Comment #17 – 2/27/15 – 1:07 p.m.

I appreciate this opportunity to comment on the exposure draft of the Actuarial Standard of Practice (ASOP) on Modeling.

I have grave concerns about the broad scope of the proposed standard, and find the discussion of the applicability of the guidance in section 3.1.1 neither clear nor appropriate. The definition of "Model" in section 2.9 is so broad as to encompass any actuarial work that involves inputs and outputs. As in the first draft, Section 3.1.1 of the second exposure draft bases the determination of whether or not full application of the guidance of the ASOP is appropriate on whether or not "intended model users rely heavily on the results and the model has a material financial effect." The actuary is to be guided by section 2.6 of ASOP 1 for guidance on determining materiality. That section provides that "An item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user." This standard of materiality is so broad as to be inappropriate for determining the applicability of the proposed modeling standard.

Consideration of materiality should also include the extent to which additional disclosures required by the proposed standards would be beneficial to the intended user as opposed to superfluous and even distracting. Section 3.7 provides that if guidance in another ASOP is inconsistent with that in the modeling ASOP, the other ASOP governs. Guidance in the modeling ASOP that is not inconsistent with another ASOP, but application of which is not material to the intended user assuming guidance in the other ASOP has been followed, should deem the results immaterial for purposes of applicability of the proposed modeling ASOP.

This concept appears to be reflected in the new paragraph in section 3.1.1 providing:

"If, in the actuary's professional judgment, circumstances are such that applying some or all of the guidance in this ASOP is not warranted for the specific intended purpose as described above, this is not considered a deviation. The actuary should be able to identify these circumstances, if asked."

The profession would be well-served by providing more clarity with regard to this concept.

I recommend that examples of models that would or would not be subject to full application of the guidance be provided to lay a framework for the subject actuary's decision making and to provide a context for interpretation by others. An example of a model for which the requirements of the proposed ASOP are not material when considering the requirements of other applicable ASOPs would be an actuarial valuation made for the purpose of determining the minimum required and maximum deductible contributions under the Internal Revenue Code and ERISA. Not only has the Internal Revenue Code and regulations promulgated by the Internal Revenue Service provided

sufficient guidance for all Government related purposes, but existing ASOPs already provide guidance on practice standards for the valuation of pension liabilities for non-Governmental stakeholders. ASOP 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, is devoted to this practice. ASOP 27, Selection of Economic Assumptions for Measuring Pension Obligations, and ASOP 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations, are also specifically directed toward the valuation of pension liabilities. The benefit added by the

guidance in the modeling ASOP would be immaterial relative to the contribution of the other relevant ASOPs and IRS regulations. An actuarial valuation on which contribution recommendations are based using the same software, as well as calculations for purposes of financial reporting under Accounting Standards Codification (ASC) 715 or ASC 950 also meet this criteria of immateriality.

The vaguer the final ASOP is with respect to applicability, the more likely there will be costly and unnecessary litigation. It might surprise the ASB, but litigating attorneys are using bogus or extreme interpretations of ASOPs to attack actuaries in court. Whether or not the accusations stick, the targeted actuary is forced to defend himself. The ASB should write every ASOP so as to be clear enough so as to reduce the chance it can be misrepresented by litigating attorneys to bludgeon the profession.

I further recommend that after the standard is expanded to include examples and clarify the definition of "model" another exposure draft be issued to provide an opportunity to comment on the more restrictive scope.

Thank you for your consideration of these comments.

Sincerely,

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