

February 29, 2016

ASOP No. 23 Revision
Actuarial Standards Board
1850 M Street, Suite 300
Washington DC 20036-4601

Subject: Mercer Comments on ASOP No. 23 Exposure Draft

Mercer is pleased to provide our response to the ASOP 23 exposure draft. These comments were prepared by Mercer's Actuarial Resource Network, a group of senior actuaries in the Retirement Practice area representing all of the U.S. geographic areas in which Mercer operates.

We would like to thank the Actuarial Standards Board (ASB) for their efforts in this area, and believe that the draft represents an improvement over the current standard. In general we are comfortable with what we believe the proposed standard is intended to require. However, we still have several comments regarding this draft — both conceptual and wording. We recognize that many of our comments relate to pre-existing language.

Our only response to the specific questions asked is on Number 3. We believe the title should remain as is. Changing titles leads to confusion among actuaries who are not as well versed in the ASOPs as the Board and its committees, and should only be done when the scope of a standard changes significantly. Furthermore, including the entire scope of the standard in the title makes referring to the standard unwieldy. The current title is admirably simple and serves its purpose.

Conceptual comments:

1. Section 1.1(a-e) — The authors of this letter could not reach consensus on what each of these items entails. For example,
 - a. Does selecting mean selecting data elements, selecting from various sets of data,¹ filtering the entire data set for the individual items to be used,² or something else?

¹ For example, if determining which asset statement to use, selecting between the 12/31/13, 12/31/14, and 12/31/15 statements

- b. Is relying on data a subset of using data? Can one rely on it without using it?
- c. Does reviewing data refer to looking at raw data provided by the principal? Or does it refer to checking the work of another member of the project team?
- d. How does preparing data differ from selecting data? Does preparing refer to the process of manipulating previously selected data (e.g., running validations, filling in missing information, correcting errors, etc.)? Or is it meant to create a differentiation between a situation where the actuary working on the data has no further involvement (preparing), and a situation where the actuary working on the data is also responsible for producing an actuarial finding (selecting)? Or something else?

We believe definitions or examples would be particularly useful here.

- 2. Section 3.2(b)(2) — While internal consistency of data is a well-understood concept, we are not clear on what external consistency means. Taken literally, for the data to be externally consistent means it must be consistent with everything other than that data. Clarification of what is meant by this concept would be helpful.
- 3. Section 3.3:
 - a. Why does the second sentence of this section only reference preparing data but not selecting data? This ties to our question above about the difference between these two concepts.
 - b. We are concerned about the implication that a review can be performed by the person who prepared/selected the data originally. Certainly an actuary should review his or her own work, but we don't think that's the meaning of review as used in the purpose statement.
 - c. In subparagraph (a), we believe the reviewing actuary should also assess whether the data elements are adequate for the purpose of the assignment.
 - d. The stem of the section says the actuary should perform a review unless it's not necessary. As part of determining the nature and extent of such a review, subparagraphs (b) and (c) suggest that the actuary perform a review of the data. That appears circular. Perhaps the review intended in the stem of the paragraph is a different review than those in the subparagraphs; if so, this should be clarified.

² For example, in a pension context, extracting from a list of all employees those who are participating in the pension plan and thus to be included in the valuation.

4. Section 3.7 says that the actuary is not required to “develop additional data compilations solely for the purpose of searching for questionable or inconsistent data.” We are uncertain what this means: additional compilations of the current data set? Entirely new data sets? How would other data sets help the actuary to search the current data set for questionable data? We suggest clarification of this point.
5. Section 3.8 raises many questions:
 - a. The draft refers to “the actuary’s documentation,” but it is not clear what documentation this refers to. The current ASOP appears to refer to the documentation requirements of ASOP 41. But those documentation requirements were removed when ASOP 41 was revised.³ And the exposure draft removes any tie-in to ASOP 41, so now the requirement has no context.
 - b. If the documentation is not connected to an actuarial communication, it is not clear what should be done with the documentation. Should this be part of an actuarial communication, or is there a separate documentation requirement that is being referred to? If so, it is not clear how this documentation should be maintained, or how long it should be retained.

We believe that section 3.8 should be deleted. Retention of records is not an actuarial function. Questions about what items are in workpapers are far reaching and shouldn’t be addressed here (this type of provision has been removed from other ASOPs). To the extent that this type information needs to be retained, it should be part of the communication that is related to the purpose of the data.

