

## Actuarial Standard of Practice No. 41

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### Actuarial Communications

### STANDARD OF PRACTICE

## TRANSMITTAL MEMORANDUM

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December 2010

**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Actuarial Communications

**FROM:** Actuarial Standards Board (ASB)

**SUBJ:** Actuarial Standard of Practice (ASOP) No. 41

This document contains the final version of the revision of ASOP No. 41, *Actuarial Communications*.

### Background

The current version of ASOP No. 41 has been in effect for eight years, and applies to all U.S. actuaries in all areas of practice. During that time, the ASB has received comments regarding a lack of clarity in the document and confusion in respect to its wording and structural arrangement. One of the ASB's priorities is to make sure that all ASOPs are clear and unambiguous.

### First Exposure Draft

In September 2008, the ASB approved the first exposure draft of a revised ASOP No. 41 with a comment deadline of December 31, 2008. Twenty-three comment letters were received. Most had multiple comments, many of which were substantive. The majority of commentators were supportive of the effort to revise this ASOP, and most comments were positive in nature, but some indicated that the first draft needed significant revision.

In September 2008, the ASB also adopted "*Revision of Deviation Language for Standards and Removal of References to PSAOs from Standards*" pending the issuance of ASOP No. 41 as a final revision. Due to the passage of time since that adoption, the ASB will update this document to reflect changes in ASOP No. 41, as well as to update references for other new

and revised ASOPs. It is expected that the ASB will adopt this document as a final revision at its March meeting, with an effective date of May 1, 2011, consistent with the effective date of this revised standard.

## Second Exposure Draft

In December 2009, the ASB approved a second exposure draft of a revised ASOP No. 41, reflecting significant modifications of the first draft, with a comment deadline of March 31, 2010. Thirty-seven comment letters were received in response. For a summary of the substantive issues contained in the second exposure draft comment letters and the responses, please see Appendix 2.

## Changes from Second Exposure Draft

The review and revision of the second exposure draft focused on the dominant issue raised in 19 of 37 comment letters; namely, the apparent requirement for an actuary to complete an actuarial report with full disclosures in nearly all circumstances. This was not the intent of the second exposure draft, but the reviewers were sensitive to this possible interpretation. Accordingly, this final version reflects clarification to the guidance within this standard, in particular to recognize that in some internal and informal settings, complete disclosure of all applicable supporting information is neither practical nor necessary. Section 3.3 (formerly section 3.5) has been moved and expanded to provide guidance in these situations. Additional discussion has also been added to appendix 1.

In response to other comments some definitions have been added and other clarifying modifications have been made.

## Summary of Key Changes from Current ASOP

1. The concept of a single formal actuarial report, which is required to contain all necessary disclosures, has been removed. Instead, the concept that communication is an ongoing and interactive process and that an actuarial report with all necessary disclosure elements may comprise several different pieces of communication, perhaps delivered in different forms, has been adopted. The standard directs the actuary to identify all applicable documents whenever multiple documents are used to satisfy all of the disclosure requirements of an actuarial report.
2. Section 3.4.4 makes it clear that the actuary is responsible for all actuarial assumptions and methods utilized in producing the actuarial communication, unless the actuary discloses otherwise.
3. Section 3 has been reorganized. All disclosure requirements have been moved to section 4, while additional guidance relating to disclosures remains in section 3.4.

4. The treatment of deviations from the guidance of any ASOP (including situations where assumptions are not set by the actuary) is also codified in section 4.
5. Reference to Prescribed Statements of Actuarial Opinion (PSAOs) has been removed.
6. The ASB has decided that specifying what material should be retained and for how long is not appropriate for this standard (except as may be provided in section 3.8).

The General Committee thanks everyone who took the time to contribute comments and suggestions on both exposure drafts.

The ASB voted in December 2010 to adopt this standard.

### **General Committee of the ASB**

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*The ASB establishes and improves standards of actuarial practice . These 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 practice for the U.S.*

## **Section 1. Purpose, Scope, Cross References, and Effective Date**

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### **1.1 Purpose**

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This actuarial standard of practice (ASOP) provides guidance to actuaries with respect to actuarial communications.

## 1.2 Scope

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This standard applies to actuaries issuing actuarial communications within any practice area. This standard does not apply to communications that do not include an actuarial opinion or other actuarial findings (for example, this standard does not apply to brochures, fee quotes, or invoices).

