

ISAP 2 Report
Treatment of Comments on Exposure Draft

06 June 2013

Submission

The Social Security Task Force of the ASC is pleased to submit this report. It documents the comments we received on the exposure draft of ISAP 2 (“ED”) and how we addressed those comments.

We would be remiss if we did not thank those commenters, both organizational and individual, profusely. The quality of the commentary was very high.

Thank you, all of you.

Preamble

The ED was published on the IAA website on 12 October 2012 with a comment deadline of 28 Feb 2013. A transmittal memo was published concurrently which requested answers to three specific questions.

This report outlines the answers to our questions and other comments we received on the ED and what we did as a result. It is organized into five sections:

- I. Rationale for recommending a final ISAP rather than a second exposure draft.
- II. List of comments we received on the ED.
- III. Summary of the answers we received to our three questions.
- IV. Summary of the comments received and our responses in three thematic areas that occurred in several comments.
- V. Detailed paragraph by paragraph summary of the comments received and our responses.

This report was drafted by the Social Security Task Force of the ASC and reviewed and edited by the ASC. Throughout the document “we” means the ASC.

I. Rationale for recommending a final ISAP

At first blush ISAP 2 looks quite different from the ED. However, the bulk of that difference is rearrangement of material in response to comments we received and our own internal discussions.

1. We have incorporated ISAP 1 by reference (see new paragraph 1.4). This meant most of section 1 and some paragraphs in section 3 were no longer needed.
2. We have moved all definitions from ISAP 1 and ISAP 2 into a Glossary and deleted them from individual ISAPs.

A second exposure draft would have been warranted if we had added significant new requirements or significantly changed the guidance from the ED. We have done neither. We have clarified and improved much of the language based on the many helpful comments we received. Thus, we recommend to the Executive Committee and Council that this final ISAP be adopted.

[This ISAP conforms to the template for ISAPs and the ASC believes it has complied with the Due Process for ISAPs].

II. List of comments we received on the ED

We received the following comments which can be viewed in their entirety on the IAA website at http://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_EXPOSURE-ISAPSS

Comment Number	Submitted By	Date Received
1	Office of the Chief Actuary, Canada	3 January 2013
2	Actuarial Standards Board – United States	2 February 2013
3	Yves Guerard	18 February 2013
4	Canadian Institute of Actuaries	25 February 2013
5	The Casualty Actuarial Society – United States	26 February 2013
6	The Institute of Actuaries of Australia	27 February 2013
7	The Government Actuary's Department – United Kingdom	27 February 2013
8	Financial Reporting Council – United Kingdom	28 February 2013
9	The Institute and Faculty of Actuaries – United Kingdom	28 February 2013
10	Nick Silver	28 February 2013
11	Marianna Papamichail	28 February 2013
12	Het Actuarieel Genootschap – Netherlands	28 February 2013
13	Subgroup of the Society of Actuaries' Committee on Social Security	28 February 2013
14	Christopher S. Carlson	28 February 2013
15	Alan Greenfield	4 March 2013
16	Caribbean Actuarial Association	8 March 2013

III. Summary of the answers we received to our three questions

We asked the following questions in the transmittal letter for the ED. Each question is followed by a summary of the responses we received. Only four commenters answered the questions.

1. Is the guidance clear and unambiguous?

Two yes. Two – could be improved.

2. Is the guidance at the right level of detail, or should it be more or less detailed?

Two – right level. One – too broad. One – too detailed.

3. Are there other matters that should be included in this standard on social security? Are there some included here that should not be?

One – no and no. Two – scope is too broad and should be narrowed.

IV. Summary of the comments received and our responses in three thematic areas that occurred in several comments.

We identified three themes in the responses that we judged significant and addressed them first. These themes are shown followed by a summary of the comments received and our responses.

Topics

- a. The scope of the ISAP is too broad and should be limited to retirement, survivorship and disability
- b. The reporting requirements are too onerous and should be simplified. Most of 4.1.5 is educational and should not be in the standard.
- c. ISAP 1 is not integrated properly. It should be incorporated consistently.

