



# **Setting the Ground Rules: Revised ASOP No.1 and Other Key Information for Actuaries**

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# Presenters

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# Disclaimer

- Please note that the statements and opinions expressed by the presenters are those of the individual presenters and do not represent the statements or opinions of the Actuarial Standards Board (ASB), the Actuarial Board for Counseling and Discipline (ABCD), or any Academy boards, councils, or committees.





# Agenda

- Actuarial Standards Board Introduction
- Introduction to ASOP No. 1
- Setting the Stage
- Where Does ASOP No. 1 Fit In
- Substance of ASOP No. 1
- Intersection with ASOP No. 41
- Conclusion
- Questions



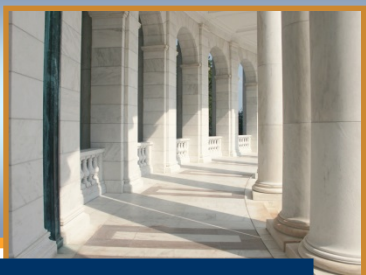


# ASB Introduction

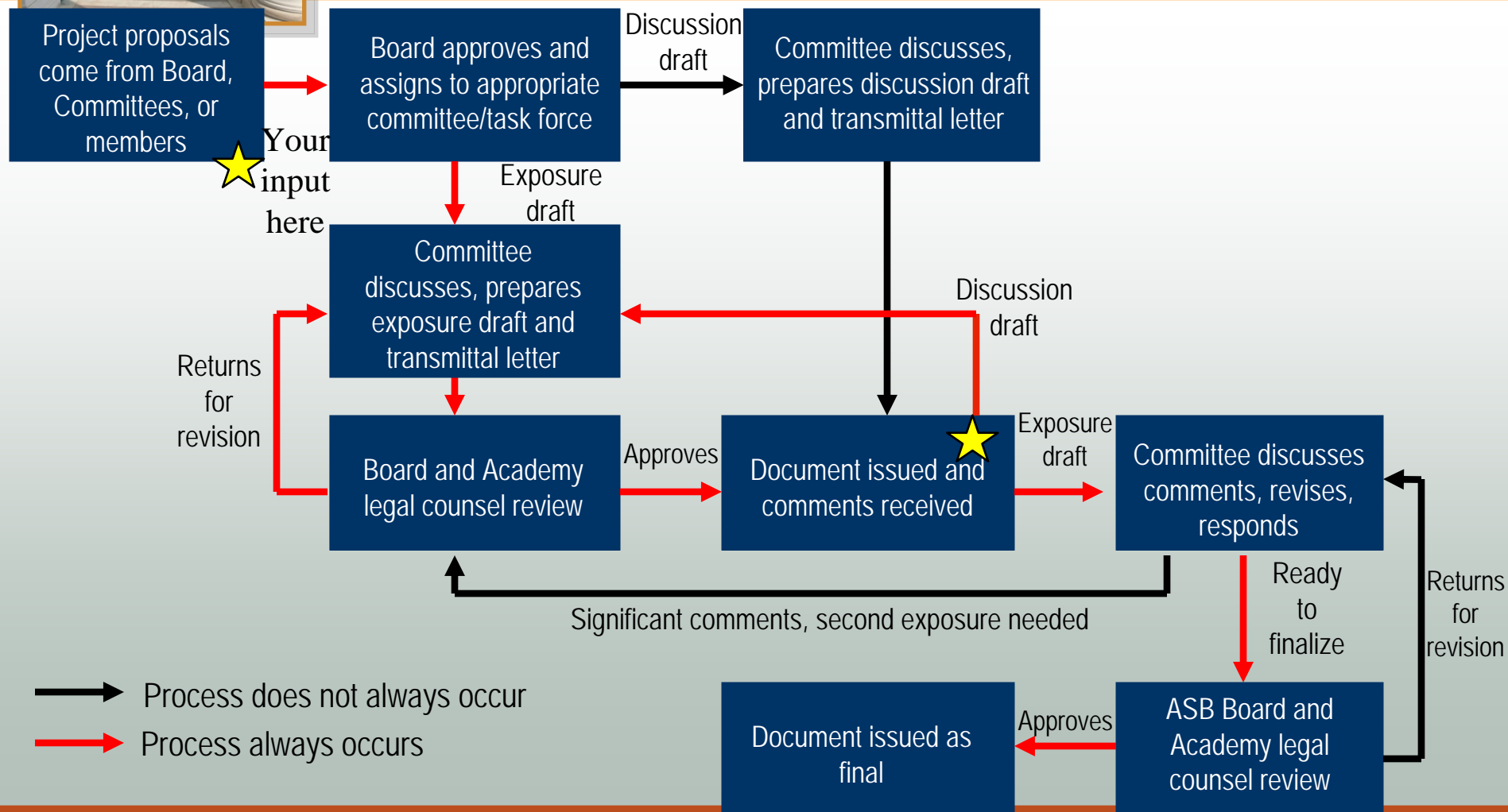
## ■ What is the Actuarial Standards Board

