

SECOND EXPOSURE DRAFT—June 2016

Appendix

Comments on the First Exposure Draft and Responses

The first exposure draft of the proposed ASOP, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, was issued in December 2014 with a comment deadline of May 29, 2015. Fourteen comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each.

The term “reviewers” includes the Pension Committee and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the first exposure draft.

GENERAL COMMENTS	
Comment	One commentator suggested that it was inappropriate to mandate more disclosure than is already required in ASOP No. 27, <i>Selection of Economic Assumptions for Measuring Pension Obligations</i> ; ASOP No. 35, <i>Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations</i> ; and ASOP No. 41, <i>Actuarial Communications</i> . Another commentator believed that risk assessment may often be best practice, but should not be required by the ASOPs.
Response	The reviewers disagree with the commentators and believe the proposed ASOP provides additional guidance that is appropriate actuarial practice when funding and pricing valuations are performed.
Comment	One commentator suggested additional guidance on risk/reward analysis.
Response	The reviewers believe this type of guidance is beyond the scope of the proposed ASOP at this time and made no change.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator suggested that this section and section 1.2 are inconsistent in the way they describe the scope of the standard in that section 1.1 would seem to include accounting valuations whereas section 1.2 limits the scope to funding valuations.
Response	The reviewers note that section 1.2 may limit the scope of the ASOP beyond the description in section 1.1, and that section 1.2 is the section that defines the scope. The reviewers believe the guidance in sections 1.1 and 1.2 is clear to the purpose and scope of the proposed ASOP, and made no change in response to this comment.

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Comment	One commentator suggested that the definition of pension plan needs to clearly include all pension plans other than defined contribution pension plans.
Response	The reviewers note that the meaning of “pension plan” or “plan” as a defined benefit pension plan is common throughout the pension ASOPs and believe the pension community understands which types of plans are covered, and made no change.
Section 1.2, Scope	
Comment	Several commentators believed that the scope was too narrow, and suggested expanding it to various degrees: OPEB valuations, asset/liability studies, or all assignments related to pension plans. Several other commentators were generally comfortable with the scope as drafted, and did not support expanding it significantly, but felt that the standard should at least cover the pricing of plan changes. One commentator requested that the scope specifically be clarified to exclude pricing work.
Response	In response to the comments, the reviewers expanded the scope in section 1.2 to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary’s professional judgment, significantly change the types or levels of risks of the pension plan. The reviewers did not further expand the scope to include other assignments, but note that practice is emerging in this area.
Comment	One commentator suggested that restricting the scope of the ASOP to funding valuations should not limit the actuary from doing similar assessments and disclosures for other work.
Response	The reviewers do not believe that the proposed ASOP precludes an actuary from doing similar assessments for other assignments and made no change in response to this comment. In accordance with ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , section 4.3, an ASOP should not be interpreted as having applicability beyond its stated scope and purpose.
Comment	One commentator suggested that the scope should be expanded to include all assignments related to pension plans with the burden on the actuary who does not include at least a qualitative discussion of risk to document why risk is not relevant to the assignment or that the work involved would be onerous with respect to plan size.
Response	The reviewers believe the proposed scope definition would be too broad, but did expand the scope to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary’s professional judgment, significantly change the types or levels of risks of the pension plan.
Section 1.4, Effective Date	
Comment	Two commentators suggested that the effective date of four months after adoption is not sufficient for major changes in the required work for a funding valuation.
Response	The reviewers agree and changed the proposed ASOP to be effective for any actuarial work product with a measurement date on or after twelve months after adoption by the Actuarial Standards Board.
SECTION 2. DEFINITIONS	
Section 2.1, Funding Valuation	
Comment	Two commentators suggested that the definition is not clear as to whether pricing work is included. The commentators requested clarification that pricing work not be included.
Response	The reviewers agree that the definition was not clear and included an additional definition for pricing valuation in section 2.2 of this exposure draft. As noted above, the reviewers expanded the scope in section 1.2 to apply to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary’s professional judgment, significantly change the types or levels of risks of the pension plan.

