commentator believed that it should be made clear that an actuary who deviates from an ASOP but follows the requirements for deviating (the “deviation clause”) is in compliance with the ASOPs. Alternatively, the terminology should be changed to indicate that actuaries are required to “observe” the ASOPs.
Response	The task force added a new section 4.1 that explains how ASOPs are binding on actuaries and revised section 4.4 (now 4.6) to clarify that it is not a breach of an ASOP to deviate from its provisions if the actuary does so in the manner described in the “deviation clause.” The <i>Code of Professional Conduct</i> requires that actuaries observe the ASOPs and that their work satisfy applicable ASOPs. Where appropriate, this terminology has been adopted throughout the Introduction.
Comment	The transmittal memorandum of the exposure draft asked if the Introduction appropriately described the purpose and use of the standards. None of the commentators identified any purpose or use of the standards that had not been addressed, although one commentator believed that it would be helpful to include more specific examples, such as in section 4.4.1 (now 4.6.1).
Response	The task force believed the Introduction provided an appropriate level of specificity and did not add more examples.
Comment	The transmittal memorandum of the exposure draft asked if there were additional topics that should be included in the Introduction. One commentator suggested adding a general discussion of peer review in section 4 together with a list of suggested topics.
Response	The task force did not believe that the Introduction was an appropriate place for a discussion of peer review and noted that the topic is addressed in the Committee on Professional Responsibility’s discussion paper <i>Peer Review</i> .
Comment	Two commentators believed that there should be a discussion of actuarial compliance guidelines, their purpose, and why most of them have been repealed.
Response	The task force believed that section 1, Overview, and section 3.1.7 offered sufficient information about the role of actuarial compliance guidelines.
Comment	One commentator believed that it would be helpful to include an explanation of practice notes, their relationship to the ASOPs, and where they can be found.
Response	Section 3.1.8 provides a brief description of practice notes, which can be obtained from the Academy office or website.

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Comment	One commentator noted that standards are often written as if the actuary is responsible for all aspects of the assignment, such as the selection of assumptions, while in reality, the actuary may only be advising the principal. It was suggested that the Introduction address this issue and the fact that the actuary is not responsible if the principal does not follow the actuary’s advice.
Response	The task force added a discussion of this issue in new section 3.2.2(a).
Comment	One commentator would like to see a discussion of what constitutes “other binding authority” as used in the second paragraph of section 1.2, Scope, of most ASOPs.
Response	The task force did not add a discussion of this to the Introduction but instead referred the issue to the ASB for its review and consideration.
SECTION 1. OVERVIEW	
Comment	One commentator believed that the Introduction should not be given the same weight as the ASOPs.
Response	The task force disagreed.
SECTION 2. THE ACTUARIAL STANDARDS BOARD	
Section 2.1	
Comment	One commentator asked whether the phrase “practicing in the United States” needed clarification.
Response	The task force believed that this issue is adequately addressed in the Committee on International Issues’ discussion paper <i>Application of Professional Standards in International Practice</i> .
Comment	One commentator questioned whether the SOA and CAS, which view themselves as non-national specific, should be referred to as “U.S.-based organizations representing actuaries” any more so than the IAA should be referred to as a “Canadian-based organization.” The suggestion was made that the terminology be changed to “principle [sic] organizations representing actuaries in the U.S.”
Response	The task force discussed various alternative phrases and decided to use “U.S.-based actuarial organizations,” which is both widely used and understood in actuarial literature.
Comment	One commentator suggested that the phrases “comply with” and “compliance with” be changed to “apply the” and “application of,” respectively, when referring to the ASOPs and applicable standards of practice here and elsewhere in the Introduction. Several commentators offered similar suggestions for wording throughout the document.
Response	The task force agreed and revised such terminology for consistency and clarity throughout the document.
SECTION 3. ACTUARIAL STANDARDS OF PRACTICE	
Section 3.1.1	
Comment	One commentator suggested adding the phrase “scope of the assignment” as the first illustrative difficulty in the last sentence.
Response	The task force agreed and made the change.
Comment	Several commentators suggested that the last sentence more appropriately belongs in section 3.1.5. Two of the commentators suggested the wording changes necessary to accomplish this change.
Response	The task force agreed and made the suggested changes.
