

RECORD OF SOCIETY OF ACTUARIES 1985 VOL. 11 NO. 4A

PROFESSIONAL STANDARDS

Moderator: JOHN H. HARDING
Panelists: ROBERT L. LINDSAY
 WALTER S. RUGLAND
Recorder: CRAIG A. SMITH

The actuarial profession is moving ahead on a course that is anticipated to lead to an independent Actuarial Standards Board (ASB). To experience how this should be done, an interim ASB has been formed. A current discussion of status and direction, affecting all fields of actuarial practice and all actuaries, is shared in this presentation.

MR. JOHN H. HARDING: The purpose of this presentation is to bring you up to date on the progress currently being made in the development of professional actuarial standards. While there are some important standards in place or currently being developed, just as important is the development of a process for the managing of our professional standards. We will bring you up to date on our progress toward an ASB and then discuss some of the major open questions that many actuaries have about this whole idea.

Actuaries are trained in the science of mathematical probabilities and finance. They project the financial effects that events like birth, sickness, accident, fire, and death have on insurance and other benefit plans. Actuaries touch the lives of almost every American, making it one of the most influential professions in the country.

More and more, legislators, regulators, and the general public are beginning to realize the importance of the actuarial profession, and naturally they have questions and concerns.

They are asking how such an important profession works. Does it have professional standards such as architects and engineers do? How does it keep its members up to date on new actuarial methods and revisions of standards? And how are actuaries who depart from these standards disciplined?

It is crucial that actuaries be able to give satisfactory answers to such questions. Because if they do not, someone else will do it for them.

We are not the first profession to face this situation. Doctors, whose skills are also highly developed, have long recognized that they need

OPEN FORUM

some way to define and defend good medical practice. The same is true for other professions, like accounting, that work in sensitive areas. These professions have realized the truth in the saying "Those who cannot govern are governed." They have seen that someone had to set standards for their professions, and they decided to do it themselves.

Standards benefit a profession like ours in four important ways. First and most important, they let us find our own solutions to problems, rather than having solutions forced on us from the outside.

Second, standards would greatly strengthen our public image by showing unequivocally that we take professionalism seriously; that we are, in a word, responsible.

Third, standards, if kept current, would improve our professionalism. When standards are revised or a practice updated--a process involving actuaries themselves--members of the profession would be notified and kept current on state-of-the-art developments.

Fourth, standards are a shield. Should members be faced with legal questions about their competency or ethics, they could use these standards to construct a defending argument or safe harbor. Conversely, should any actuary threaten our profession by behaving unethically or incompetently, there would be a code of professional conduct and practice against which to judge and discipline him.

Our profession has recognized the value of standards to some degree. We have set them to cover certain specific situations. However, the result of this fragmented approach has been a patchwork of codes with so many gaps that it neither improves our image nor gives us much protection. Which brings us to an important point: If we want all the benefits that comprehensive standards offer, we will have to create a central body--responsible, responsive, and accountable--to promulgate and manage our standards.

Only a central body can codify existing generally-accepted actuarial principles and practices, assure that standards are up to date and issue new ones. Only a central body can disseminate important changes in methods of practice. And only a central body can accomplish this task with consistency for the entire profession.

From the outset, Mr. Walter S. Rugland has been one of the prime movers in the development of the standards setting process. As far back as 1980, he urged that the Academy adopt a process of this sort immediately. It's taken us a few years to catch up with him, and his own views have modified somewhat over that period of time. I can think of no one better to describe the concept of the ASB and how it would function as an independent entity.

MR. WALTER S. RUGLAND: The old adage goes "He who will not govern himself will be governed," and it is a sentiment worth remembering when considering the pros and cons of standards.

PROFESSIONAL STANDARDS

The important question for the long run is: "Who would I, the actuary, rather have govern me--those in my profession who act in the interests of the profession, or those outside who act in their own interests?"

What do I mean by professional standards? Standards are the guidelines established by a profession apropos of ethical conduct, professional demeanor, and quality of work product. Credibility is a key object of standards. Why should any of the actuarial profession's many publics place great trust in it if outside forces (that is, any self-appointed overseer of the profession, including the courts) find it necessary to step in and mandate policy? The public and related professions will give more credibility to the actuarial profession if it openly and responsibly monitors itself.