This standard provides guidance for preparing actuarial communications, including those that may be required by the *Qualification Standards* or by other ASOPs. If such other guidance contains communication requirements that are additional to or inconsistent with this standard, the requirements of such other guidance supersede the guidance of this ASOP. However, the guidance in this ASOP applies to the extent it is not inconsistent with such other guidance.

Law, regulation, or another profession's standards may prescribe the form and content of a particular actuarial communication (such as a government form). In such situations, the actuary should comply with the guidance in this standard to the extent not prohibited by applicable law, regulation, or standard.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason, the actuary should refer to section 4 regarding deviation.

## 1.3 Cross References

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When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

## 1.4 Effective Date

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This standard is effective for actuarial communications issued on or after May 1, 2011.

## Section 2. Definitions

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The terms below are defined for use in this actuarial standard of practice.

### 2.1 Actuarial Communication

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A written, electronic, or oral communication issued by an actuary with respect to actuarial services.

## 2.2 Actuarial Document

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An actuarial communication in any recorded form (such as paper, e-mail, spreadsheets, presentations, audio or video recordings, web sites, and court or hearing transcripts). Notes taken by someone other than the actuary are not considered actuarial documents.

## 2.3 Actuarial Finding

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The result (including advice, recommendations, opinions, or commentary on another actuary's work) of actuarial services.

## 2.4 Actuarial Report

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The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user.

## 2.5 Actuarial Services

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Professional 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.

## 2.6 Deviation

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The act of departing from the guidance of an ASOP.

## 2.7 Intended User

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Any person who the actuary identifies as able to rely on the actuarial findings.

## 2.8 Oral Communication

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An actuarial communication made orally that has not, to the knowledge of the actuary, been recorded or transcribed verbatim. Such an oral communication is an actuarial communication, but is not an actuarial document.

## 2.9 Other User

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Any recipient of an actuarial communication who is not an intended user.

## 2.10 Principal

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A client or employer of the actuary.

## Section 3. Analysis of Issues and Recommended Practices

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### 3.1 Requirements for Actuarial Communications

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The performance of a specific actuarial engagement or assignment typically requires significant and ongoing communications between the actuary and the intended users regarding the following: the scope of the requested work; the methods, procedures, assumptions, data, and other information required to complete the work; and the development of the communication of the actuarial findings.

#### 3.1.1 Form and Content

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The actuary should take appropriate steps to ensure that the form and content of each actuarial communication are appropriate to the particular circumstances, taking into account the intended users.

#### 3.1.2 Clarity

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The actuary should take appropriate steps to ensure that each actuarial communication is clear and uses language appropriate to the particular circumstances, taking into account the intended users.

#### 3.1.3 Timing of Communication

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The actuary should issue each actuarial communication within a reasonable time period, unless other arrangements as to timing have been made. In setting the timing of the communication, the needs of the intended users should be considered.

#### 3.1.4 Identification of Responsible Actuary

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An actuarial communication should clearly identify the actuary responsible for it. When two or more individuals jointly issue a communication (at least some of which is actuarial in nature), the communication should identify all responsible actuaries, unless the actuaries judge it inappropriate to do so. The name of an organization with which each actuary is affiliated also may be included in the communication, but the actuary's responsibilities are not affected by such identification. Unless the actuary judges it inappropriate, the actuary issuing an actuarial communication should also indicate the extent to which the actuary is available to provide supplementary information and explanation.

## 3.2 Actuarial Report

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The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user. The actuary should consider the needs of the intended user in communicating the actuarial findings in the actuarial report.

An actuarial report may comprise one or several documents. The report may be in several different formats (such as formal documents produced on word processing, presentation or publishing software, e-mail, paper, or web sites). Where an actuarial report for a specific intended user

comprises multiple documents, the actuary should communicate which documents comprise the report.

In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report.

## 3.3 Specific Circumstances

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The content of an actuarial report may be constrained by circumstances. The actuary should follow the guidance of this standard to the extent reasonably possible within such constraints. When those constraints exist, it may be appropriate not to include some of the otherwise required content in the actuarial report. However, limiting the content of an actuarial report may not be appropriate if that report or the findings in that report may receive broad distribution.

