

**Comment #2 – 1/4/15 – 12:53 p.m.**

Dear Actuarial Standards Board:

I thank the Committee for its excellent work in producing the Second Exposure Draft for the Proposed Actuarial Standard of Practice regarding “Modeling” and offer the following for your consideration:

**Section 2.10 (“Model Risk”)**: The definition of "Model Risk" is not clear to me. Is this defining Model Risk as the “risk of adverse consequences” attributable to an Actuary using a Model that is inappropriate for the task (i.e. "does not adequately represent that which is being modeled")? I generally define "Model Risk" as the risk (i.e. certainty) that the actual after the fact results will inevitably differ from Model projections by varying degrees. Is the intent of the ASOP to address both of these risks, or something else? A clarification would be appreciated.

**Section 3.2.2 (“Selecting, Reviewing, Evaluating, or Using the Model for the Project Objectives”)**: This section includes, I believe, the first time the term “validation” is used. I suggest that the Committee consider including “validation” in Section 2 as a defined term for modeling. Perhaps the definition could be as simple as referring to the use of the term in Section 3.3.1, which is a pretty good definition.

**Section 3.2.5 (“Model Structure”)**: I found the language in **item e.** awkward and confusing (i.e. “. . . the entity that is being modeled in whole or in part, its members, or its counterparties”). I assume, but am not sure, that the intent is to refer to choices and options available to (i) the entity being modeled, (ii) a subset of the entity being modeled (e.g. certain entity insureds), or (iii) counterparties to the entity being modeled. Perhaps this paragraph could be rewritten for clarity.

**Section 3.2.7.d. (“Assumptions and Parameters; Consistency”)**: If I understand this Section, I suggest that it be changed to clarify that the consistency refers to a given “model run”. For example, I assume that “inconsistencies” may very well exist and be appropriate across model runs (i.e. that may be the reason for different model runs).

**Section 3.4 (“Presentation of Results”)**: This may be picky but I suggest that “. . . comparable **model** results were communicated.” be extended to “. . . comparable **model** results communicated by or provided to the actuary for review.” This is just to prevent a potential lawyer from suggesting that it is the responsibility of the actuary to determine whether anyone else had ever run a comparable model.

Thank you for the opportunity to present the above suggestions.

Best Regards,

Jim

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