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Section 2.2, Risk (now section 2.3)	
Comment	One commentator suggested that it was not clear what type of risk was being covered by the proposed ASOP.
Response	The reviewers agree and modified the definition of risk to make it more clear what type of risk was being covered by the proposed ASOP.
Comment	One commentator suggested that the ASOP should require the assessment and disclosure of both sponsor and participant risk.
Response	The reviewers note that section 3.3 of this exposure draft states that the actuary should identify risks that, in the actuary’s professional judgment, may reasonably be anticipated to significantly affect the plan’s future financial condition. The reviewers believe that risks that significantly affect the plan’s future financial condition are more directly related to the assignments included in the scope. However, nothing in the proposed ASOP would constrain the actuary from assessing and disclosing plan sponsor and participant risk. Therefore, the reviewers made no change.
Comment	One commentator suggested that risk should be defined as negative experience.
Response	The reviewers disagree and made no change in response to this comment.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Overview	
Comment	Two commentators suggested the term “user” be changed to “intended user.”
Response	The reviewers agree and changed the term “user” to “intended user.”
Section 3.2, Risks to be Assessed (now section 3.3, Identification of Risks to be Assessed)	
Comment	Several commentators suggested that the actuary should be required to at least qualitatively assess the ability of the plan sponsor or other contributing entity to make contributions to the plan when due.
Response	The reviewers believe that the actuary may not have the necessary information or qualifications to assess the ability of the plan sponsor or other contributing entity to make contributions to the plan when due. Therefore, the reviewers made no change.
Comment	Several commentators suggested adding certain risks to the list of examples such as contribution risk, demographic risk, embedded option risk, plan sponsor risk, governance risk and funding policy risk. Another commentator suggested that the list of examples indicates that the listed risks are the only important risks to be assessed.
Response	The reviewers believe that many additional risks could be added to the list of examples in this section. The reviewers agree that contribution risk would be a particularly helpful addition to the list of examples and added this risk as item 3.3(e). The reviewers also note that the list provides examples and is not intended to be all inclusive.
Comment	Two commentators suggested changing the guidance from “This standard does not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make contributions to the plan when due” to “This standard does not require the actuary to evaluate the ability or willingness of the plan sponsor or other contributing entity to make contributions to the plan when due.”
Response	The reviewers disagree with the suggested changes and note that the current language is the same as that included in ASOP No. 4. Therefore, the reviewers made no change.

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Comment	One commentator felt that the exposure draft implied that each risk was to be assessed individually, and suggested clarifying that it is also appropriate for the actuary to assess overall risk reflecting multiple factors.
Response	The reviewers note that section 3.2 of this exposure draft requires that the actuary should include an assessment of each of the risks identified by the actuary in accordance with section 3.3 of this exposure draft.
Section 3.3, Assumptions for Assessment of Risk (now section 3.4)	
Comment	Several commentators suggested that the guidance referring to moderately adverse but plausible outcomes is too restrictive and should allow use of assumptions that reflect favorable or severely adverse outcomes, depending on the judgment of the actuary.
Response	The reviewers agree and changed the guidance to indicate that one or more assumptions selected for the assessment of risk should differ from the assumptions used to determine expected future measurements and should result in one or more plausible outcomes.
Comment	Some commentators suggested that the guidance should require use of assumptions that reflect extreme outcomes.
Response	The reviewers believe that the wide range of plans for which actuaries may provide services requires flexibility in determining the severity of outcomes reflected in the assumptions used in assessment of risk, and therefore made no change to the guidance requiring the actuary to use professional judgment in selecting the assumptions.
Comment	One commentator suggested that the term “plausible” was not well defined in the context of the guidance.
Response	The reviewers believe that the term “plausible,” combined with the requirement for the actuary to use professional judgment, is appropriate for this standard.
Section 3.4, Methods for Assessment of Risk (now section 3.5)	
Comment	One commentator suggested that the methods explicitly recognize that the assessment of risk includes projections of a plan’s funded status and funding results for future years under alternative scenarios. The commentator also suggested the wording of section 3.4 could be read as only applying to changes in the current year’s measurements.
Response	The reviewers note that section 3.4 (now section 3.5) includes sensitivity tests, scenario tests, and stochastic modeling. Therefore, the reviewers made no change.
Comment	One commentator suggested that another useful approach to assessing and disclosing risk is to calculate and disclose the difference between the pension liability based on an expected-return discount rate and the liability based on a solvency market rate, divided by the solvency liability.
Response	The reviewers added “a comparison of a market-consistent present value to a corresponding present value from the funding valuation or pricing valuation” as a possible method, in response to this comment.