Standards, and all the credibility they imply, have to be meaningful. Discipline plays a role. An incompetent actuary can adversely reflect on the profession as a whole. Discipline is not intended to terrorize actuaries but to provide them with a means of filtering out the poor work that will hurt professional credibility.

The best way for the profession to derive maximum credibility from standards is for those in the profession to be in support of them. The actuary's publics will wonder whether he or she cares enough to define and defend his or her own principles: standards are a good way to demonstrate that he or she does.

I will summarize what the Academy's general counsel has told us the law thinks about standards as they apply to our profession.

From a legal perspective, professional standards can be thought of as emerging from one of three areas: (1) professional standards as promulgated by the profession, (2) statutory and regulatory requirements that may adhere to the actuary's work product, and (3) common law determinations of what constitutes applicable standards in a given actuarial context.

In connection with statutory and regulatory requirements, most actuaries would reject the characterization of these requirements as "professional standards"; however, from a legal standpoint, adherence to such requirements is mandatory.

Since both standards by legislation or regulation and by court decree are out of the profession's control, the wisdom in the actuarial profession developing its own standards and urging their acceptance by the courts and regulators is obvious.

Standards assure the general public that members of a profession are accountable to their peers. Standards assure individuals in a profession that their profession as a whole is looking out for them.

For over ten years, our profession has had practice standards. We have committees and procedures in place. For those of us in the United States, this system doesn't appear to be sufficient.

OPEN FORUM

The mechanics for promulgating standards of practice are not being challenged; their scope and management is. Methods must be in place assuring that obsolete standards are revised or deleted, new standards are promulgated as necessary, and Academy members adhere to adopted standards. The current approach to managing the process has been reviewed and declared "ad hoc at best and nonexistent at worst."

In order to achieve the greatest benefit from and the maximum protection afforded by actuarial practice standards, they must be developed in an active instead of reactive manner. An ASB has been declared the appropriate answer.

What procedures would the ASB use to determine the validity of new standards? The following guidelines have been suggested; ultimately the ASB will develop its own provisions.

Cost/Benefit Analysis--A cost/benefit analysis of the proposed standard in which cost impact for implementation is weighed against perceived benefits. Under this heading would also be considered:

- o what the need for it is as perceived by members;
- o whether the standard fulfills a short- or long-term need;
- o whether it fits into the current array of standards;
- o whether it will be widely accepted; and
- o whether the standard is too cumbersome, difficult to comprehend, or unenforceable.

The analysis would be the responsibility of the ASB.

Scope of Promulgation--Each standard should delineate the need for the standard, and affirm that the standard is concerned with the quality of work rather than ethical issues.

We are asking the ASB to address work practice--in other words, standards of practice. Such issues that need to be considered by the ASB are:

- o the range of acceptable techniques and procedures;
- o the nature of circumstances that would indicate use of techniques and procedures outside the normal range; and
- o the factors that should be considered in selecting particular techniques and procedures in connection with a given assignment.

Other Considerations--Other things that the ASB would need to consider in its management of standards of practice would be:

- o brevity,

PROFESSIONAL STANDARDS

- o consistent style,
- o cross references,
- o continuity,
- o concepts rather than instructions,
- o legalities, and
- o avoiding limitation of acceptable approaches to those considered "standard" or "usual"

How will the ASB be structured?:

- o The ASB should be made up of nine members and have representation from each of the four actuarial organizations. It would represent the final authority on standards of practice, and standards issued would not be subject to review.
- o The American Academy of Actuaries Board would delegate all its standard setting authority to the ASB.
- o The ASB would take full responsibility for developing, publishing, and managing standards of practice.
- o The make-up of the ASB membership would be controlled by the actuarial profession, but the ASB itself would be self-regulating, and its responsibility would be to the entire actuarial profession.
- o The ASB would be attached to the AAA for discipline purposes, administrative purposes, and funding.

The ASB will manage standards in five broad areas: pension, life, health, casualty, and speciality (the last area to cover those subjects which do not fall cleanly into one or more of the other areas, e.g., Social Security, risk classification, expert testimony on financial calculations).

Each of these five areas will have an "operating committee" responsible for the actual development of standards. The make-up of these operating committees will be representative of various interests in the profession for the particular practice areas. The operating committees will be responsible to the ASB, and function under its direction.

