



# The Actuarial Standards Board and Actuarial Standards of Practice

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**Sponsored by the Academy's Council on Professionalism and  
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# Presenters

- **Albert J. Beer**, FCAS, MAAA, Member of the Actuarial Standards Board, Member of the Board of Directors of the Casualty Actuarial Society, and Professor of Risk Management and Actuarial Science at St John's University;
- **Tom Bakos**, FSA, MAAA, Chairperson of the Academy's Committee on Professional Responsibility, a VP on the Society of Actuaries Board of Directors, and President of Tom Bakos Consulting, Inc.; and
- **Robert G. Meilander**, FSA, MAAA, Member of the Actuarial Standards Board, and Vice President – Corporate Actuary at Northwestern Mutual.





## Presenters (cont'd)

The statements and opinions expressed herein are solely those of the panelists and do not constitute official statements or positions of the Academy, ASB, CAS, CCA, or the SOA.





# Agenda

- Discussion on the Actuarial Standards Board Structure and Process
- Discussion about the Use of ASOPs in Daily Practice
- Discussion about ASOPs, Laws, Regulations, and Practice Notes





# Actuarial Standards Board: Structure and Process

**Albert J. Beer, FCAS, MAAA**



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# The Actuarial Standards Board

- The ASB is an entity established within and managed with the support of the American Academy of Actuaries staff. It operates independently in establishing standards.
- It was established in 1988 as the single board promulgating standards of practice for the entire actuarial profession in the United States.
- The ASB was founded with the sole authority to develop, obtain comment upon, adopt and continuously review standards of practice.





# The Actuarial Standards Board

(cont'd)

- The ASB establishes and improves standards of actuarial practice.
- Actuarial Standards of Practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment.
- The ASB's goal is to set standards for appropriate actuarial practice in the U.S.





# Composition of the Actuarial Standards Board

- Nine members
- 3-year terms
- One-third of the Board appointed each year
- One can serve no more than 2 consecutive terms
- Broadly representative of all areas of practice
- Appointed by Council of U.S. Presidents







# Operating Committees

## Actuarial Standards Board





## ASB Operating Committees

- Members are selected to represent a broad spectrum of expertise within each practice area.
- Members are selected from a broad cross section of firms that work in each practice area.
- Members are proposed by the Committee Chairs and are approved by the ASB.
- Each Operating Committee has a Primary and a Secondary Liaison representative from the Board.





## Process To Develop An ASOP

- Anyone may submit a proposal to the ASB, describing why a new Actuarial Standard of Practice (ASOP) is needed and what it would cover.
- After reviewing and evaluating current and emerging practices, the ASB may:
  - Approve the proposal and refer it to the appropriate Operating Committee to develop an Exposure Draft; or
  - Decline to approve it.





## Process To Develop An ASOP (cont'd)

- A proposal sent to an Operating Committee may be assigned to a designated Task Force, resulting in a proposed Exposure Draft being sent to the ASB for review.
- After the Exposure Draft is reviewed, edited and ultimately approved by the ASB, it is distributed to the profession and other interested parties for comment.
- At the conclusion of the specified comment period, the Operating Committee/Task Force reviews all the comments received and makes modifications as deemed appropriate.





## Process To Develop An ASOP (cont'd)

- The Operating Committee then submits a Final Draft of the ASOP to ASB for approval.
- The ASB reviews the proposed ASOP and may
  - Approve the New/Revised ASOP; or
  - Re-expose it, depending on the materiality of changes from existing exposure draft.
- *[www.actuarialstandardsboard.org](http://www.actuarialstandardsboard.org)*




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## ASB Headlines

- [ASB Approves Revision to Introduction to the ASOPs; Issues Request for Comments](#)
- [ASB Approves Exposure Draft for ASOP No. 41 and Final Deviation Language](#)
- **HEALTH COMMITTEE NEWS:** [ASB Releases Exposure Draft on the Proposed Repeal of ASOP No. 31](#)
- **LIFE COMMITTEE NEWS:** [ASB to Revise ASOP No. 10](#)
- [ASB Approves New Communication Statement to Clarify Its Role](#)
- [ASB Expands Its Comprehensive Interested Parties Database](#)
- [ASB to Meet December 8–9 in Washington](#)

### ASB Approves Revision to Introduction to the ASOPs; Issues Request for Comments

The ASB has approved a revision to the *Introduction to the Actuarial Standards of Practice (ASOPs)*.

This revision clarifies the language in sections 3.1.2 and 3.1.3 (now 3.1.3 and 3.1.4) regarding the process that the ASB follows when developing ASOPs, removed language in 3.2.3 that related to prescribed statements of actuarial opinion, and altered the language in section 4.6 to conform to the newly adopted [Deviation Language](#) for Standards and Removal of References to PSAOs From Standards (All Practice Areas).