Identification of these three themes was intended both to assist the ASC and its Social Security Task Force in taking a consistent approach to the many comments received and to assist readers of this document in getting a high-level view of both the comments received and how they were dealt with. As is clear from the numerous changes to the ED detailed in section V of this report, we took the comments very seriously.

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Topic a - Scope

The scope of the ISAP is too broad and should be limited to retirement, survivorship and disability

Comment	We received several comments that the scope of the ED was vague and too broad.
Response	We listened and have restricted the scope to retirement, survivorship and disability, but included other benefits ancillary to the primary coverage.
Comment	We received one comment that the scope should be broadened, but the guidance loosened commensurately.
Response	We disagreed and narrowed the scope.

Topic b – Reporting

The reporting requirements are too detailed and would not apply to every assignment

Comment	The reporting requirements are too rules based, and should be more principles based (with some suggested wording)
Response	We agreed, and inserted a new 4.1.1 largely using this wording.
Comment	The reporting requirements (especially in ED 4.1.5) are too detailed and most should be discarded, or moved to educational material
Response	We agreed and restructured 4.1 significantly. We moved the lists from 4.1.5 into the appendix which is clearly labeled as educational material, and not part of the ISAP.
Comment	Several commenters objected to our use of the term “balance sheet”
Response	We agreed and rewrote those parts of the ISAP.

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Topic c – Interaction with ISAP 1

As far as appropriate and possible, the ED and ISAP 1 should be consistent and in alignment

Comment	ISAP 1 is sometimes incorporated specifically, and sometimes not. All of the guidance in ISAP 1 should apply to ISAP 2
Response	We agreed and drafted a new paragraph (1.4) to address this
Comment	ISAP 1 is sometimes incorporated specifically, and sometimes not
Response	We agreed and drafted a new paragraph (1.4) to address this
Comment	There is no need to repeat paragraphs 1.3 – 1.7 of ISAP 1
Response	We agreed and deleted 1.4 – 1.7. We retained paragraph 1.3 since it addresses compliance with <i>this</i> ISAP. We included a clarifying paragraph in 1.3 (see below under 1.3)

V. Detailed paragraph by paragraph summary of the comments received and our responses.

For each paragraph, the paragraph number in the proposed final ISAP is shown on the left and the paragraph number in the exposure draft is shown on the right.

Paragraph 1.3 (Proposed ISAP)	1.3 (Exposure Draft)
Comment	Two commenters pointed out that the government who is the sponsor of the SSP, can also enact legislation, and so the exclusion in 1.3.1 of ISAP 1 is inappropriate.
Response	We agreed the case of law being used to direct an assumption or methodology should be treated the same as a principal directing an assumption or methodology. We did not agree that this was within the scope of 1.3. We addressed the issue in paragraph 2.6, and added a paragraph to 1.3 to clarify this.
Comment	Two other commenters made minor editorial suggestions.
Response	We agreed and revised 1.3 accordingly.
Comment	One commenter suggested 1.3.3 allowed the actuary too much leeway, and recommended it be restricted to specific reasons.
Response	We did not agree and made no change. The burden of giving the rationale for the departure, and quantifying its effect can be expected to prevent any frivolous use of this

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	sub paragraph.	
Paragraph 1.4 (new) (Proposed ISAP)		Note that this deletes Paragraphs 1.3 – 1.7 and Section 2 of the Exposure Draft. (The definitions in ED Section 2 are moved to the new Glossary document.)
Comment	The ASC (on its own initiative) has reviewed the interaction of ISAPs other than ISAP 1 with ISAP 1.	
Response	<p>We decided that:</p> <ol style="list-style-type: none"> 1. The guidance in ISAP 1 should not be repeated in other ISAPs; 2. Paragraphs 1.3 – 1.7 of ISAP 1 should not be repeated in other ISAPs. 3. A new paragraph should be included in ISAPs except ISAP 1. In ISAP 2 this is paragraph 1.4, as ISAP 2 has its own paragraph 1.3 which overrides ISAP 1 paragraph 1.3. 4. This paragraph will be followed by a copy of ISAP 1 paragraph 1.8 (the effective date paragraph) numbered appropriately. <p>We believe this will avoid confusion, make the ISAPs easier to access, and make the ISAPs easier to maintain. The ASC also expects that this approach should have the desirable outcome that actuaries also refer to ISAP 1.</p>	
Glossary (new separate document)		Note that this deletes Section 2 of the Exposure Draft. (The definitions in ED Section 2 are moved to the new Glossary document.)
Comment	We also considered the appropriate document in which to record defined terms.	
Response	<p>We decided that:</p> <ol style="list-style-type: none"> 1. All defined terms will be moved to a single glossary document. 2. Section 2 of the ISAP template will be deleted and section 3 renumbered 2 and section 4 renumbered 3. 	
Glossary “Actuary”		Paragraph 2.2 (Exposure Draft)
Comment	A commenter pointed out that some associations have non actuarial members (often student members)	
Response	We agree with the assertion but made no change to the definition. We feel that any member of a member association (whether or not that person is a credentialed actuary) should be subject to standards of practice if that member is performing actuarial services.	