Section 3.1.2	
Comment	One commentator suggested deleting the phrase “are written” in the first sentence.
Response	The task force disagreed because it believed the phrase showed intent.
Comment	One commentator suggested that, in the first sentence, the introductory phrase “In most instances” should be deleted; the phrase “are written to reflect generally accepted actuarial practice” should be replaced with “are intended to establish standards that reflect generally accepted practices or practices that the ASB believes should become generally accepted;” and the definition following “i.e.” be made into a separate sentence.
Response	The task force disagreed.

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Comment	One commentator suggested that the last sentence should be deleted.
Response	The task force rewrote the entire last portion of this section to clarify the process by which the ASOPs are determined to reflect generally accepted practice.
Comment	One commentator believed that the issuance of an ASOP in the situations described in this paragraph serves to elevate the “generally accepted” level of practice by adding specificity to the appropriate range of practice, identifying specific documentation and communication requirements, and adding supporting context to delineate how that level of practice may appropriately be achieved. The commentator also believed that the exposure of proposed ASOPs to the membership is intended to confirm that the general range of practice and the accompanying specific applications and requirements of the ASOP reflect generally accepted practice.
Response	The task force agreed with the comments and has rewritten and expanded the last portion of this section to reflect these concepts.
Comment	One commentator suggested changing “broadly accepted” to “generally accepted” in the first sentence.
Response	The task force believed that the suggested change would result in defining a term in terms of itself.
Comment	One commentator suggested changing the phrase “codified as” to “documented in” in the last sentence in that “codified” conveys the idea that the ASOPs are like regulations. A similar suggestion was made relative to the word “codify” in section 3.1.8.
Response	The task force believed that the term “codify” was appropriate and that it was fairly clear by its context to mean “arrange in a systematic collection.”
Section 3.1.3	
Comment	Two commentators suggested combining this section with section 3.1.2.
Response	The task force disagreed because these sections address different situations, but the task force revised the sections for clarity.
Comment	One commentator suggested eliminating the reference to “minimum acceptable level of practice” from the second sentence, as it might allow one to infer that the actuary who applied the standard did only the bare minimum. Another commentator suggested deleting the word “minimum” from the above phrase.
Response	The task force agreed and eliminated the phrase.
Comment	Several commentators suggested that it should be made clear that an ASOP should not be considered evidence of generally accepted practices prior to its effective date, especially where “the bar has been raised.”
Response	The task force added a new section 3.2.2(b) to address this.
Section 3.1.4	
Comment	Several commentators expressed various concerns about section 3.1.4 regarding the possible effects of the Introduction with respect to litigation. For example, some commentators questioned whether the phrase “should not be deemed malpractice” was appropriate, since in litigation it is the courts that will make the final determination.
Response	The task force revised the language to address those concerns.
Comment	One commentator believed that the inference could be drawn from the first sentence that an actuary who complies with a standard may not be safe from charges of malpractice while most actuaries regard ASOPs as “safe harbors.” Another commentator believed that it should be stated that compliance with a standard should not be deemed to be good practice per se. A third commentator would like to see the wording of this sentence changed to state that an actuary who has complied with an ASOP has most likely followed generally accepted practice.
Response	The task force believed that compliance with the ASOP does not, in and of itself, assure good practice and believed that this point is illustrated in the new sections 4.6.1 and 4.6.3. As a consequence, the task force disagreed with the third commentator.

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Comment	One commentator questioned if the statement in the first sentence about failure to comply with an ASOP not being deemed malpractice per se was made in reference to the “deviation clause” contained in most ASOPs.
Response	The task force confirms that, while the statement has been reworded for greater clarity, that was and remains the purpose of the statement.
Comment	Two commentators suggested changing the comment in last sentence that non-actuaries should consider obtaining the advice of a qualified actuary to a requirement.
Response	The task force notes that the ASB does not have the authority to set requirements for non-actuaries.
Section 3.1.5	
Comment	One commentator believed that the phrase “must have recourse to” in the last sentence has negative connotations and that the sentence seems to apply to <i>all</i> situations, whether or not there is an ASOP, and suggested the following replacement wording: “In any event, the actuary must always exercise professional judgment and apply relevant experience.”
Response	The task force revised the language to make it clear that the reference was to the application of ASOPs.
