

Comments received from CCA Board

In Response to: ISAP General Actuarial Practice – Exposure Draft

11/30/11

The following are comments received by various CCA Board members on the both the exposure draft itself (i.e., additional comments that could be added to the ASB response) and to the ASB response itself.

Comments on Exposure Draft:

In 3.4.1.c, the actuary is asked to examine the information [to be relied upon] for evident shortcomings. Often, the actuary may not be qualified to perform such an examination, but could be taking very reasonable steps in assuming there are no such shortcomings. As an example, I would consider that a company's 10-K, signed in compliance with Sarbanes-Oxley would have no shortcomings, if it has an unqualified audit opinion. I think that the language needs to be weakened.

4.2: Whereas I agree that when a formal, "full" report is called for, standards may be necessary, but this IASP appears to require a formal report for all actuarial services.

4.2.1: "The actuary should complete a report if the actuary intends the results of professional services to be relied upon..."

Are there any professional services that we don't intend to be relied upon? (Maybe this is just a consulting actuary's perspective.)

Even where they acknowledge that a full report may not be needed, the full report nonetheless has to be developed and kept on file.

4.2.5: **Shorter reports** - "... Such reports do not have to, and cannot, contain all the details of the full report, but the full report should be available to any intended user... or anyone who has to take over the task..."

This would significantly increase the fees for many actuarial consulting projects – and likely cause some principles to proceed without actuarial input, due to cost constraints.

Furthermore, if you follow the definitions, all actuarial communication would be subject to the stated reporting requirements.

2.14: **Report** – An actuary's communication..."

2.3: **Communication** – An oral or written statement issued by an actuary with respect to professional services."

This caters to the common misperception that professional services provided by actuaries always consists of some sort of valuation, projection or similarly detailed analysis. But many of us are engaged to provide "advice, recommendations, findings or opinions based upon actuarial considerations" [2.12] where such activity is not appropriate. For example, a client may ask for an opinion, based on actuarial training and experience, as to the viability of certain aspects of PPACA. This may at some point lead to a formal assessment of options some time in the future, but in the meantime he may just rely on that opinion to keep from doing something that would preclude one of those options. Ongoing relationships

with clients result in many such exchanges, which by definition are actuarial communications, but where a "report" would be ludicrous.

The reporting requirements should be re-drafted to make it clear that not all communications should be considered "reports" and that reports are not required for all actuarial/professional services.

Comments on ASB Piece:

We received several comments on the language in the ASB response on 3.11 Peer Review. Most argue the rationale of the ASB in not including. The following are the comments as received with nominal editing:

1. Comment states: "Not all actuaries are in a position to obtain a full peer review and use other means for quality control".
 - 1) A "full peer review" sounds like an in-depth checking and different from a routine peer review. I would prefer avoiding the word "full".
 - 2) I suggest we do not say "Not all actuaries are in a position to obtain a full peer review and use other means for quality control". Such wordings can be used as evidence for poor quality against small firms.
 - 3) Further, I disagree with the above statement and believe that all actuaries regardless of size of their firm are in a position to obtain peer review and can use other means of quality control. Peer reviewers do not have to be from the same firms and a firm with just one actuary can find a peer outside his or her firm. If we want to address the issue of difficulties of small firms, we may want to say "It is not practical (or easy) for all actuaries to obtain a peer review....."
2. Comment states " To require peer review of all actuaries would give a significant market advantage to larger firms as small firms...". I think what we mean is review of the work products of all actuaries and not all actuaries.
3. While not part of the comment, I do not like the requirement " ...the work product to be reviewed by a knowledgeable, experienced actuary who has not performed any component of the work product". If a large project involves several actuaries handling independent components of the same project, one actuary should be able to peer review another actuary's work as long as the peer reviewer was not involved with the component of the work he or she reviews. Being independent should apply to the component of the work being reviewed. An actuary should not be excluded from peer reviewer list if the actuary was not involved with that component being reviewed and is independent.
4. It would seem as though the statement in the Exposure Draft that says " The responsible actuary should **consider** to what extent it is appropriate for the work product to be reviewed by a knowledgeable, experienced actuary. . ." would be appropriate for a standard of practice and doesn't give any advantage or disadvantage to large or small firms
5. The draft comments regarding peer review could be strengthened by suggesting removal of the word "full" and adding that the reviewer be independent of involvement with the specific component of the project at hand.

A second set of comments agreed that section 4.2 on report requirements are too prescriptive. The following are the specific comments.

1. The need for a formal report should be as determined by the actuary. However, actuarial communications should refer to an applicable report, if important to the subject of the communication, where the supporting data, assumptions, methods and provisions appear.
2. The report content list should be as appropriate for the project as determined by the actuary.