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Section 3.5, Assessment of Risk (now section 3.2, Assessment of Risk and section 3.6, Additional Assessment of Risk)	
Comment	<p>One commentator suggested that the distinction between qualitative and quantitative analysis is ambiguous. The commentator suggested adding a sentence to section 3.5 to indicate that a qualitative analysis could include calculations and that it should be left to the actuary’s professional judgment to determine whether the analysis is qualitative or quantitative.</p> <p>Another commentator suggested that a quantitative analysis should only be required subject to the scope of the work agreed to with the principal.</p> <p>Some commentators suggested mandatory quantitative assessments should not be required for a plan of any size.</p> <p>Another commentator suggested the ASOP should require some type of quantitative assessment of risk when an actuary performs a funding valuation.</p> <p>Several commentators supported the notion of disclosing an assessment of risk but suggested that a quantitative analysis should not be required by the ASOP. In addition, the commentators suggested the actuary should recommend a more detailed analysis if the actuary believes it is warranted.</p> <p>Several commentators suggested adding guidelines for the application of professional judgment when determining the type and extent of assessment to perform.</p>
Response	<p>The reviewers agree that there is not always a clear distinction between qualitative and quantitative assessments and, therefore, removed the use of these terms in this exposure draft. In addition, the reviewers added language in section 3.2 of this exposure draft to indicate the standard does not require the assessment to be based on numerical calculations but should take into account circumstances applicable to the plan. The reviewers also added language to section 3.6 of this exposure draft to require that if, in the actuary’s professional judgment, a more detailed assessment would be beneficial for the intended user to understand the risks identified by the actuary, the actuary should recommend to the intended user that such an assessment be performed. Section 3.6 of this exposure draft includes factors the actuary should take into consideration.</p>
Comment	<p>One commentator suggested that the guidance be modified to require that the actuary “provide” a risk assessment rather than “perform” a risk assessment.</p>
Response	<p>The reviewers clarified the language now in section 3.2 of this exposure draft.</p>
Comment	<p>One commentator suggested that the requirement to include commentary about the risk assessment specific to the plan, the extent of which is commensurate with the actuary’s view of the significance of each assessed risk in relation to the plan, should be reworded to clarify its intent.</p>
Response	<p>The reviewers agree and clarified the language in section 4.1.</p>
Section 3.6, Plan Maturity Measures (now section 3.7)	
Comment	<p>Several commentators indicated that the examples of potential measures of plan maturity were appropriate. Other commentators suggested additional examples. Other commentators indicated that the items listed would not be appropriate for many types of plans, and that what constituted an appropriate measure of plan maturity was best determined by the actuary.</p>
Response	<p>The reviewers clarified the language to indicate that the actuary should calculate and disclose plan maturity measures that, in the actuary’s professional judgment, are significant to understanding the risks associated with the plan. The reviewers note that the listed measures of plan maturity are only examples.</p>

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Comment	Two commentators suggested that “net cash flow” be defined.
Response	The reviewers note that “net cash flow” is a generic term and that the components of “net cash flow” may be different depending upon the circumstance, and therefore made no change.
Section 3.7, Quantitative Assessment of Risk for Large Plans	
Comment	Most commentators did not agree with the use of a threshold for requiring quantitative assessments. Most commentators suggested that the term “large plan” was not sufficiently clear. Most commentators suggested that every five years was not an appropriate period for the mandatory quantitative assessment for “large plans.” One commentator suggested that plan size measures should include measures that compare the absolute size of the plan to the funding resources of the plan sponsor.
Response	The reviewers removed section 3.7 of the first exposure draft that required a quantitative assessment for large plans.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Disclosures	
Comment	Some commentators suggested that the ASOP permit the risk assessment to be delivered in a separate report.
Response	The reviewers added language in this section and section 3.9 of the proposed ASOP to address these comments. The reviewers also note that an actuarial report, as defined in section 2.4 of ASOP No. 41, may consist of multiple documents.
Comment	Two commentators suggested that the actuary be required to disclose whether the ability or willingness of the plan sponsor to make contributions was assessed.
Response	The reviewers agree that contribution risk is a potential significant risk to a plan and added contribution risk as an example in section 3.3 of the proposed ASOP. The reviewers note that section 3.3 of the proposed ASOP requires the actuary to identify risks that, in the actuary’s professional judgment, may reasonably be anticipated to significantly affect the plan’s future financial condition, and also note that section 4.1 requires the actuary to disclose the risks so identified. The reviewers did not add a specific disclosure requirement as to whether contribution risk, or any other specific source of risk, was not identified as being reasonably anticipated to significantly affect the plan’s future financial condition.
Comment	One commentator suggested that the actuary be required to disclose any history of actual contributions being less than recommended contributions, if it conveys the potential of future contribution shortfalls.
Response	The reviewers added section 3.8 of this exposure draft to indicate the actuary should consider identifying and disclosing such historical information that the actuary believes is significant to understanding the risks associated with the plan.