Comment	One commentator suggested that sections 3.1.5 and 3.1.6 addressed essentially the same issues and should be combined.
Response	The task force disagreed because these sections address separate aspects of the ASOPs.
Section 3.1.6	
Comment	One commentator believed that the phrase “unlike the rules-based standards of some other professions” in the first sentence could be construed as an aspersion. Two commentators suggested removing this sentence entirely. As one commentator noted, the point of the section is that ASOPs leave room for professional judgment rather than how they differ from the professional standards of other professions.
Response	The task force revised the first sentence.
Comment	One commentator suggested deleting the phrase “emphasizing process over outcome” from the beginning of the fourth sentence.
Response	The task force disagreed.
Comment	Several commentators believed that it was not clear whether the phrase “should consider” as used in the second sentence and elsewhere in the Introduction implied that actuaries must document all factors that they had considered but rejected. They proposed that the phrase be changed to “may consider” or explicitly defined.
Response	The task force disagreed and believed that the actuary should document all factors that an ASOP indicates the actuary should consider, but which the actuary has rejected, indicating the reason for rejection where it would not be obvious.
Comment	One commentator suggested that reference be made to the fact that actuarial problems often have a “range of results” and that there may be no single correct answer.
Response	The task force agreed and added this concept.
Section 3.1.8	
Comment	One commentator suggested adding the parenthetical expression “(subject to the deviation clause)” in the first sentence following the phrase “with which actuaries are required to comply.”
Response	The task force believed the change from the word “comply” to “observe” would address this comment.
Comment	Several commentators suggested deleting the phrase “as stated therein” in the second sentence with reference to the limitation that practice notes are not binding upon actuaries, the argument being that, should a practice note not contain this limitation, it might be construed as being binding.
Response	The committee agreed and made the change.

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Comment	Several commentators suggested alternatives to using the word “binding” in this section and in section 3.2.1. Another commentator suggested deleting the phrase “but do not establish binding requirements upon the actuary” at the end of the third sentence since learned treatises, study notes, etc. clearly would not establish binding requirements.
Response	The task force disagreed and believed the wording was appropriate. The task force also notes that the context in which the word “binding” is used is explained in the new section 4.1.
Comment	One commentator believed that this paragraph did not address ASOPs; rather it addressed actuarial literature and its relationship to the ASOPs, and as such it did not belong in this section.
Response	The task force disagreed, believing the language helps to explain through contrast.
Section 3.2.3	
Comment	With respect to section 3.2.3(b), one commentator noted that the current exposure draft of the revised <i>Qualification Standards</i> would significantly expand the types of statements of actuarial opinion to be covered under the proposed definition of statements of actuarial opinion, and that the first part of the first sentence dealing with PSAOs is no longer needed.
Response	The task force agreed that the current wording would not be appropriate if the proposed changes to the <i>Qualification Standards</i> were to be adopted and modified the terminology accordingly.
SECTION 4. COMPLIANCE WITH ASOPs	
Section 4.1 (now 4.2)	
Comment	One commentator questioned what the phrase “the process described” in the first sentence means.
Response	The first sentence was deleted.
Comment	One commentator suggested that, in the next-to-last sentence, “good” should be deleted as a modifier of “judgment” as being unnecessary. Also, the phrase “common sense” should be deleted on the basis that it has too many interpretations.
Response	The task force disagreed and noted that this wording is similar to that in other professionalism literature.
Comment	Several commentators suggested deleting the last sentence, one on the basis that the definition of “strained interpretation” can vary too widely. Another commentator suggested that the sentence be reworded to discuss following the intent of the ASOP as opposed to the literal interpretation. Another commentator suggested rewording the sentence in a positive manner, such as “ASOPs should be interpreted in a straightforward manner. Yet another suggested strengthening the sentence by subdividing “actuary” and “other users,” adding that in the case of the actuary, it would be a violation of the ASOP to do so.
Response	The task force disagreed.
Comment	One commentator believed that converse of the statement in the last sentence is also true and suggested adding a sentence to the effect that a literal interpretation should not be made to reach a conclusion that in reality constrains common sense.
Response	The task force believed that the proposed converse of the statement would, in fact, constitute a strained interpretation.

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Section 4.2 (now 4.3)	
Comment	One commentator suggested replacing the first sentence with the fifth sentence.