The functions of an operating committee will include indicating to the ASB suggestions for standards it might develop. Having received concurrence from the ASB to proceed on a given idea, it would schedule the drafting requirements, including a timetable; assign it to a subcommittee or task force; review and edit proposed standards for presentation to the ASB; solicit comment on exposure drafts; reconcile draft standards to comments received; submit redrafted standards to ASB for final promulgation; and periodically review existing standards for continued relevance.

OPEN FORUM

The ASB's responsibility would be to assure that the process has been adhered to, not to participate with the operating committees in the technical aspects of the drafting or editing.

In order to assure that the operating committees are able to handle a fairly sizeable workload, the assignment of the work must be flexible. The operating committee must work through subcommittees, task forces, or paid staff support in order to get the work done.

To present a proposed standard to the ASB, two-thirds of the operating committee must concur. Six affirmative votes of the ASB are required for ASB promulgation. The ASB may not edit, only accept or return with comment to the operating committee.

MR. HARDING: I believe it is fair to say that none of the actuarial organizations believe we are ready for the final process yet. We need some experience with how it would work, whether we can support the standards setting process without a massive, expensive bureaucracy, and how effective the resultant standards might be. For that reason, we have introduced the concept of an Interim Actuarial Standards Board (IASB) that is a part of the Academy of Actuaries, but emulates as closely as practical the way we would expect that the ASB might operate. We view the IASB not as an experiment, however, but as a dress rehearsal.

The IASB will function technically as an Academy committee but with several significant differences, particularly with respect to the standards setting process. Its internal organization will be much like the ASB. This Board will name the operating committees and manage them. The operating committees will be responsible for developing the proposed standards, recommending their exposure, responding to comments, and recommending the final standards for promulgation. The IASB will set the priorities, authorize the proposed standards for exposure, and approve the final result for promulgation. At this point, however, the IASB role will differ from the expected ASB role. Because the IASB is still technically an Academy committee, it will still be the responsibility of the Academy Board to give final approval. However, the articles of organization of the IASB make it clear that the Academy will vote with a simple majority to approve or disapprove. In other words, it will be thumbs up or down, but no changes.

This is a significant departure from the current role of the Academy Board of Directors. Until now the Academy Board has approved standards for exposure, approved the final promulgation with a two-thirds vote, and in fact, has modified proposed standards at its discretion. To the extent that the Academy Board continues to support the IASB in its emulation of the ASB, a negative vote on standards should be a rare occurrence. Therefore, the IASB to all intents and purposes will be managing the standards setting process.

I am pleased to announce that on October 8, 1985, the Academy Directors voted to establish the IASB and that the Board members have also been nominated and approved. The Nominating Committee in itself is an interesting structure. While it is a committee of the Academy, its

PROFESSIONAL STANDARDS

membership is identical to the membership on the Council of Presidents, that is, the presidents and presidents-elect of our major actuarial organizations.

While membership on the final ASB will consist of staggered three-year terms, for practical reasons all members of the IASB have been asked to serve for the entire duration of the Interim Board.

This is the list of the membership of the IASB:

John A. Fibiger, Chairperson	Barbara J. Lautzenheiser
Ronald L. Bornhuetter, Vice Chairperson	Thomas E. Murrin
E. Paul Barnhart	George B. Swick
Edwin F. Boynton	Jack M. Turnquist
James C. Hickman	

I am delighted with the membership of the IASB. I'm sure that many of you recognize the contributions that each of the members has already made to our profession. I am confident that the IASB is off to a good start.

The Standards Implementation Committee, which has been responsible for developing the standards setting process and its managing organization, has been renamed the Standards Organizing Committee and will continue to have a limited role during the period of time that the IASB exists. Our primary purpose will be to move toward the permanent establishment of the ASB in two or three years. We have a consulting role to the Academy Board in which we are to evaluate the work of the IASB and to assist in what ever way we can to permit the IASB to emulate its successor as closely as possible. Our secondary purpose is to work on the organizational and financial details of a permanent ASB and to recommend the final structure to the Academy Board.

