

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of this ASOP, *Actuarial Communications*, was issued in December 2009 with a comment deadline of March 31, 2010. Thirty-seven 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 General Committee carefully considered all comments received, reviewed the exposure draft and proposed changes. The ASB reviewed the proposed changes and made modifications where appropriate.

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

The term “reviewers” in appendix 2 includes the General Committee and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the second exposure draft.

<b>GENERAL COMMENTS</b>	
Comment	Several commentators raised the issue of a potential deficiency in guidance should the proposed ASOP No. 41 be adopted as final at the same time current ASOP No. 9, <i>Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations</i> , is withdrawn.
Response	The reviewers do not believe that this issue can or should be resolved within ASOP No. 41.
Comment	One commentator believed that the distinction between the guidance for “oral only communication” (for example, a phone call) and guidance for e-mail may not be practical.
Response	The reviewers disagree. E-mail creates a permanent record that can be discovered and referred to in subsequent proceedings (legal or otherwise). Accordingly, the reviewers believe that it is appropriate to consider e-mail as a “document” and subject to the applicable guidance.
Comment	Several commentators expressed concern that the guidance in the second exposure draft was slanted to the consulting environment and not practical within many company situations.

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Response	The reviewers did not intend this interpretation. In rewriting the final version of ASOP No. 41 the reviewers have attempted to be more sensitive to this issue. It is not the intention of this ASOP to impose unnecessary burdens on the internal communications of an organization.
<b>TRANSMITTAL MEMORANDUM</b>	
Question 1: Is the revised concept of an actuarial report reflected in this draft both clear and appropriate?	
Comment	Nineteen commentators responded to this question; only one responded in the affirmative. Most interpreted the second exposure draft to significantly “raise the bar,” requiring a full-fledged report in many situations where it would be neither necessary nor practical.
Response	This interpretation was not the intent of the second exposure draft. The reviewers have been sensitive to these concerns in this revision. Section 3.3 of this standard has been expanded to clarify the guidance in those circumstances where it is not necessary or practical to include all supporting information. Additional discussion was added to appendix 1.
Question 2: Is the revised ASB position on documentation appropriate?	
Comment	A few commentators felt it was appropriate. The ones that disagreed were those that raised concerns about the withdrawal of ASOP No. 9 (see the first “General” comment above).
Response	After considering the comments, the reviewers still believe that the general approach is appropriate. Some modifications have been made to section 3.8 to incorporate guidance in those situations where full supporting information is not supplied within the document(s) of an actuarial report.
Question 3: Does this revised draft incorporate an appropriate emphasis on the need for the actuary to consider the needs of the intended users?	
Comment	The few commentators that did respond to this question answered in the affirmative. One suggested that the second exposure draft may have gone too far in this regard.
Response	The reviewers believe that the purpose of an actuarial communication is to satisfy the needs of the intended user. Accordingly, this final version has retained this perspective.

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<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
Comment	Two commentators made suggestions with respect to the description of the standard’s guidance.
Response	The description has been revised.
Comment	One commentator expressed concern that the term “actuarial opinion” is not defined.
Response	The reviewers believe that “actuarial opinion” is well understood and did not add a definition.
Comment	One commentator suggested an expansion of the commentary on which communications did not fall within the purview of the standard.
Response	The reviewers believe that the wording is satisfactory.
<b>SECTION 2. DEFINITIONS</b>	
Comment	Several commentators suggested that the definitions in the ASOP adopt the definitions in the Qualification Standards.
Response	The reviewers agreed and adopted the Qualification Standards’ definitions for “actuarial communication” and “actuarial services.”
Comment	One commentator suggested that “actuarial services” be clearly defined.
Response	A definition consistent with the Qualification Standards has been added. Furthermore, the definition of “actuarial finding” was modified to tie more consistently to this definition.
Comment	One commentator suggested that definitions be added for “data,” “methods,” and “procedures.”
Response	The reviewers concluded that the meanings of these terms were well understood and specific definitions were not needed.
Comment	Several commentators were concerned that the proposed standard can be read to imply that any notes taken by an actuary may be considered an actuarial document.

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Response	The reviewers do not believe that an actuary’s notes constitute an actuarial communication unless they are provided to an intended user. If an actuary does not distribute his/her notes to an intended user, there is no actuarial communication and the personal notes taken by the actuary are not subject to the requirements of ASOP No. 41. If either the notes or the material contained in the notes is distributed to an intended user or becomes part of the actuarial report, this creates an actuarial communication and the resulting documents would be subject to the requirements of the standard.
<b>Section 2.1, Actuarial Communication</b>	
Comment	A few commentators suggested that the word “electronic” be deleted from definition 2.1, stating that actuarial communications may be written or oral. Either type (written or oral) can be in electronic or hard copy form. One commentator noted the definition of “actuarial communication” deleted the current reference to a principal.
Response	The reviewers retained the definition to remain consistent with the <i>Code of Professional Conduct</i> and the Qualification Standards.
<b>Section 2.6, Intended Audience</b>	
Comment	Several commentators suggested deletion of the definition “intended audience” and that definitions be provided for “principal” and “actuarial services.”
Response	The reviewers agree with these suggestions and have removed the definition of “intended audience” and provided definitions for “principal” and “actuarial services.”
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.1, Requirements for Actuarial Communications</b>	
Comment	One commentator requested the definition of “principal” be retained; another questioned the usage in sections 3.1.3 and 3.2.
Response	The reviewers agreed. The definition of “principal” from the <i>Code of Professional Conduct</i> was added, and it was used only when appropriate in the context of the guidance throughout the standard.
Comment	One commentator requested wording in section 3.1 and the addition of a section 3.1.5 to make it clear that, when an actuary communicates to the designated representative of a group of intended users, the actuary is deemed to have communicated to the group.