Response	The committee disagreed.
Comment	One commentator believed that the requirement that actuaries identify which ASOPs are relevant places an unnecessary burden on the actuary, and all that should be required is that the actuary take reasonable steps to identify the applicable standards. Consulting the Applicability Guidelines should be considered a reasonable step.
Response	The task force agreed that consulting the Applicability Guidelines would be considered a reasonable step. However, the guidelines are not intended to be exhaustive nor are they authoritative by nature. Ultimately, it remains the actuary's responsibility to identify the ASOPs that apply to each assignment.
Section 4.3 (now 4.5)	
Comment	One commentator believed that the definitions were buried too far back in the Introduction and were too long for anyone to be reasonably expected to read them or to satisfy the public's need for clarification of the concepts in the ASOPs.
Response	The task force disagreed and believed the Introduction should be read in its entirety.
Comment	One commentator believed that sections 4.3.1–4.3.3 (now 4.5.2–4.5.4) said basically the same thing and should be combined.
Response	The task force disagreed.
Section 4.3.1 (now 4.5.2)	
Comment	The transmittal memorandum of the exposure draft asked if the explanatory subsections in section 4 were helpful in understanding commonly used terms and concepts and if they described those terms and concepts appropriately. One commentator noted that the definition of "practical" was a bit wordier than the definition in ASOP No. 23, <i>Data Quality</i> .
Response	The task force intended to discuss the use of the term "practical" rather than simply define it.
Section 4.3.2 (now 4.5.3)	
Comment	One commentator believed that while allowing for professional judgment is discussed in this section and elsewhere in the Introduction, it should be emphasized and discussed earlier, either in section 1 or section 3.
Response	The task force noted that section 3 contains such a discussion.
Comment	One commentator suggests changing the phrase "actuary's conclusions" at the end of the last sentence to "actuary's methods or conclusions." Another commentator suggested changing the phrase to "actuary's process and conclusions."
Response	The task force disagreed.
Comment	Several commentators believed that the last sentence should be deleted as it adds substantial hurdles to compliance, is subject to potential misinterpretation or misuse, or is unworkable, and that the paragraph would stand on its own without it. One commentator suggested that the requirement should be limited to a qualified actuary recognizing where judgment had been applied, but not the reasonableness of the process of analysis.
Response	The task force revised the language.
Comment	One commentator believed that since this section addresses qualities of an actuary's work, it would be appropriate to define such terms as "actuary" and "actuarial science" and to otherwise prepare actuaries on how to answer queries about various aspects of actuarial work should court testimony be required, if not in the Introduction itself, then by providing appropriate cross-references.
Response	The task force believed that the suggested additions or references were beyond the scope of the Introduction.

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Section 4.3.3 (now 4.5.4)	
Comment	One commentator believed the definition of “reasonable” did not appear to define the term.
Response	The task force intended to discuss the use of the term “reasonable” but not define the term here.
Section 4.3.4 (now 4.5.5)	
Comment	Several commentators suggested that it be made clear that the actuary is not necessarily required to independently verify other information even in situations where the actuary could do so. One commentator suggested replacing the phrase “often will not be in a position to” in the first sentence with “is not expected to.”
Response	The task force agreed with the first comment and revised the language to remove the reference to independent verification by the actuary, rendering the suggested wording change of the second commentator moot.
Comment	One commentator suggested that it be made clear that the actuary may rely on the work of experts in other fields, such as the legal opinion of the plan’s attorney. Two commentators suggested adding the phrase “or advice” following “for information” in the middle of the first sentence and before “provided” at the end of the sentence.
Response	The task force agreed with the first comment and added the phrase “professional opinions.” The task force disagreed with the suggested wording change in the second comment.
Comment	One commentator suggested inserting a new second sentence as follows: “Actuaries may rely upon such other professionals to provide their professional services with appropriate skill and care.”
Response	The task force disagreed.
Comment	One commentator believed that the use of the word “critical” in the first sentence might convey the wrong impression that the actuary may not place reliance for less critical information, and suggests replacing it with “pertinent.”
Response	The task force agreed and made the change.