We will be discussing the evaluation process with the IASB later this month. At this time, we believe that the major subjects are:

- I. Structure. Will the structure of the IASB actually manage standards properly, using operating committees? Will the amount of overlap with what other actuarial bodies are doing be minimized?
- II. Process. Does the exposure process, the entire method of setting standards, in fact, do the job in terms of getting the appropriate professional response?
- III. Independence. There are many views as to the final degree of independence of the ASB. Should it, like the Financial Accounting Standards Board (FASB), be an entirely separate organization, or should it be somewhat more closely connected with the Academy? To the extent that the IASB or the ASB

OPEN FORUM

has been envisioned for the future, it would not perform the roles of negotiating with outside entities like the NAIC and the Securities and Exchange Commission (SEC) and, in fact, the FASB. Whether we can truly separate the functions of standards setting from the functions of public interface is a matter to be determined through experience.

- IV. Performance. What of the standards themselves that have been put together in the period that the IASB has been in operation? We must evaluate at several periods of time what is perceived to be there, and what is perceived to be on the plate and in process.
- V. Acceptance. It is not only a matter of how well the actuarial organizations accept the work of the IASB, but also how the membership of those organizations accept it, how the regulators accept it, and how other professional organizations accept the work product.
- VI. Costs. What will the cost of developing the standards and maintaining standards really be? How much will we be able to do with volunteer people? How much will we have to pay for? And what will be the expectation of the future costs as we evolve to the ASB?

As we went down the road toward forming the IASB, there was a desire on all parts to identify clearly what the continuing role of the Society of Actuaries and of the other actuarial organizations would be with respect to the development of principles and practices. About a year ago, we evolved to a position where the Society of Actuaries, the Casualty Actuarial Society, and the Conference of Actuaries in Public Practice would continue to develop principles, while the ASB would concentrate on standards of practice. While that separation may well be easier to glibly identify than to carefully define, Mr. Robert L. Lindsay's committee has been charged with identifying precisely what this distinction may mean.

MR. ROBERT L. LINDSAY: Actuarial principles have usually emerged in three ways:

1. Authors, reporting on results of research and analysis, have prepared papers which implicitly establish principles.
2. Practice, as defined by discussion in forums, or reporting within literature, implicitly becomes adopted through study notes as part of the educational syllabus.
3. Regulators, in promulgating statutes, regulations, and so on, create definitions of actuarial science which implicitly alter previous definitions.

This informal approach is not satisfactory for a learned profession such as ours. Therefore, the Board of Governors appointed a task force to

PROFESSIONAL STANDARDS

recommend the Society's role in establishing actuarial principles and how this role is to be performed.

The Task Force on Actuarial Principles released its report to the Society's Board on August 1, 1985. The gist of its findings is as follows:

Definition of Actuarial Principles: principles of actuarial science are those tenets...truths, axioms, and dicta...which underlie the science. They provide guidance to the profession's education and research efforts, for the definition of the actuary's responsibility, and for establishing a basis for the profession's standards of practice. Principles should have the same force as the Guides to Professional Conduct.

Promulgation: the Board should manage the promulgation of actuarial principles through a Policy Committee on Actuarial Principles. This committee would manage the process rather than execute the work. It would identify areas of activity and secure the necessary resources to be sure the work is completed properly.

The procedure for adopting principles needs to be clearly defined. The task force recommended that the procedures adopted by the American Academy of Actuaries for developing Standards of Professional Conduct and Practice be adopted. Proposed principles would require at least a majority vote of the working groups involved and the Board to expose, and a two-thirds vote of the working groups and the Board to adopt.

Examples of hypothetical principles are as follows:

1. Assumptions: The actuary should make explicit assumptions of any material, future contingent event affecting an assignment or, alternatively, utilize disclosure of any implicit assumptions.
2. Risk classification: The actuary, in making price or benefit liability calculations, should recognize the relevant demographic characteristics of the insureds or members.
3. Time value of money: A calculation where the combination of involved amounts and time differences materially affects the result must take account of the time value of money.

Our report was submitted to the Board in August 1985. The Executive Committee as well as the Board have considered our report; I'd like to turn it back over to Mr. Rugland just to make a few comments on what happened at that meeting.

MR. RUGLAND: The Executive Committee endorsed the charge that was given to the Lindsay task force and asked the Board to discuss the context of the report. Subsequent to that, it was the intent of the Executive Committee to ask the task force to prepare enabling motions that would put the process in place.

OPEN FORUM

I conclude that the Board was unwilling presently to accept the notion that principles should be explicitly promulgated by the Society. So, there was no desire to discuss a process as to how those principles would be managed or how they would be promulgated. The action plan was essentially to take the development of principles for life insurance company valuation actuaries.