Download the latest ASB Boxscore





## Recently Exposed ASOPs

Recent exposure drafts open for comment until December 31, 2008 include:

- Request for Comments - *Actuarial Standard of Practice (ASOP) Content and ASB Procedure*
- ASOP No. 41 - *Actuarial Communications*
- ASOP No. 31 (proposed repeal) - *Documentation in Health Benefit Plan Ratemaking*





## Recent Revisions/Adoptions

- *Revision of Deviation Language for Standards and Removal of References to PSAOs From Standards*
- *Introduction to the Actuarial Standards of Practice (ASOPs)*
- ASOP No. 3 – *Practices Relating to Continuing Care Retirement Communities*
- ASOP No. 4 – *Measuring Pension Obligations*
- ASOP No. 24 – *Compliance with the NAIC Life Insurance Illustrations Model Regulation*







## Recent Revisions/Adoptions (cont'd)

- ASOP No. 27 – *Selection of Economic Assumptions for Measuring Pension Obligations*
- ASOP No. 35 – *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*
- ASOP No. 43 – *Property/Casualty Unpaid Claim Estimates*
- ASOP No. 44 – *Selection and Use of Asset Valuation Methods for Pension Valuations*





# The Use of ASOPs in Daily Practice

**Tom Bakos FSA, MAAA**



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## Use & Application of ASOPs

- A professional duty to “satisfy” ASOPs exists
- Understanding the framework & purpose of ASOPs
- Qualification Requirement: ASOPs are to be applied by qualified actuaries
- Determining applicability
- Satisfying an ASOP
- Role of professional judgment





# Professional Duty

- Under the Code of Professional Conduct:
- **Precept 3:** An Actuary shall ensure that ***Actuarial Services*** performed by or under the direction of the Actuary satisfy applicable standards of practice.
- **[3-1]** Duty to observe ASOPs and keep current.
- **[3-2]** Application of professional judgment.
- **[3-3]** Any deviation must be justified.





## Professional Duty (cont'd)

Under the Code of Professional Conduct ***Actuarial Services*** is defined as “[p]rofessional Services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”





## Professional Duty (cont'd)

**Precept 4:** An Actuary who issues an **Actuarial Communication** shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.

- ASOP 41: Actuarial Communications – applies to all.
- Standard deviation language.
- **Actuarial Communication** is defined under the Code as “[a] written, electronic, or oral communication issued by an Actuary with respect to Actuarial Services.”





# Framework & Purpose

- See new Introduction to the Actuarial Standards of Practice.
- ASOPs provide **guidance** on how to **appropriately** do actuarial work.
- ASOPs are not narrowly prescriptive – they neither dictate an approach nor mandate an outcome.
- ASOPs articulate:
  - A process of analysis;
  - A requirement for documentation; and
  - A requirement for disclosure.





# Framework & Purpose

## *Deviation*

- ASOPs can be complied with while *deviating* from the guidance provided in the ASOP.
- There will be consistent deviation language in ASOPs when ASOP 41 is made final.
- **ASOP 41, if approved as exposed, will require actuaries to make disclosures when:**
  - ❑ The actuary disclaims responsibility for any assumption or method;
  - ❑ Professional judgment is exercised to deviate from guidance provided;
  - ❑ Material assumptions are prescribed by law/regulation;
  - ❑ Another legally empowered party sets methods/assumptions not agreed to by actuary.







# Qualification Requirement

Under the Code of Professional Conduct:

**Precept 2** requires actuaries to be qualified to do the work they undertake.

- ASOPs are not intended as a rigid set of “how to” instructions.
- ASOPs are intended as guidance to actuaries who are otherwise ***qualified*** to use them based upon:
  - Education & experience
  - Continuing education
  - See Qualification Standards at <http://www.actuary.org/qualstandards/qual.pdf>





## Determining Applicability

This means identifying which ASOPs provide guidance.

- Familiarity with applicable ASOPs is a result of being qualified
- Participation in exposure draft process creates awareness
- Applicability Guidelines for Actuarial Standards of practice exist

(See <http://www.actuarialstandardsboard.org/appguide.asp> )





# Satisfying an ASOP

## *Step #1: Understand It*

- Review transmittal memorandum and Appendices to better understand context.
- Study Purpose & Scope and Definitions sections for where and how it is to be applied.
- Compare your process to ASOP guidance.
- ASOP 41 (and, perhaps, ASOP 23: Data Quality) will almost always apply.
- Be aware of what others working under your direction are doing.