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Glossary “Financial Analysis”		Paragraph 2.14 (Exposure Draft)
Comment	Several commenters pointed out the term “valuation” might be too narrow	
Response	We agreed and replaced “valuation” with “financial analysis” in the title of the ISAP, and throughout the ISAP.	
Comment	Several commenters suggested edits to 2.14	
Response	We have edited this entry in light of those comments.	
Deleted Paragraph (Proposed ISAP)		Paragraph 2.6 (Exposure Draft)
Comment	We reviewed the definition of “Independent Expert Review” and concluded it was not needed. The term is only used once in ISAP 2 and may well not be used in any other ISAP.	
Response	We moved most of the language into paragraph 2.5	
Comment	Several commenters suggested improvements to this definition	
Response	We made these changes in paragraph 2.5 which improved the wording	
Comment	One commenter suggested “independent expert” be a defined term, rather than being defined in the body of the ISAP.	
Response	We disagreed as it is used in only one place, so we believe that one place is where it should be defined.	
Glossary “Intended User”		Paragraph 2.7 (Exposure Draft)
Comment	One commenter suggested the definition should be identical to that in ISAP 1	
Response	We agreed, and made this change.	
Comment	One commenter suggested the definition should be widened to include “and persons that can reasonably be expected to have access to the report legally and rely on its contents.”	
Response	We disagreed, and made no change. If the actuary intends that the report become public then this group is already included. If the actuary does not intend the report become public he should not owe a duty to this group.	
Glossary “Opinion”		Paragraph 2.9 (Exposure Draft)
Comment	One commenter wanted to insert “in a report”	

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Response	We disagreed and kept the ISAP 1 definition.
Glossary “Report”	
Paragraph 2.10 (Exposure Draft)	
Comment	One commenter suggested deleting the word “slide”
Response	We did not agree and made no change.
Glossary “Report Date”	
Paragraph 2.11 (Exposure Draft)	
Comment	Two commenters suggested the language of 2.11 was too vague, and one suggested an edit.
Response	We agreed and used the edit.
Glossary “Social Security Programs (SSPs)”	
Paragraph 2.12 (Exposure Draft)	
Comment	Many commenters stated that the scope was too broad.
Response	We agreed and limited the scope to retirement, disability and survivorship
Comment	Several commenters stated that “broad segment” excluded too much.
Response	We agreed and changed it to “defined segment”.
Comment	Several commenters had difficulty with the sentence “The program is ultimately responsible to the government, or a unit of government”.
Response	We agreed and changed it to “The program is not financed through private insurance”
Comment	One commenter wanted specific exclusion of workers compensation and similar coverages from the definition of an SSP.
Response	We agreed and added paragraphs 2 and 5 to the previous set of three paragraphs. These exclude plans covering workers compensation and similar coverages (unless these coverages are ancillary to the main coverage(s))