- ❑ The ASB is an autonomous board created under Article XI of the Academy Bylaws.
- ❑ The ASB promulgates, revises or amends, and repeals Actuarial Standards of Practice (ASOPs) which provides guidance to credentialed actuaries who render actuarial services in the USA.
- ❑ Composition: Nine members; serve 3-year terms; no more than two consecutive terms; broadly representative of all areas of actuarial practice; appointed by the president and president-elects of the five U.S.-based actuarial organizations; and meets at least quarterly.





# ASB Process





# Operating Committees





# Introduction to ASOP No. 1

- **What is ASOP No. 1?**
  - ❑ A revision to the former introduction to ASOPs
  - ❑ Sets the stage for all other ASOPs
  - ❑ Improves and streamlines wording as compared to prior introduction
  - ❑ Adds important new definitions
  - ❑ Makes clearer that it carries the full weight of an ASOP







# Introduction to ASOP No. 1

## ■ Why New ASOP No. 1?

- ❑ ASB regularly reviews ASOPs to identify need for revisions
- ❑ Reinforces the mandatory nature of the guidance contained in the introduction
- ❑ Provides for more clarity in terms of construction of ASOPs, particularly in connection with ASOP No. 41 deviation disclosure requirements





# Introduction to ASOP No. 1

## ■ What Happened to Old ASOP No. 1?

*(Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts, which previously was numbered as ASOP No. 1 and was changed, effective March 21, 2013, to ASOP No. 2. Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88, formerly ASOP No. 2, was repealed on March 14, 2011, and does not apply to actuarial communications issued after that date.)*





# Setting the Stage

## ■ Code of Professional Conduct (Code)

- ❑ The Code is the foundation of actuarial professionalism for U.S. credentialed actuaries (applies to actuarial members of the Academy, ASPPA/ACOPA, CAS, CCA, and SOA).
- ❑ The Code provides basic definitions such as “Actuarial Communication” and “Actuarial Services.”
- ❑ The Code contains 14 Precepts, and particularly Precept 3 which states: “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.”





# Setting the Stage

- **ASB charged by all U.S.-based actuarial organizations with establishing and revising (or repealing) ASOPs in the U.S.**
  - ❑ Goal: defines an “appropriate” level of practice in the U.S.
  - ❑ ASOPs are binding authoritative guidance for actuaries.
  - ❑ ASOPs are part of the actuary’s work considerations.





# Setting the Stage

- **ASB charged by all U.S.-based actuarial organizations with establishing and revising (or repealing) ASOPs in the U.S. (cont'd)**
  - ASOPs provide a basic framework intended to accommodate considerations such as law and regulations, professional considerations, evolving actuarial practice, and professional judgment.
  - Actuaries may wish to review Applicability Guidelines as a further resource:  
<http://www.actuary.org/content/applicability-guidelines-actuarial-standards-practice>.





# Where Does ASOP No. 1 Fit In

## ■ How does the introduction fit in?

- ❑ Provides guidance to actuaries on how to read and interpret the other actuarial standards of practice
- ❑ Key terms used in the other ASOPs are defined or discussed in ASOP No. 1
- ❑ Defines the purpose and format of the ASOPs
- ❑ Discusses how ASOPs are binding on actuaries
- ❑ Appendices provide useful background information





# Where Does ASOP No. 1 Fit In

## ■ How was ASOP No. 1 created?

### □ General Committee of ASB

- 11 members representing various segments of the profession
- 2 liaison members who are also on the ASB

### □ Process

- Draft developed by General Committee – highly collaborative
- Approved for exposure by ASB
- Exposed to profession and public
- All comments reviewed by GC; ASOP modified to provide clarification as needed
- Adopted by ASB





# Substance of ASOP No. 1

## ■ Section 1 - Overview

- ❑ “Sets forth principles that have been broadly applicable to the work of the ASB since its inception”
- ❑ Carries the same weight and authority as other ASOPs
- ❑ Applies to all ASOPs and all practice areas







# Substance of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Must/Should”**
  - ❑ Subtle but important distinction
  - ❑ Must = ASB does not envision any scenario where there would be a reasonable alternative
  - ❑ Should = what is normally the appropriate practice to follow
  - ❑ “Should consider”
  - ❑ Allowed to deviate if actuary follows ASOP No. 41





