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Atlanta Spring Meeting
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Session 85PD ASOP—No Fables

Track: Financial Reporting
Key Words: Financial Reporting, Standards of Practice

Moderator: ALLAN W. RYAN
Panelists: LAUREN M. BLOOM
DANIEL J. MCCARTHY
ALLAN W. RYAN
Recorder: ALLAN W. RYAN

Summary: Panelists review all existing Actuarial Standards of Practice as they relate to life insurance financial reporting in the United States. Panelists discuss contents of each and give examples of how they are put into practice.

The nature of reliance on ASOPs by statutory authorities, Actuarial Opinion Memorandum, and Codification is discussed. The panelists review the composition and processes of the Actuarial Standards Board, the body that establishes the ASOPs. Current projects and draft ASOPs are also discussed.

Society of Actuaries Spring
Meeting - Atlanta

ASOP - No Fables

Session 85 PD 1:30 - 3:00 P.M.

Tuesday, May 25, 1999

Allan W. Ryan
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Session Overview

Framework of Standards

Specific Example of Practice

Introduction of Speakers

- Daniel J. McCarthy
- Lauren M. Bloom
- Allan W. Ryan

Session Overview

- Framework of Professional Standards
- Actuarial Standards of Practice Relating to Life Insurance Financial Reporting
- Nature of Reliance on ASOP's by Statutory Authorities
- Composition and Processes of Actuarial Standards Board

Standards of Practice - General Framework

- Code of Professional Conduct
- Qualification Standards
- Actuarial Standards of Practice
 - ASOP's
 - Actuarial Compliance Guidelines (ACG's)
 - Financial Reporting Recommendations and Interpretative Opinions
- Applicability Guidelines

Actuarial Standards of Practice of Broad Applicability

- ASOP No. 7, Performing Cash Flow Testing for Insurers
- ASOP No. 12, Concerning Risk Classification
- ASOP No. 14, When to do Cash Flow Testing for Life and Health Insurance Companies
- ASOP No. 23, Data Quality

Actuarial Standards of Practice of Broad Applicability - Continued

- Interpretative Opinion No. 3 - Professional Communications of Actuaries (& ASOP Exposure Draft)
- Interpretative Opinion No. 4 - Actuarial Principles and Practices (& ASOP Exposure Draft)

Actuarial Standards of Practice More Specific to Financial Reporting

- ASOP No. 5, Incurred Health Claim Liabilities
- ASOP No. 6, Measuring and Allocating Actuarial Present Values of Retiree Health Care and Death Benefits
- ASOP No. 10, Methods and Assumptions for Use in Stock Life Insurance Company Financial Statements Prepared in Accordance with GAAP

Actuarial Standards of Practice More Specific to Financial Reporting - Continued

- ASOP No. 11, The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements
- ASOP No. 21, The Actuary's Responsibility to the Auditor
- ASOP No. 22, Statutory Statements of Opinion Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers

Actuarial Standards of Practice More Specific to Financial Reporting - Continued

- ACG No. 3, For Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions
- ACG No. 4, Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers

Actuarial Standards of Practice More Specific to Financial Reporting - Continued

- FRR No. 7, Statement of Actuarial Opinion For Life Insurance Company Statutory Annual Statements (limited applicability)
- FRR No. 9, Materiality
- Financial Reporting Interpretation 7-D

Auditing/Preparation of Financial Statements

- ASOP No. 21
- ASOP No. 23
- These Two of Particular Importance
Regardless of Specifics (e.g. GAAP,
Statutory)
- Other Standards of Practice also Applicable

ASOP No. 21, The Actuary's Responsibility to the Auditor

- “Concerns the Actuary’s Responsibility to the Auditor in Connection with Preparation or Review of Audited Financial Statements”
- Applies to Actuary who:
 - Acts for any Organization in Preparation of Financial Statement or Report Expected to be Audited by a Public Accountant
 - Contributes to Such Report
 - Assists Auditor in Review or Audit

ASOP No. 21, Continued

- Responsibilities of Preparing Actuary
 - Disclosure to Auditor of Sources of Data and Assumptions and Methods
 - Disclosure of Relationship to Organization being Audited
- Responsibilities of Reviewing Actuary
 - Use of Written Plan
 - Interpretative Opinion 3 (& Exposure Draft)
 - Disclosure of Relationship

ASOP No. 21, Continued

- Confidentiality
- Documentation
 - Clarity and Content fit the Circumstances
 - Another Actuary in Same Field Should be Able to Review and Objectively Appraise
 - Reconciliation
 - Coordination with Auditor
 - Resolution of Issues

ASOP No. 21, Continued

- Custody of Documentation
- Actuarial Report
- Prescribed Statement of Actuarial Opinion?
- Deviation

Lauren M. Bloom
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**Nature of Reliance on ASOP's by
Statutory Authorities**

**Composition and Processes of the
Actuarial Standards Board**

Nature of Reliance

- State and Federal Regulators Rely Upon Actuaries to Act in a Professional Manner
- Statutorily Required Opinions
- Requirement of Membership in American Academy of Actuaries

Nature of Reliance Continued

- Reliance Based on Academy's Standards of Practice
 - Code of Professional Conduct
 - Qualification Standards for Prescribed Statements of Actuarial Opinion
 - Actuarial Standards of Practice

Nature of Reliance Continued

- Courts Look to Standards of Practice
 - Determining Liability for Professional Negligence
 - Compliance with “Generally Accepted” Actuarial Practice
 - Code of Professional Conduct makes ASOP’s Mandatory Guidance
 - ASOP’s Likely to be Considered “Generally Accepted” Practice

Composition of the Actuarial Standards Board (ASB)

- ASB has Nine Members
 - Represent Four Traditional Practice Areas
 - Life
 - Health
 - P&C
 - Pension
 - Operating Committees
 - Task Forces

ASB Procedures

- Important that Procedures Comport with Due Process
- Notice of What Standards are Likely to Contain
- Opportunity for Actuaries to Influence Development of Standards

Typical Process for Development of New Standard

- Submission of Suggestion and Review by ASB
- Operating Committee Draft
- ASB Review and Release as Exposure Draft
- Comment period
- Review and Consideration of Comments
- Final Standard Issued

Additional Comments on ASB Process

- Attention to Protecting Rights of Actuaries Bound by Standards
- Substantive Changes
- 2nd & 3rd Exposure Drafts
- ASB Hearings to Obtain Oral Comments

Additional Comments on ASB Process (Continued)

- Process Intended to Produce Standards that Reflect Appropriate Actuarial Practice
- Intent is to Avoid Standards that are Unduly Burdensome
- Intent is to Avoid “Slip-Shod” Practice
- Deviation Clause Permits “Creativity” in Practice but Requires Disclosure