A committee has been working hard and is nearing the stage where it is going to present a report to the Board. It is the Board's desire to let that committee continue to work and to study what happens.

I was instructed to give the IASB a transcript of the discussion of the Board of Governors with regard to this topic as well as the report of the task force.

MR. HARDING: There are four current issues that are extremely relevant with respect to existing and emerging standards. They are as follows:

1. the Pension Benefit Guaranty Corporation (PBGC) suit,
2. loss reserve standards,
3. valuation actuary issues, and
4. FASB cost standards for fringe benefits.

Regarding the PBGC suit, the PBGC is assuming that there are relevant actuarial standards in the case of a pension plan that had a souped-up benefit in the event of a plant closing. There were assumptions made by the actuarial firm doing the work about the probability of plant closing. Those assumptions ranged over a historical period from 1 to 6 percent. The plant closed, and the PBGC sued, saying the firm didn't follow standards. I think it is one case where a more fully developed set of standards, perhaps, would have been helpful to sort this particular problem out.

MR. RUGLAND: I would like to comment on the valuation actuary issue. There is nothing new in terms of standards of practice with regard to actuaries who sign statements of opinion on the statutory statement for life and health insurance companies. When the conceptual development of the idea of the valuation actuary emerged, the Academy's Financial Reporting Committee began to think about how the standards of practice would look, or what they would be, for actuaries performing that type of activity. There had been a dress rehearsal on this, because the NAIC had come up with a guideline with regard to indexed universal life products, and the Committee had already developed a standard of practice for that activity. It's Recommendation 11 of the Academy's Standards of Practice.

The Academy has had in place since 1975 standards of practice for actuaries signing actuarial opinions. They have been revised a few times.

PROFESSIONAL STANDARDS

The format for Recommendation 7, which is the life insurance company recommendation, is also the format which was used for Recommendation 8, which is for casualty loss reserve signatures, as well as the recommendation which was developed for an opinion on Blue Cross/Blue Shield or health maintenance organization-type statements.

When we began to work on the valuation actuary concept, the normal approach was to work with the existing standard and see how it could be changed or essentially worked from. After spending a couple of years in that activity and trying to reshape the existing standard to fit what essentially is a new dimension of responsibility, we have something that is quite complex and has a lot of issues in it that may not need to be there. In other words, it may have been more appropriate to start from scratch, having to define the responsibility and then to start developing the standard itself.

MR. LINDSAY: Prefunding of postretirement pension benefits is a generally accepted practice with standards which are reasonably well defined. Prefunding of postretirement welfare benefits is very uncommon. The prevalent practice is to provide these benefits on a pay-as-you-go basis, the argument being that the employer could terminate these benefits in the future.

Some case law is developing against an employer's right to terminate postretirement life insurance and medical care coverages on retirees. Also, it would seem prudent to fund these benefits over the working life of an employee as the cost would be more closely matched against revenues generated by that employee.

The issue is whether the Society of Actuaries should take a position on this important issue.

MR. HARDING: I would like to identify some of the basic concerns raised by actuaries about the ASB and the entire standards setting process:

1. Will standards interfere with my professional life and the way I do things?
2. Will it stifle my creativity?
3. Will we create a regulatory monster?
4. Will the whole thing be too expensive?

These are valid concerns, and they will be addressed as we go through the next few years.

MR. RICHARD S. MILLER: The Committee on Life Insurance Financial Reporting probably hasn't arrived at the conclusion that a fresh sheet of paper is needed yet for any prospective standard on the practice of the valuation actuary. But, it certainly has felt that it's finally gotten some attention. We have 34 comments on the discussion draft, and the comments are sufficient so that we'll probably go back and come out

OPEN FORUM

with something else for discussion purposes, deliberately again avoiding the implication that the next round is the promulgation of a final set of standards.

Moreover, Mr. Rugland's own committee, which has made recommendations to John Montgomery's committee of the NAIC, appears to us to have taken some of the time pressure off of the valuation actuary concept. It would appear to us that we may have time for the whole profession to exercise its input into the standards setting process before the standards themselves are actually required. Hopefully, this will be the case. We have not felt particularly comfortable taking the lead in trying to set what the practices should be in an area which is completely experimental to the profession.

