



Deadline: 31 March 2016

Please use this template to comment on the [Exposure Draft of ISAP 1 A](#) Governance of Models, and the proposed revisions to the [Glossary for ISAP 1A](#).

The IAA invites comments on this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Comment on the questions as stated;
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the Statement of Intent for ISAP 1A.

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	<b>David Bell (comments represent those of my organisation)</b>
Name of organization		<b>Institute of Actuaries of Australia</b>
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	<b>No</b>
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> write in the yellow shaded cells</li> <li>⇒ Write in the white cells</li> <li>⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> <li>○ Please use a separate row for each paragraph, sub paragraph, or bullet.</li> <li>○ Please include the full reference in the first column such as "Introduction 3<sup>rd</sup> paragraph 2<sup>nd</sup> bullet" or "2.6.1.b.ii"</li> <li>○ Please insert/append extra rows as needed.</li> </ul> </li> </ul> <p><b>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to</b></p> <p><a href="mailto:ISAPIA.comments@actuaries.org">ISAPIA.comments@actuaries.org</a></p>	



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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	YES
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	YES
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1? If not, how should it be changed?	YES
Q4.	Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?	YES
Q5.	Are there other matters that should be included in this standard on governance of models? Are there some included here that should not be?	NO

	General Comments on the ISAP 1A Exposure Draft
	<p>The guidance is geared towards more sophisticated models and could be interpreted as being overly onerous for simple models. While the standard sets out basic good practice, it does include activities that might reasonably be skipped for less material or less complex models.</p> <p>The use of “appropriate” provides some latitude, but the risk remains that the guidance could be interpreted as requiring an over-engineered governance approach. An explicit reference to the fact that “appropriate” could mean “none” in some circumstances with simple models would help calibrate the interpretation of “appropriate”.</p>

Comments on specific paragraphs of the ISAP 1A Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)



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2.1	Model governance is important for all models, from simple spreadsheets to complex simulations. The level of governance should be proportionate to the risks associated with <u>the potential financial consequences of</u> inappropriate processes used in modelling. <u>The extent of model governance activities to be undertaken will be a matter of actuarial judgement.</u>	Given that the definition of Model is very broad and would include most spreadsheets, for example, we consider it important to make it clear that it is the actuary's judgement as to the level of governance to be applied in the circumstances.
2.2.2	Understand the conditions under which the developer intended the <u>model</u> to be used, including any limitation(s) of the <u>model</u> .	There may be more than one potential limitation within a model.
2.2.3	Be satisfied that there is adequate documentation of the <u>model</u> construction, including, <u>as appropriate</u> , scope, purpose of the <u>model</u> , methodology and algorithms, statistical quality, and calibration.	For many models, it will not be necessary to document all of “scope, purpose of the model, methodology and algorithms, statistical quality, and calibration”.
2.2.4	Be satisfied that the <u>model</u> has been appropriately reviewed and validated by a person/team not involved in developing the <u>model</u> , or otherwise arrange such review and validation <u>(or perform such review and validation themselves provided they were not involved in developing the models).</u>	This clause might be read as requiring the actuary to arrange a review and validation to be undertaken by a third party. However, provided the actuary was not involved in developing the model, we assume they could undertake such a review themselves.
2.3.1	Document, <u>as appropriate</u> , any material impact of the changes on the <u>model's</u> scope, purpose, statistical quality, calibration, and suitability for purpose.	For many models, it will not be necessary to document all of “scope, purpose, statistical quality, calibration and suitability for purpose”.
2.3.3	Be satisfied that an <u>adequateappropriate</u> change control process is in place for the <u>model</u> .	Using “adequate” would mean that any change control failure automatically implies failure to comply with the standard.
2.4.1	Document the <u>model</u> construction including, <u>as appropriate</u> , scope, purpose of the <u>model</u> , methodology and algorithms, statistical quality, calibration, and fitness for intended purpose.	For many models, it will not be necessary to document all of “scope, purpose of the model, methodology and algorithms, statistical quality,



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		calibration and fitness for intended purpose”.
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**Comments on specific definitions in the Exposure Draft of the updated Glossary**

**Note that only the proposed revisions are open for comment**

<b>Defined Term</b>	<b>Change proposed to the definition (markup preferred)</b>	<b>Reason the change is needed (can be kept very brief or left blank if obvious from the change)</b>
N/A	None	None