# Satisfying an ASOP

## *Step #2: Interpretation*

- A qualified actuary applies ASOPs.
- A strained interpretation is inappropriate:
  - Exercise good professional judgment
  - Apply common sense
- ASOPs apply within their stated Scope and Purpose.
- Review terms defined in the **Introduction**.
- Consider if it is appropriate to deviate.
- Document and Disclose.
- Generally, ASOPs are task-specific – an ASOP may not exist.





# Professional Judgment

The **Introduction** defines the term *Professional Judgment*.

- Means: the application of knowledge and understanding that comes from training and experience.
- Use of professional judgment should be presented in a way recognizable by another actuary.





# Professional Judgment

## *Where Applied*

- **Precept 2:** Are you qualified?
- **Annotation 1-2:** Will your work product be used to evade or violate law or be detrimental to profession?
- **Precept 7:** Does an unresolved conflict exist?
- **Precept 8:** Will actuarial services be used to mislead others?





# ASOPs, Laws, Regulations, and Practice Notes

**Robert Meilander, FSA, MAAA**



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# ASOPs, Laws, Regulations, and Practice Notes

- Role of ASOPs in a broader regulatory structure
- Illustration Reg. “Case Study”







# Actuarial Regulatory Structure

- Laws
- Regulations
- ASOPs





# Laws

- Typically drafted by regulators
  - E.g. Treasury, DOL, SEC, or NAIC
  - Academy may play a role by making recommendations
- Enacted by legislatures
- May be based on:
  - Existing practice
  - New practice
- Must be followed





# Regulations

- Drafted by regulators
  - E.g. Treasury, DOL, SEC or NAIC
  - Academy may help by making recommendations
- Authorized by Law – have force of law
- Must be followed





# Laws and Regulations

- Together form the regulatory package
- Must include practices that regulators deem necessary
  - If something “must” be done, it must be in law or regulation.





# ASOPs

- Developed by the Actuarial Standards Board
  - With input from the profession and the public
- Are adopted through a rigorous protocol
- Standards are:

*“Intended to provide actuaries with a framework for performing professional assignments and to offer guidance on relevant issues, recommended practices, documentation, and disclosure.”*

*– from the Introduction to the Actuarial Standards of Practice.*





## ASOPs (cont'd)

- Identify what an actuary needs to do to appropriately complete an assignment
- Provide bounds for actuarial judgment
- Guidance must be followed unless the actuary feels another approach is more appropriate and the actuary:
  - discloses the deviation, and
  - is prepared to explain the decision (to the ABCD if necessary).





## ASOPs (cont'd)

- Set the bar based on appropriate practice
- Don't impose guidance where there is no consensus of appropriate practice
- Can cover new practice
  - By adapting old practice to new tasks





## Practice Notes

*“The purpose of practice notes is to provide information to actuaries on current or emerging practices in which their peers are engaged. ... Actuaries are not in any way bound to comply with practice notes or to conform their work to the practices described in practice notes.”*

*– Guidelines for the Development of Practice Notes  
(as adopted by the Academy Board of Directors  
September 25, 2006)*







## Practice Notes (cont'd)

- Are educational materials
  - Discuss current practice
  - Discuss emerging practice
  - Make no judgments about appropriateness
- Written by Academy members practicing in the area
- ***Are not binding in any way***
  - ***Do not provide “guidance”***
  - ***Are not “requirements”***





## Case Study – The Illustration Reg.

- Life Insurance Illustration Model Reg.
  - Ensures illustrations are legitimate
  - Prescribes a number of tests and rules
  - Prescribes disclosure
  - Requires an actuarial certification





## Case Study – The Illustration Reg. (cont'd)

- ASOP No. 24 – *Compliance with the NAIC Life Insurance Illustrations Model Reg.*
  - Provides guidance on items not addressed in the Model
    - Aggregation
    - Determination of experience factors
    - How to handle changes in methods or practice
    - When to certify
    - Required disclosure and appropriate documentation





## Case Study – The Illustration Reg. (cont'd)

- Regulators and ASB worked to:
  - Put mandates in the regulation, and
  - Put appropriate practice in the ASOP





# Summary on ASOPs, Laws, Regulations, and Practice Notes

- Laws and Regulations
  - What *must* be done
  - Must be complied with
- ASOPs
  - Guidance in exercising actuarial judgment
  - Actuary must be prepared to explain any deviation
- Practice Notes
  - Compilation of current or likely practice
  - Not binding in any way





# QUESTIONS?

*The Actuarial Standards Board establishes and improves standards of actuarial practice.*

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[http://www.actuary.org/ea/certificate/dec08\\_webcast.asp](http://www.actuary.org/ea/certificate/dec08_webcast.asp)

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