MR. CHARLES BARRY H. WATSON: Mr. Rugland, in his extremely good presentation, seemed to say that the standards of practice being defined had to meet the test that they would be used by the general profession. As I got the implication, anything which was novel, creative, perhaps adapted to the circumstances of a particular case--it wasn't even a matter just of making the actuary justify them, which is the way we have traditionally gone--would be just ruled out of court. Now, if this were to be the case and if it was admitted to be the case from the beginning, I think that you will indeed find that there will be a tremendous upsurge of activity, because many of us will feel that we're being conned.

MR. HARDING: Your point is well taken. Certainly, the history of the standard setting process so far is that we have left significant room for experimentation. I would tend to agree that, if the Standards Board ends up limiting the opportunity for professional experimentation, this process will not be accepted.

MR. RUGLAND: The challenge to managing this whole process is essentially to make the standards of work practice appropriate enough so that we create the safe harbor, while at the same time not having them so detailed or specific that we preempt the ability of the practitioner to apply the considerations which are behind the existing standard as they would apply to the given situation.

In some instances, I've said that the practitioner really has two responsibilities. One is to determine if the standard is applicable to his problem, and then, apply the standard to the problem, or justify the approach taken if the standard is not used.

The easy solution to standard writing, I believe, is to make it too detailed, too long, too specific.

The management challenge is to do exactly as Mr. Watson suggests. The balance is the management, and my hope is that the ASB will look on that as its primary function. We do need to have standards for specific actuarial functions. We need to make sure though that the basic underpinnings of standards as they apply to one task are not specifically more burdensome or different than they are as they apply to another task.

PROFESSIONAL STANDARDS

MR. JACK M. TURNQUIST: Relative to Mr. Watson's concern, there is a safeguard; regardless of what's done by the IASB or the ASB, unless there is a change to the Guides to Professional Conduct, you are protected from that happening. To the best of my knowledge there is no intent nor directive to change the Guides to Professional Conduct as a result of this.

MR. WATSON: What do you mean by that? Do you mean that the Guides would not be amended so that failure to conform with the Standards of Practice would be a disciplinary issue?

MR. TURNQUIST: Basically, as they exist now, there is a requirement that the actuary consider the appropriate recommendations and interpretations. What is anticipated, at least to the best of my knowledge at this point, is that the wording would be that he would give consideration to the appropriate standards of the operating committee in that area and that if he chooses to deviate from those recommendations, he must be prepared to defend his choice. It doesn't say he can't do it.

MR. STEPHEN G. KELLISON: Following up on that last comment, I agree that the professional conduct literature, the way it is worded today, does not prohibit you from engaging in something contrary to recommendation and interpretation. All it says is that if you do deviate you have to first of all disclose and second of all be prepared to justify what you did. At the moment, there is no proposal on the drawing board to change that. That's not to say that in the longer term the profession couldn't adopt standards that might have more requirement for compliance than that, but that's not the position that we're in today.

If we go all the way back to the beginning, the first set of recommendations that was ever adopted had to do with GAAP accounting for life insurance, way back in the early 1970s. So, we have a long tradition of writing standards that deal with accounting practices. This reflects the fact that there is a lot of tension between actuarial practices and accounting practices. The accountants are prone to write down lots of rules and regulations.

If there is any group in existence that's probably made the mistake of overcodifying and overdetailing what they are doing, it would clearly be the accountants. And, I don't expect them to change. To some extent, that's the character of the people, to some extent the nature of the discipline. There's so much pressure from the SEC and other governmental entities to do that, and they have had fifty years of practice; I just don't see the momentum changing.

The problem that comes up when they get into areas like insurance accounting, accounting for employee benefit plans, and so forth is that there is a great predisposition there for them to write a lot of detailed standards, probably most of which actuaries aren't going to like too well. We certainly see that today in the FASB pension accounting project. We have a little more time on the one having to do with post-employment benefits, but not a lot.

OPEN FORUM

In my dealings with the accounting profession, I have always felt that they were very respectful and gave a lot of deference to actuarial standards where they were in existence and paid a great deal of attention to them. The problem is that oftentimes there isn't anything in existence germane to what it is that they feel is their particular problem. In my limited dealings with accountants, I've noticed a great deal of willingness to go along with actuarial standards when they are germane; but, in the pension area for example, they don't just take funding standards and say that automatically that's transferable into cost recognition from an accounting viewpoint. On the other hand, if we had had standards in place to address that issue, we might have had a lot more success over the last few years in dealing with the FASB than many actuaries feel that we have with their current pension accounting project. They're currently into insurance accounting areas on a somewhat similar basis. If we as a profession have some standards in place to deal with these problems, we'll have a lot more success in dealing with the FASB.