If the actuary believes circumstances are such that including certain content is not necessary or appropriate, the actuary must be prepared to identify such circumstances and justify limiting the content of the actuarial report.

## 3.4 Disclosures Within an Actuarial Report

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Consideration of the items to be disclosed is an important part of the preparation of any actuarial communication. The actuary should review the list of required disclosure items included in section 4 of this ASOP, and in any other relevant ASOP. Further discussion regarding some of these disclosure items follows:

### 3.4.1 Uncertainty or Risk

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The actuary should consider what cautions regarding possible uncertainty or risk in any results should be included in the actuarial report.

### 3.4.2 Conflict of Interest

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An actuary who is not financially, organizationally, or otherwise independent concerning any matter related to the subject of an actuarial communication should disclose any pertinent information that is not apparent. This includes any situation where the actuary acts, or may appear to be acting, as an advocate. However, applicable financial disclosure is limited in accordance with Precept 6 of the *Code of Professional Conduct* to sources of material compensation that are known to, or are reasonably ascertainable by, the actuary.

### 3.4.3 Reliance on Other Sources for Data and Other Information

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An actuary who makes an actuarial communication assumes responsibility for it, except to the extent the actuary disclaims responsibility by stating reliance on other sources. Reliance on other sources for data and other information means making use of those sources without assuming responsibility for them. An actuarial communication making use of any such reliance should define the extent of reliance, for example by stating whether or not checks as to reasonableness have been applied. An actuary may rely upon other sources for information, except where limited or prohibited by applicable standards of practice or law or regulation. Further guidance on when such reliance is appropriate, and what the actuary's responsibilities are when such reliance is stated, is found in ASOP No. 23, *Data Quality*.

### 3.4.4 Responsibility for Assumptions and Methods

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An actuarial communication should identify the party responsible for each material assumption and method. Where the communication is silent about such responsibility, the actuary who issued the communication will be assumed to have taken responsibility for that assumption or method. The actuary's obligation when identifying the other party who selected the assumption or method depends upon how the assumption or method was selected.

a. If the assumption or method is specified by applicable law (statutes, regulations, and other legally binding authority), the actuary should include the disclosures identified in section 4.2. These disclosures should be made whether or not the actuary believes the assumption or method is reasonable for the purpose of the communication. The actuary should also follow the guidance in paragraph (b) below whenever required by another ASOP.

b. If a material assumption or method is selected by another party, the actuary has three choices:

1. If the assumption or method does not conflict significantly with what, in the actuary's professional judgment, would be reasonable for the purpose of the assignment, the actuary has no disclosure obligation;



2. If the assumption or method significantly conflicts with what, in the actuary's professional judgment, would be reasonable for the purpose of the assignment, the actuary must disclose that fact and the additional information specified in section 4.3; and

3. If the actuary has been unable to judge the reasonableness of the assumption or method without performing a substantial amount of additional work beyond the scope of the assignment, or if the actuary was not qualified to judge the reasonableness of the assumption, the actuary should disclose that fact as specified in section 4.3.

c. In all other situations, the actuary is responsible for all assumptions and methods utilized in the preparation of a communication unless the actuary discloses otherwise within the communication by including the disclosures identified in section 4.4.

### 3.4.5 Information Date of Report

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The actuary should communicate to the intended user the date(s) through which data or other information has been considered in developing the findings included in the report.

### 3.4.6 Subsequent Events

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The actuary should disclose any relevant event that meets the following conditions:

a. it becomes known to the actuary after the latest information date described in section 3.4.5;

b. it becomes known to the actuary before the report is issued;

c. it may have a material effect on the actuarial findings if it were reflected in the actuarial findings; and

d. it is impractical to revise the report before it is issued.

If the actuary learns of changes to data or other information (on or before the information date) after some findings have been communicated, but before the report is completed, the actuary should communicate those changes, and their implications, to any intended user to whom the actuary has communicated findings.

## 3.5 Explanation of Material Differences

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If a later actuarial communication produced by the same actuary, which opines on the same issue, includes materially different results or expresses a different opinion from the former communication, then the later communication should make it clear that the earlier results or opinion are no longer valid and explain why they have changed. If the later communication is oral, the actuary should follow-up with a document that clarifies the reason(s) for the changes.