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Glossary “Subsequent Event”		Paragraph 2.13 (Exposure Draft)
Comment	One commenter stated the cutoff should be the report date.	
Response	We did not agree as the guidance is intended to include situations where the actuary becomes aware of an event after the report has been delivered but before a presentation on that report.	
Comment	One commenter asked that the definition matched ISAP 1	
Response	We agreed and made that change.	
Paragraph 2.1 (Proposed ISAP)		Paragraph 3.1 (Exposure Draft)
Comment	Several commenters suggested improvements in wording.	
Response	We redrafted the paragraph in light of these comments.	
Comment	One commenter suggested deleting the parenthetical example as it could be read to imply that no law usually exists concerning the basis for future indexation of pensions.	
Response	We did not agree and made no change.	
Paragraph 2.2 (Proposed ISAP)		Paragraph 3.2 (Exposure Draft)
Comment	Several commenters suggested ways the wording of 3.2 could be improved.	
Response	We agreed and revised this paragraph accordingly.	
Comment	One commenter suggested moving the list to an appendix as it is primarily educational.	
Response	We disagreed but revised this paragraph to make it clear the list was examples of data that might be considered.	
Paragraph 2.3 (Proposed ISAP)		Paragraph 3.3 (Exposure Draft)
Comment	Several commenters suggested it would be helpful to break this paragraph up into subparagraphs.	
Response	We agreed and did so.	
Comment	We received many suggestions for improving the language and guidance of this paragraph.	
Response	We agreed and edited it extensively in light of those comments.	

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Paragraph 2.4 (Proposed ISAP)		Paragraph 3.4 (Exposure Draft)
Comment	We received several comments that the use of the term “balance sheet” was potentially confusing.	
Response	We agreed, removed the term from this section, and recaptioned it.	
Comment	We received several comments about the content of this paragraph and how it could be improved	
Response	We agreed, and edited it based on those comments.	
Deleted Paragraph (Proposed ISAP)		Paragraph 3.5 (Exposure Draft)
Comment	This change was initiated by the ASC	
Response	See the discussion under paragraph 1.4. This paragraph was identical to one in ISAP 1.	
Paragraph 2.5 (Proposed ISAP)		Paragraph 3.6 (Exposure Draft)
Comment	One commenter suggested adding the phrase “if the terms of the actuary’s engagement so permit” to the old 3.6.1	
Response	We agreed and did so.	
Comment	One commenter suggested the standard state explicitly that the preparing actuary should be compensated for this work.	
Response	We did not feel this change was necessary and made no change.	
Comment	One commenter pointed out that (old) 3.6.2 was redundant as it is already covered in 1.2.	
Response	We agreed and deleted it.	
Paragraph 2.6 (Proposed ISAP)		New Paragraph
Comment	We received comments on 1.3.1 pointing out that the state (who is effectively the principal) could direct an assumption or methodology through the law, so 1.3.1 should exclude that.	
Response	We agreed with the concept but felt the ISAP should address this situation directly and inserted new paragraph 2.6.	

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Deleted Paragraph (Proposed ISAP)		Paragraph 3.7 (Exposure Draft)
Comment	This change was initiated by the ASC	
Response	See the discussion under paragraph 1.4. This paragraph was identical to one in ISAP 1.	
Paragraph 3.1 (Proposed ISAP)		Paragraph 4.1 (Exposure Draft)
Comment	There were many comments that 4.1 was too detailed and rules based (see reporting topic above).	
Response	We substantially redrafted 4.1 to make the guidance more high level, principles based, and moved much of 4.1.5 to the appendix.	
Comment	We received many useful comments on the details of 4.1, especially pertaining to 4.1.4 and 4.1.5.	
Response	Many of these comments were moot as the material to which the comments pertain has been deleted. Comments on 4.1.5 we considered when creating the appendix.	
Paragraph 3.2 (Proposed ISAP)		Paragraph 4.2 (Exposure Draft)
Comment	We received many useful comments on this section.	
Response	<p>We changed subparagraph b. to “reasonable and appropriate both in the aggregate and individually”.</p> <p>We changed “sound actuarial principles” in subparagraph c. to “accepted actuarial practice”, a defined term in ISAP 1.</p> <p>We separated sub-paragraph d. into its own subparagraph (3.2.2) and rewrote it.</p> <p>We added 3.2.3 to cover reports on limited questions in addition to full financial analyses.</p>	
Appendix (new)(Proposed ISAP)		n/a (Exposure Draft)
Comment	Several commenters stated that 4.1.5 of the exposure draft was far too prescriptive and suggested that the lists be moved to educational material (either an appendix or an IAN).	
Response	We agreed and moved these lists to the appendix.	