I was particularly struck by a meeting I attended with the American Institute of Certified Public Accountants (AICPA) Committee. The Academy has a liaison committee with the AICPA, and one of the things that was discussed there is the work of our joint task force which is analyzing the relationship between actuaries and auditors in Canada. A detailed report has come out having to do with the relationship between actuaries and auditors in Canada. There, the CIA is in a strong position because of its federal chartering in Canada, as well as being the only organization in Canada and having a better tradition than has existed in the United States in terms of valuation actuaries and so forth, at least in the life insurance side.

There is an attempt in Canada to structure a better working relationship between actuaries and auditors. One of the main linchpins for that whole effort is the necessity for each profession to develop and codify standards that the other profession is comfortable with so that, in the case of the auditor using the work of the actuary, that auditor doesn't feel compelled to go in and audit it in quite the same way. But, they've got to have the standards in place to be able to do that.

It was reported to us that one of the real problems now in Canada is that the Canadian Institute of Chartered Accountants, which is the Canadian counterpart of the AICPA, is not at all yet convinced that the standards of practice developed by the CIA are sufficient for them to really sign off on it. So, that is a potential stumbling block in Canada, and they're much further along than we are in this country.

A lot of work has to do with our relationship with the accounting profession, and the less we do in writing our own standards the more the accountants are going to do it for us.

We have the FASB and the U.S. Congress, in its search for revenue, going in opposite directions. In all of that debate to date, the actuarial view has not surfaced as strongly as it should. If we were, as a profession, willing to write some standards about the proper funding for postretirement health and welfare benefits, we would make a real

PROFESSIONAL STANDARDS

contribution. There is a lot of public dialogue in that area today, and it's going in different directions.

MR. RUGLAND: The next stage in the overall development of work practice standards is going to be the need to integrate within the development of standards the qualification aspects of the actuary who, in fact, is working in that particular function.

MR. WATSON: I detected Mr. Kellison saying that the accounting profession recognizes only strength and really doesn't even recognize that. I'm worried about us doing things in the hope that we can buy off people who have got more clout than we do. This is one of the arguments advanced in favor of the whole recognition of continuing education, that we may be able to buy off the Joint Board. You're not going to be able to buy off the Joint Board; they're going to do what they want to regardless of what we do. I'm afraid the same will be true of the accounting profession. They're going to do exactly what they want regardless of whatever standards we manage to put up. So, if we want standards, we better have a better reason than that.

We're going to be giving an enormous amount of power to the ASB. It's going to be not only defining standards of practice. Mr. Rugland at least would like to see it handling all the qualifications, and so on. Well, "Who will guard the guardians?" In our profession, which at the least is quasi democratic at present, how are we going to have control over an ASB to make sure that it doesn't run away with the whole thing, based perhaps on what appear to be some very valid reasons of its own? After all, the accountants have given a lot of power to the FASB; but at the very least, the accountants who are doing it have a fairly uniform interest. They are all certified public accountants. Even within that you can see the problem between the large and small firms beginning to surface tremendously.

But within our profession, we have people who work for insurance companies, we have consultants, we have people who work in private industry, and all of these people are going to be pulling in one direction or another. Do I as a consulting actuary need to worry if two-thirds of the ASB falls into the hands of the insurance companies? I'm not making that as a maligning comment. I'm merely suggesting that the more power we give to this group the more we have to be certain that we can throw the rascals out if we need to, and do it quickly. What is being contemplated to handle the question of having professional control over the ASB?

MR. HARDING: There are many realities that are never in black and white. They're in shades of gray. That is what we are dealing with here. It is also why we want to proceed slowly in the development of the ASB. I think the long term major control, in extreme, is that the ASB will never be able to fund itself; and so, if it really gets out of whack, the supporting organizations will stop supporting it. But I don't believe it will ever go that far.