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Response	The reviewers considered this a non-actuarial issue and made no change.
<b>Section 3.1.2, Clarity</b>	
Comment	One commentator felt the phrase “language appropriate to the particular circumstances, taking into account the intended audience” needed further guidance.
Response	The reviewers believe this language is sufficient; not all circumstances can be anticipated.
<b>Section 3.1.3, Timing of Communication</b>	
Comment	Several commentators questioned the wording of section 3.1.3, while one commentator preferred the “guidance” in appendix 1 of the Qualification Standards.
Response	The reviewers agreed and revised section 3.1.3. The reviewers note that appendix 1 of the Qualification Standards is not guidance, and made no change on this account.
<b>Section 3.1.4, Identification of Responsible Actuary</b>	
Comment	Several commentators suggested revised wording for section 3.1.4.
Response	The reviewers were generally satisfied with the wording in the exposure draft but did incorporate minor changes.
<b>Section 3.2, Actuarial Report</b>	
Comment	Several commentators felt that the ASB had “raised the bar” too much in section 3.2 or that the wording seemed only to address consulting situations.
Response	The reviewers modified and expanded former section 3.5 and moved it to section 3.3 to clarify that an actuarial report may be abbreviated in certain situations.
Comment	One commentator felt that the requirement to provide adequate information so that another actuary could assess the reasonableness of the findings was more than was needed if the report was directed to non-actuaries.
Response	Absent circumstances allowing for an abbreviated report under section 3.3, the reviewers believe that information sufficient to make an objective appraisal of the work is a valuable standard. This information does not have to detract from the understandability of a report; it can be presented separately, such as in an appendix.

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Comment	One commentator indicated that the principal, as well as the actuary, should be able to determine what was relevant to an actuarial report.
Response	The reviewers disagreed and did not include such authority for the principal.
<b>Section 3.3 (formerly 3.5), Specific Circumstances</b>	
Comment	Two commentators suggested that further examples or clarification of time pressure was needed.
Response	The reviewers believe this is accomplished as part of the modification of this section for clarity, and the additional discussion added to appendix 1.
<b>Section 3.4.2 (formerly 3.3.2), Conflict of Interest</b>	
Comment	One commentator requested a definition of “information.”
Response	The reviewers did not feel such a definition was needed and made no change.
<b>Section 3.4.4 (formerly 3.3.4), Responsibility for Assumptions and Methods</b>	
Comment	One commentator felt that the actuary is always responsible for the assumptions and methods; that the lead paragraph of 3.4.4 should so state and that 3.4.4.c. should be deleted. A second commentator suggested that the ASOP should allow the actuary to simply disclose that the assumption or method was not set by the actuary and does not represent the actuary’s professional judgment.
Response	The reviewers disagree with both commentators. The first position is not practical in all situations. The second position would be an overly broad exception enabling an actuary to inappropriately avoid professional responsibility. The reviewers believe that the revisions to section 3.4.4 in this version of the standard strike the proper balance between professional responsibility and real-life practicality.
Comment	Two commentators wondered whether “specified by law” (section 3.4.4(a)) could be interpreted to include situations (FAS 87) where assumptions are specified by a third party under some binding authority.
Response	The reviewers believe the language and intent are clear. FAS 87 situations (and all circumstances where the assumption or method is not specified within law) fall under section 3.4.4(b).
<b>Section 3.4.4(b) (formerly 3.3.4(b), Responsibility for Assumptions and Methods</b>	

