



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:	Our comments represent the organization
Name of organization		Financial Reporting Council
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Our comments should be treated as public
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"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as "Introduction 3rd paragraph 2nd bullet" or "2.6.1.b.ii" ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to</p> <p>ISAPIA.comments@actuaries.org</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?	<p>Yes the guidance is clear. We have highlighted a few places where clearer definitions would be helpful:</p> <ul style="list-style-type: none"> • “Statistical quality” in 2.3.1 and 2.4.1; • “Calibration” in 2.3.1 and 2.4.1; • “Algorithms” in 2.4.1 • “Change control process” in 2.3.3; and • “Model risk” in 2.5.1.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	<p>Generally yes. We have made some detailed points relating to specific paragraphs and below given alternatives for the IAA to consider, relating to the following points:</p> <ul style="list-style-type: none"> • The risks considered in 2.1; • The extent of the requirement of “fit for purpose” may be open to interpretation in 2.2.1; • The intentions of the developer may no longer be relevant at the point of model use in 2.2.2; • The documentation required during development of a new model in 2.4.1; • Understanding of the model in 2.5.2; • The intended uses of the model in 2.5.5; and • The implications of limitations in 3.1.
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



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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?	Yes

	General Comments on the ISAP 1A Exposure Draft	
	We consider it would be helpful in due course to merge ISAP 1A into ISAP 1.	

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)
2.1	The level of governance should be proportionate to the risks associated with inappropriate processes used in modelling the use of the model	The processes used in modelling should be appropriate (albeit at times simplified) so the current wording seems circular. We consider that proportionality is in relation to risks to the user in use of the modelling
2.2.1	Be satisfied that the capability of the model is consistent with the intended application, and the model is sufficiently fit for this purpose.	The extent of the requirement of “fit for purpose” may be open to interpretation.



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		<p>The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We are the UK standard-setter for technical actuarial standards (TASs). In the FRC's consultation on the TASs we received feedback that a model will never be perfect but it may be sufficiently fit for purpose so that it is useful.</p> <p>Our draft TAS 100 contains the following wording: Models used in technical actuarial work shall be sufficiently fit for the purpose for which they are used and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information.</p>
2.2.2	Understand the conditions under which the developer intended it is appropriate for the model to be used, including any limitation of the model.	The intentions of the developer may no longer be relevant at the point of model use. The real consideration is if the actuary understands whether the conditions are appropriate for model use regardless of the intentions of the developer.
2.3.1	Document any material impact of the changes on the model's scope, purpose, <u>statistical quality</u> , <u>calibration</u> and suitability for purpose.	It would be helpful to define the terms "statistical quality" and "calibration". There is a very specific meaning of a statistical quality test under Solvency II and it is not clear if this is what is meant here. We are not sure what is intended by "calibration" for models that are not stochastic.



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2.3.3	Be satisfied that an adequate <u>change control process</u> is in place for the model. A change control process usually restricts unauthorized changes to the model, documents any changes made, and allows any changes to be rolled back.	It would be helpful to define change control process in the glossary rather than give examples within the standard. The change control process is likely to depend on the purpose and complexity of the model and may involve communication to stakeholders. Also we are not sure what is meant by changes being “rolled back”.
2.4.1	Document the model construction, including scope, purpose of the model, methodology and <u>algorithms, statistical quality, calibration</u> , and fitness for intended purpose, and conditions under which it is appropriate to use the model including any limitation of the model.	To be consistent with 2.2.2 the developer would also need to document the conditions under which he or she intended the model to be used including any limitation of the model. Similarly to our comment under 2.3.1 above, we consider it would be helpful to define the terms “algorithms”, “statistical quality” and “calibration”.
2.5.2	Be satisfied that the conditions to use the model are met. Understand the model and ensure it is appropriately fit for the purpose for which it is being used.	The actuary will need to use judgement to determine the appropriateness of the model in the particular circumstance.
2.5.5	Maintain adequate dDocumentation of inputs, assumptions, expected values, conditions where it is appropriate to use the model intended-uses , and model output.	The documentation would be in respect of that particular run so “maintaining documentation” is not quite right here. Similarly to our comments to 2.2.2 and 2.4.1 above we
3.1	3.1 The <u>actuary</u> should make any disclosures which the <u>actuary</u> considers to be appropriate so that the <u>intended users</u> are able to understand limitations and their implications and uncertainty in the results presented.	Our TASs require the communication of implications of limitations of the model so that users understand the effects of any limitations highlighted.



Comments on specific definitions in the Exposure Draft of the updated Glossary		
Note that only the proposed revisions are open for comment		
Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
Model risk	The risk that, due to deficiency in the model or in its use, an intended user of the results of the model will draw an incorrect conclusion from those results.	It is unclear whether this definition cover operational risks (errors in the model), risks from using an incorrect model specification (eg – assuming a particular distribution which might not be the underlying distribution), or both.