MR. RUGLAND: There are many safeguards. I don't believe the ASB, in its role of managing, is going to have as much influence as some

OPEN FORUM

people think it's going to have. The work is going to be done in operating committees, and the operating committees are going to be made up of people who are practicing in those areas. Second, we are going to need to continue to have a rigorous exposure process. The ASB's real function, as I see it, is to make sure that that process is adhered to; that comments are not ignored; that a standard will not be promulgated unless it meets the tests of exposure and comment and covers all the bases.

In addition to that, we have structured the nomination process so that the nominees come from a committee of elected representatives of all the organizations. I just don't think it's worth the time shouting wolf about it. We've got as many bases covered as we can possibly think of; and, if there's a one out of a hundred chance that something like that happens, the thing will disappear before we realize that that's what's happened to it.

MR. WILLIAM H. CROSSON, III: What would be the process through which the ASB would obtain the authority to regulate the practice of actuaries, regardless of whether they are a member of the Academy or of the Society or of the ASPA, or not even a member of any organization at all?

MR. HARDING: The IASB would, of course, be part of the Academy; and, as such, by the time standards were adopted, the standards would be part of Academy standards. The other actuarial bodies in their process of discipline could choose to either use or ignore those standards.

MR. RUGLAND: The important thing is that the ASB will not regulate practice, but recommend practice, and the individual actuary will determine whether that recommended practice will be followed or whether another approach will be followed.

The obligation of any actuary who's a member of the Academy will be to follow the recommended practice or document the reasons for the alternative practice.

Subsequently, if there is a challenge to the actuary with regard to the particular work product, that actuary can take safe harbor in having followed the recommended practice if, in fact, that practice was appropriate for the job at hand.

With regard to outside people, obviously they're not subject to discipline practice within the Academy. However, if they appear in another one of the areas in which practice can be challenged, probably in court, the court will make its decision on what is appropriate practice, and we believe that the Academy's standards of practice will serve as a representation of what appropriate practice would have been for that individual, even if he was not an Academy member.

MR. DAVID M. READE: From some of the questions Mr. Watson raised in his last question, it might be helpful just to put into the situation the relationship between the Professional Guides to Conduct and

PROFESSIONAL STANDARDS

Practice. For many years, we've talked about GORI (Guides, Opinions, Recommendations, and Interpretations), and it's been my experience that most people have never really appreciated the relationship among them or the differences among them.

The Academy of Actuaries, the Conference of Actuaries in Public Practice, and the Casualty Actuarial Society all have an interpretative opinion, Opinion Number 4, in each case, which effectively says that you will follow generally-accepted actuarial principles and practices. It includes among others the recommendations and interpretations of the American Academy of Actuaries, and that's true for the other two organizations as well as the Academy. It says that if you don't go by these, you should be prepared to explain why you differ from the recommendations.

The intent now, as I understand it, is to follow the same procedure except that it will be recommendations and interpretations, or whatever the IASB and eventually the ASB intend to call them. But still with the caveat that you can effectively do what you want to; but be prepared to justify what you've done to your peers, and that means to the people on the Discipline Committee if the time ever comes.

A lot of the confusion that exists today is the choice of the letters "ASB." I asked Mr. Bartly L. Munson if the interim one is going to be called IASB for interim ASB or will the final one become the FASB for the final ASB. A lot of us who have dealt with the other FASB are concerned that we will be creating the same monster that a lot of the accountants believe they created. When the FASB puts out an exposure draft, it often gets as much negativism from the CPAs as it does from others. There are some of us who wonder how much they listen to any of this, and maybe we're worried that that's going to happen, too.

At any rate, it is clear that the intent and, I believe, the practice will be to set this up as an actuarial body which will promulgate standards of practice. As actuaries, we should follow those standards or be prepared to justify to our peers why we differ.

MR. WILLIAM A. HALVORSON: The issue of control of the ASB is one that will be with us for a long time. I would hope that in the long run we could find a way to have a meaningful election process so that the membership itself will have some input directly into who is sitting on those particular boards. I say boards because it could well be that in the long run you find that one overall board is insufficient. You may need five such boards, all elected, with one coordinating committee of those five boards.

It is important to think in terms of an election process at some point so that membership can have a direct input into who is serving. I recognize the advantage of this current system is that elected officials are at least making the appointments and nominations to the ASB, and that's a step in the right direction. But just keep alive the idea that perhaps someday we could have a direct election process within the Academy for that ASB.