Comment	One commentator pointed out an exception to the statement in the last sentence that the ASOPs permit the actuary to rely in good faith upon such individuals, the exception being that section 4.4 of ASOP No. 22, <i>Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life and Health Insurers</i> , requires the appointed actuary to form an overall opinion without showing reliance on the opinions of other actuaries.
Response	The task force added the word “usually” to address such exceptions.
Comment	One commentator believed the last sentence, taken literally, could lead to endless statements of reliance, such as for a mortality table, necessitating an explanation of how it was constructed.
Response	The task force was of the opinion that no additional explanation was necessary.
Section 4.4 (now 4.6)	
Comment	One commentator suggested replacing the wording with: “Deviation from generally accepted practice based on the application of the actuary’s professional judgment that is documented and disclosed, as appropriate, is an appropriate application of an ASOP.”
Response	The task force disagreed.
Comment	One commentator believed that the statement that “ASOPs expressly permit an actuary to deviate from a prescribed practice” is untrue and, if allowed to stand, could undermine Precept 3 of the Code. The commentator suggested that the wording be changed as follows: “The ASOPs do recognize the possibility that in unusual circumstances the actuary may deviate from a prescribed practice. In such cases, the actuary should document the deviation and be prepared to defend it.” Another commentator suggested similar wording.
Response	The task force believed that the statement is correct, but felt that additional clarification would be appropriate in order avoid possible misinterpretation. The task force believes that the revisions and additions made throughout this section appropriately address these comments.

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Section 4.4.1 (now section 4.6.1)	
Comment	One commentator suggested changing the wording at the start of the second sentence from “it is not a breach of an ASOP to deviate from its requirements if” to “it is not inappropriate or improper to deviate from an ASOP if.” Also, it was suggested that phrase “to conform strictly to the ASOP” in the last sentence be changed to “to strictly apply the ASOP.”
Response	The task force disagreed with both suggested wording changes, but did change “its requirements” to “one or more of its provisions” in the second sentence and moved the sentence to what is now section 4.6.
Comment	One commentator believed that the second sentence should be deleted since deviations are usually a violation of Precept 3 of the Code and actuaries should not be misled into thinking that some simple actions will provide a safe harbor. Disclosing and being prepared to defend the deviation are suggested actions but do not excuse the deviation.
Response	The task force believes that the revised language at the end of what is now section 4.6.3 appropriately address these comments.
Comment	One commentator believed that the deviation clause did not describe the “manner” in which an actuary could appropriately deviate from one or more provisions of an ASOP.
Response	The task force noted that the comment was based on the deviation clause from ASOP No. 41, <i>Actuarial Communications</i> . The deviation clause in that ASOP was modified to eliminate the phrase “and must include, in any actuarial communication disclosing the result of procedures, an appropriate statement with respect to the nature, rationale, and effect of such departures,” which would be inappropriate considering the subject and content of that ASOP.
Comment	Several commentators believed that more guidance was needed as to what types of circumstances or associated constraints of an assignment might make it inappropriate for an actuary to conform strictly to an ASOP.
Response	The task force believed the added wording sufficiently addressed this.
Comment	One commentator believed that an actuary who deviated from the provisions of an ASOP, but who complied with the provisions of the deviation clause by making the appropriate statement in the actuarial communication, could still be subject to discipline if the justification was inadequate.
Response	The task force agreed and revised the language to clarify this point.
Section 4.4.2 (now 4.6.3)	
Comment	One commentator believed that the last sentence was unnecessary and subject to misinterpretation. Another commentator suggested changing the wording in the last sentence from “should not be considered a per se violation” to “is not a per se violation.”
Response	The task force revised the wording.
Comment	Two commentators believed that it should be strongly emphasized that a deviation with appropriate support and documentation is permitted practice and that the actuary is complying with the ASOP.
Response	The task force believed the existing language was sufficiently clear.
Comment	Two commentators believed this section should be deleted as being unnecessary and that it contained language with an extremely negative connotation.
Response	The task force disagreed and believed the language was helpful.
Comment	One commentator believed the word “defend” was too weak as the underlying intent is to provide substantive and reasonable logic for the deviation. Another commentator suggested replacing the word “defend” with “explain a deviation.”
Response	The committee deleted the phrase “to defend” and replaced it with the phrase “to provide a substantive and reasonable logic for.” The task force believed that the actuary has a greater obligation than to just “explain” a deviation.