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Comment	One commentator suggested rewording to accommodate assumptions the actuary is not qualified to make.
Response	The reviewers agreed and changed the wording of 3.4.4(b)(3) and 4.3(d)(2) to reflect this.
Comment	One commentator thought that the actuary should be required to provide an affirmative statement of agreement with assumptions that “do not conflict significantly with what the actuary considers to be reasonable.”
Response	The reviewers believe this would be an impractical and unnecessary requirement.
<b>Section 3.4.4(c) (formerly 3.3.4(c), Responsibility for Assumptions and Methods</b>	
Comment	One commentator suggested removing the word “prominently.”
Response	The reviewers agreed and removed it.
<b>Section 3.4.5 (formerly 3.3.5), Information Date of Report</b>	
Comment	One commentator suggested making dates plural as different information may have different dates.
Response	The reviewers agreed and changed the word to “date(s).”
<b>Section 3.4.6 (formerly 3.3.6), Subsequent Events</b>	
Comment	Two commentators suggested wording changes.
Response	The reviewers agreed and changed some words.
Comment	One commentator suggested that if an actuary is aware of an event that has a material effect on the findings, then it is possible that the actuary would need to submit a revised report.
Response	The reviewers agree, but recognize that this is not always possible. Section 3.4.6(d) has been added to clarify this situation.
<b>Section 3.5 (formerly 3.4), Reconciliation of Material Differences</b>	
Comment	Several commentators suggested “reconcile” was too strong a requirement, and “same assignment” was imprecise.
Response	The reviewers agreed and revised this section.
<b>Section 3.6, Oral Communications</b>	

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Comment	One commentator expressed concern that “passed on to other parties” was too broad, and should be restricted to intended users.
Response	The reviewers disagreed and made no change.
<b>Section 3.8, Documentation</b>	
Comment	One commentator felt the actuary should take reasonable steps to ensure that another qualified actuary could take over the work if necessary.
Response	The reviewers agreed and revised this section.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1.2, Identification of Actuarial Documents</b>	
Comment	One commentator suggested that this provision seems overly broad and cumbersome, and should be removed.
Response	The reviewers disagreed, feeling identification of documents is important, and made no change.
<b>Section 4.1.3, Disclosures in Actuarial Reports</b>	
Comment	One commentator felt that a report provided by the actuary will be so laden down by disclosures that clear and concise communications will be difficult.
Response	The reviewers disagreed and made no change. They noted that disclosures could be in a separate section of the report from the findings, and so do not prevent clarity of communication.
Comment	One commentator felt section 4.1.3 should be expanded to include disclosures required by section 3.4.4.
Response	The reviewers disagreed and made no change. The disclosures required by section 3.4.4 are addressed in sections 4.2 and 4.3.
Comment	One commentator felt section 4.1.3 should reference the exceptions addressed in section 3.3.
Response	The reviewers agreed and referenced section 3.3 in section 4.1.3.
Comment	One commentator felt where the actuarial report consists of more than one document, the actuary should disclose the documents that comprise the full report.

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Response	The reviewers agreed and added paragraph j. to section 4.1.3.
Comment	One commentator felt that “on which the actuary relied” should be moved to immediately after “any information.”
Response	The reviewers agreed and made this change.
Comment	One commentator felt it would be helpful to include examples to clarify the phrase “unless it is inappropriate to do so.”
Response	The reviewers felt that incorporating a list of examples may limit the actuary’s judgment, and made no change.
<b>Section 4.2, Certain Assumptions or Methods Prescribed by Law</b>	
Comment	One commentator requested that section 4.2 should be expanded to clarify that assumptions and methods prescribed by or under the authority of FASB, should be treated as “prescribed by law.”
Response	The reviewers disagreed in part and made no change. An assumption or method prescribed by FASB would come under section 4.2 (assuming FASB is “other binding authority”). An assumption or method prescribed by a third party under the authority of FASB would not be covered by section 4.2.
<b>Section 4.3, Responsibility for Assumptions and Methods</b>	
Comment	One commentator questioned whether every assumption or method used for a monthly valuation had to be addressed in each actuarial report, or could reference be made to a master document?
Response	The reviewers made no change as this is the intent of section 3.2, which recognizes that an actuarial report often consists of multiple documents. The master document referred to in the comment fits this concept well.
Comment	One commentator questioned the need to disclose in an internal document “the reason why the other party set the assumption or method”
Response	The reviewers agreed and qualified section 4.3 by reference to section 3.3.
Comment	One commentator suggested adding a section 4.3(d)(3) with language such as “that the actuary agreed with the assumption or method.”
Response	The reviewers made no change, since section 4.3 is only triggered if the actuary disowns the assumption or method.

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Comment	One commentator pointed out that the guidance in this section is different than the guidance for similar situations under section 5.4.5 of ASOP No. 20.
Response	The reviewers believe the guidance in this section is appropriate to the general situation and have made no change. Section 1.2 of this standard states that where guidance of other standards conflicts with the guidance in this standard, the other standard applies.
<b>Section 4.4, Deviation From the Guidance of an ASOP</b>	
Comment	One commentator objected to the revision of section 4.4 (from the existing ASOP) and requested the original language be retained.
Response	The reviewers disagreed and made no change. The reviewers believe that the disclosures required under section 4.4 are adequately strong to address the concerns of the commentator. The revised section 4.4 is part of the ASB initiative to move all substantive guidance on deviation into ASOP No. 41 (and thus achieve consistency across ASOPs.) Part of this initiative is to clarify that “deviation” means deviating from the guidance of an ASOP. Compliance with the ASOP is still possible through adequate disclosure.