# Substance of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: Actuarial Soundness**
  - ❑ Ambiguous term with multiple definitions
  - ❑ See Academy Actuarial Soundness Task Force Paper published May 2012  
<http://www.actuary.org/files/publications/Actuarial%20Soundness%20Special%20Report%20FINAL%205%2010%2012.pdf>
  - ❑ Actuary should define the meaning of actuarially sound in the context he/she is using it





# Substance of ASOP No. 1

## ■ Section 2 – Definitions, Discussions, and Related Guidance: Materiality

- ❑ “...its omission or misstatement could influence a decision of an intended user”
- ❑ Purposes of the work and how it will be used
- ❑ Professional judgment
- ❑ Applicable law, standards, or guidelines
- ❑ ASOPs need not be applied to immaterial items
- ❑ See Academy’s Discussion Paper on Materiality (June 2006)

[http://www.actuary.org/files/materiality\\_06.8.pdf/materiality\\_06.8.pdf](http://www.actuary.org/files/materiality_06.8.pdf/materiality_06.8.pdf)





# Substance of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: Practical or Practicable**
  - “...all possible steps need not always be taken...”
  - “...a course of action that is likely to yield an appropriate result...”
  - “...without being unnecessarily time-consuming, elaborate, or costly...”
  - “...relative to the principal’s needs”





# Substance of ASOP No. 1

- **Section 3 – Purpose and Format of the ASOPs**
  - ❑ Identify what “should be considered, done, documented, and disclosed” when rendering actuarial services
  - ❑ Intended for use by actuaries who are qualified to do so under Precept 2 of the Code of Professional Conduct (and under the U.S. Qualification Standards)
  - ❑ Don’t cover everything; use professional judgment in new or non-routine situations
  - ❑ Principles-based; not a how-to-manual
    - \*Analytical framework; allows for professional judgment
    - \*Reasonable differences in conclusions possible





# Substance of ASOP No. 1

- **Section 3 – Purpose and Format of the ASOPs**
  - ❑ Law supersedes ASOPs and may result in a deviation
  - ❑ ASOPs are binding; other actuarial literature is not
  - ❑ \*Practice notes, research papers, study notes, text books and journals, etc. may be helpful, but they do not establish actuarial standards of practice and are not binding
  - ❑ New/revised ASOPs become binding on and after their respective effective dates
  - ❑ A common format assists in readability and consistency
    - \*Three parts: transmittal memo, the standard, appendices
    - \***Only the standard itself is binding**





# Substance of ASOP No. 1

## ■ Section 4 – Compliance

- ❑ Use “good faith” approach: reasonable professional judgment / professional integrity (Precept 1 of the Code)  
-- strained interpretations are not appropriate
- ❑ Responsible for determining which ASOPs apply  
(consider reviewing Applicability Guidelines)
- ❑ If it is necessary to deviate from the guidance in an ASOP, it is not a breach if disclosed as described in the ASOP





# Substance of ASOP No. 1

- **Section 4 – Compliance (cont'd)**
  - ❑ Failure to comply could = material violation of Precept 3 of the Code, and also violation of your Precept 1 responsibilities
  - ❑ Such failures could result in your being reported to ABCD and potential discipline (which may include suspension or expulsion of your credentials)
  - ❑ If ASOPs conflict, consider a Request For Guidance (RFG) from the ABCD and use professional judgment







# Substance of ASOP No. 1

## ■ Appendices – Purpose and Description

- Appendix 1 provides background and additional information

- \*Much of this taken from body of original Introduction

- \*Not guidance, but still useful information

- \*Covers the following:

- Clarification of Language

- Role and Scope of ASOPs

- Development of ASOPs

- Organization of ASOPs

- Appendix 2 discusses the comments on the Exposure Draft





# Intersection with ASOP No. 41

- **Like all the ASOPs, ASOP No. 41 is enhanced and clarified by a reading of ASOP No. 1**
  - ASOP No. 1 like ASOP No. 41 deals with broad issues affecting all areas of actuarial practice (cross-practice)
  - Discussions of “must”, “should”, “deviation”, “professional judgment” and others, along with other provisions such as Section 4 Compliance with ASOPs, help to clarify ASOP No. 41
    - \*What constitutes deviation from the guidance
    - \*When and how do the disclosure requirements apply
    - \*What are Specific Circumstances





# Conclusion

- **ASOP No. 1 provides real guidance**
  - It is applicable to all actuarial work
  - It will help to put the role of the other ASOPs into the context of your daily work
  - It will help you read and use all the other ASOPs
- **Read ASOP No. 1 and become familiar with it**
- **Remember that reading an ASOP, and commenting on an exposure draft counts as professionalism CE**





# ■ Questions

