



Deadline: **31 March 2016**

Please use this template to comment on the [Exposure Draft of ISAP 5 on Insurer Enterprise Risk Models](#), and the proposed revisions to the [Glossary for ISAP 5](#).

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 5](#).

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	
Name of organization		Actuarial Standards Board
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
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 ISAP5.comments@actuaries.org</p>	



	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	In general, the guidance is clear and unambiguous. However in places the guidance could be clearer. Our suggestions for improvement are noted below.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	In general, the guidance is sufficient and appropriate.
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1 and ISAP 1A? 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, we believe the guidance is at the right level of detail.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	An assessment of whether a model is fit for purpose is fundamental to any actuarial services involving models. While ISAP 1A may cover this concept, we suggest explicit references to this concept within this ISAP to highlight its importance.

	General Comments on the ISAP 5 Exposure Draft
	<p>We encourage the strong alignment between this ISAP and ISAPs 1A and 6 (currently under development), recognizing that there may be additional guidance that would be appropriate in this ISAP as a result of that alignment that is not currently under consideration.</p> <p>This ISAP uses the term "organization" throughout. We suggest using the term "entity", a defined term, for greater consistency with other ISAPs.</p>



Comments on specific paragraphs of the ISAP 5 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)
1.1 and 1.2	Sections 1.1 and 1.2 identify the purpose and scope relating to “the development or use of models” . In addition to “development and use”, draft ED ISAP 1A also references the activities of “selecting”, “modifying”, and “building” models. Clarity would be improved if the references to the activities of the actuary were consistent between the ISAPs.	
2.1	In performing the actuarial services, the actuary should have, or obtain, sufficient understanding of the nature of risk and uncertainty in relation to the subject of the work. The actuary should consider, or may rely on others who have appropriately considered, the following:	Within this ISAP, actuarial services are characterized as involving “the development and use of models”, not “risk assessment.”
2.1	To the extent that a) regulatory or rating agency risk criteria and levels, b) an entity’s strategic goals, including those for the level and volatility of profits over time, and c) the impact of emerging risks are not considered to be part of 2.1.1. and 2.1.2, we suggest broadening the considerations.	
2.1.3	Relationship between the entity’s financial strength, risk profile, and risk environment as identified in 2.1.1. above, and the organization’s risk management system as identified in 2.1.2. above as relevant to the assignment.	
2.1.4	This item might be best served as a separate section in the ISAP rather than as a component of a section on understanding risk and uncertainty.	
2.3.1	Items a. through c. read as though they focus more on historical or current management actions or events rather than likely or anticipated future events. We suggest broadening these items to make them more forward looking.	
2.3.2	The actuary should also consider the possibility of simultaneous extreme values from multiple risk factors with differing probability distributions.	

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2.4.1	Items a., b., d., f., and g. should be grouped and any redundancy removed (e.g. external industry experts and subject matter experts.)	
2.4.1	We suggest removing the requirement that scenarios be “plausible,” since probing tail risks may involve “implausible” assumptions or scenarios. Reverse stress testing is common and may not involve plausible stresses. In addition, scenario tests could include reasonable assumptions and only moderate adversity, depending on their use.	
2.5	The <u>actuary</u> should <u>consider</u> <u>assessing</u> the reasons for and the impact of using multiple <u>models</u> and multiple <u>stress tests</u> or <u>scenario tests</u> and provide an <u>explanation</u> of any material differences.	This comment would also impact 3.1.6.
3.1.2 and 3.1.3	Either remove these disclosures or modify the references to “reconciliation” since there is often no experience data to reconcile with “potential extreme adverse values” or “the incidence of multiple extreme events”.	

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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		
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)