6. We understand that the stem of 4.1 is relatively boilerplate. But in the context of this standard, it, and the overall requirements of this section, need to be much clearer about the form, not just the contents, of the communication:
 - a. In the first sentence, what does “issuing communications” mean? In many situations, the actuary selecting or reviewing the data may not issue any formal communication beyond “I’m done.” Where should the items in 3.3, 3.4 and 3.5 be disclosed? Section 3.3 gives us a potential hint when it says “limitations on the use of the actuarial work product” — are the communication requirements meant to apply to the actuarial findings provided to the principal that are based on the data? If so, how should actuaries handle the situation when the data is done by one

³ Historical note: The ASB removed the documentation requirements from ASOP 41 because of the same issues we describe here.

person and the finding issued by another (e.g., an analyst prepares the data and a senior actuary issues the report)? Perhaps some of the section 4 requirements need to differ depending on whether the actuary is selecting/preparing vs. using/relying.

- b. Data can be gathered or disseminated by an actuary for a variety of reasons. Some of them involve actuarial services, but many do not. For example, in the pension arena, providing the existing participant data to an individual who will calculate benefits for those participants — an administrative function often performed by non-actuaries — would presumably not meet the ASOP 1 definition of actuarial services and as such would not fall under the scope (as defined in section 1.2) of ASOP 23. But what happens if the preparing actuary does not know everything the data will be used for?
- c. ASOP 41 does not apply to communications that do not include an actuarial opinion or other actuarial findings. Most communications by an individual selecting/preparing data will not contain an actuarial opinion or actuarial finding, and therefore the direction to comply with ASOP 41 would appear not to apply to these situations. However most actuaries are unlikely to have the detailed knowledge of the ASOPs to know that such a requirement has no effect because ASOP 41 doesn't apply. It is also unclear whether the intent of this language is, in fact, to apply ASOP 41 to all communications involving data, even to communications where ASOP 41, standing on its own, would have excluded them from its scope. Below we discuss our concerns with this possible interpretation.
- d. The instruction “in addition, the actuary should disclose the following items” appears to apply regardless of whether the communication contains an actuarial opinion or finding that would trigger the ASOP 41 requirements. If this is what is intended then it should be made clearer.
- e. ASOP 41 is very precise in describing the difference between an actuarial report and an actuarial communication, and the disclosure requirements for each are separately described and not problematic. However the nuance here is that a data transmission report may (or may not) be considered an actuarial communication, but it is unlikely to be considered an actuarial report and therefore would not trigger the requirements of section 4.1.3 of ASOP 41 (Disclosures in an Actuarial Report). In that event, somehow alerting the actuary that 4.1.3 (which in our experience is what most actuaries think of when they think about what has to be communicated) does not apply would be helpful.

In summary, we are very concerned about this section. We are troubled by the implication that every time an actuary transfers data to another actuary it is automatically an actuarial communication and subject to all of ASOP 41. In our experience, this is completely different than current actuarial practices. (Might this standard even be construed to apply when the transfer of data occurs internally within a single firm?) Even if it was not the intent to apply the standard to all data transmissions, the lack of clarity in the current draft language will lead to misinterpretation of the standard and should be resolved. The fact that an actuary may be able to connect the requirements of the various ASOPs to demonstrate that the apparent requirements here don't apply to a particular situation may be convincing to a jury of actuaries (such as ABCD) but is less likely to be appreciated by a lay jury, and will not reflect well on the profession. Whatever the intent of this particular language, we believe that the standard should be easy to follow and unambiguous.

Wording comments:

1. Section 1.1. We do not believe the intent is that the actuary must be performing all of (a) through (f). Two possible clarifications are
 - a. Change the stem form “performing the” to “performing any of the”
 - b. Change “and” at the end of (e) to “or.”
2. Section 3.2. Under ASOP 1, the term “should consider” is a defined term, and defined terms in ASOP 1 apply to all ASOPs. In the stem of this section (and elsewhere), “should consider” is used to mean something different. This makes reading and interpreting the standard more difficult. As such, we believe that the phrasing in the stem should be revised. For example, the first “should consider” could be “should determine,” and the second could be “should take into account.”
3. Section 3.2(a). We suspect the focus of this sentence is to distinguish between the most desirable data elements and what others might be suitable. But that already seems to be clear from the stem. We suggest that the wording of (a) replace “desired” with “needed,” and as per the prior point, “consider” be replaced with something like “determine.”
4. Section 3.3 — stem and (b). More instances of “should consider” being used inconsistently with ASOP 1. (We note that in (c) the term was used consistently with ASOP 1.)
5. Section 3.3(b). We suggest inserting “taking” before “further steps.” We also suggest inserting “the actuary has” inside “steps taken.” However that suggestion is predicated on that being the intended meaning of the sentence. If the intended meaning is that the actuary should disclose significant steps anyone else has taken to improve the data, that should be clarified

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and some relief provided for the actuary who would reasonably have no idea what steps were taken.

6. Stem of section 3.8. As noted above, we believe this section should be removed. However if it is retained, the we believe it should be stated as a requirement: "The actuary should document the following:"

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact Jim Verlautz at 612-642-8819 or Bruce Cadenhead at 212 345 7257.

Sincerely,



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