## 3.6 Oral Communications

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When the actuary is providing an oral communication, the actuary should consider the extent to which (if any) the disclosures listed under section 3.4 should be included in the oral communication and include each such disclosure if appropriate in the particular circumstances. Where the actuary has a concern that the oral communication may be passed on to other parties, the actuary should consider following up with an actuarial document.

## 3.7 Responsibility to Other Users

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An actuarial document may be used in a way that may influence persons who are not intended users. The actuary should recognize the risks of misquotation, misinterpretation, or other misuse of such a document and should take reasonable steps to ensure that the actuarial document is clear and presented fairly. To help prevent misuse, the actuary may include language in the actuarial document that limits its distribution to other users (for example, by stating that it may only be provided to such parties in its entirety or only with the actuary's consent).

Nothing in this standard creates an obligation for the actuary to communicate with any person other than the intended users.

## 3.8 Retention of Other Materials

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An actuary may choose to keep file material other than that which is to be disclosed under this ASOP. Nothing in this ASOP requires the actuary to disclose such additional materials to any party.

If, as may be appropriate in accordance with section 3.3., a report does not include all of the supporting information identified in this ASOP, the actuary should consider retaining the supporting information that was not included in the report. The actuary is not required to create additional documentation for this purpose.

An actuary should consider retaining sufficient information for any recurring project so that another actuary could assume the assignment.

# Section 4. Communications and Disclosures

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## 4.1 Disclosures in any Actuarial Communication

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Disclosures in any actuarial communication should include the following:

### 4.1.1 Identification of Responsible Actuary

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Any actuarial communication should identify the actuary who is responsible for the actuarial communication (see section 3.1.4).

### 4.1.2 Identification of Actuarial Documents

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Any actuarial document should include the date and subject of the document with any additional modifier (such as “version 2” or time of day) to make this entire description unique.

### 4.1.3 Disclosures in Actuarial Reports

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In addition to the information necessary to satisfy section 3.2, any actuarial report should disclose the following information, unless the actuary determines that it is inappropriate to do so (see section 3.3):

- a. the intended users of the actuarial report;
- b. the scope and intended purpose of the engagement or assignment;
- c. the acknowledgement of qualification as specified in the *Qualification Standards*;
- d. any cautions about risk and uncertainty (see section 3.4.1);
- e. any limitations or constraints on the use or applicability of the actuarial findings contained within the actuarial communication including, if appropriate, a statement that the communication should not be relied upon for any other purpose;
- f. any conflict of interest as described in section 3.4.2;
- g. any information on which the actuary relied that has a material impact on the actuarial findings and for which the actuary does not assume responsibility (see section 3.4.3);
- h. the information date as described in section 3.4.5;
- i. subsequent event(s) (if any) as described in section 3.4.6.; and
- j. if appropriate, the documents comprising the actuarial report.

Note that other ASOPs that apply to a particular assignment may have additional disclosure requirements that should also be followed.

## 4.2 Certain Assumptions or Methods Prescribed by Law

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Where any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority), the actuary should disclose the following in the actuarial report:

- a. the applicable law under which the report was prepared;
- b. the assumptions or methods that are prescribed by the applicable law; and
- c. that the report was prepared in accordance with the applicable law.

If the actuarial report is in a prescribed form that does not accommodate these disclosures, the actuary should make these disclosures in a separate communication (such as a cover letter to the principal), requesting that both communications be disseminated together where practicable.

### 4.3 Responsibility for Assumptions and Methods

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In any situation not covered under section 4.2, where the actuary states reliance on other sources (as described in section 3.4.4(b) 2 and 3) and thereby disclaims responsibility for any material assumption or method, the actuary should disclose the following in the actuarial report, unless it is inappropriate to do so (see section 3.3):

- a. the assumption or method that was set by another party;
- b. the party who set the assumption or method;
- c. the reason that this party, rather than the actuary, has set the assumption or method; and
- d. either
  1. that the assumption or method significantly conflicts with what, in the actuary's professional judgment, would be reasonable for the purpose of the assignment; or
  2. that the actuary was unable to judge the reasonableness of the assumption or method without performing a substantial amount of additional work beyond the scope of the assignment, and did not do so, or that the actuary was not qualified to judge the reasonableness of the assumption.

If the actuarial report is in a prescribed form that does not accommodate these disclosures, the actuary should make these disclosures in a separate communication (such as a cover letter to the principal), requesting that both communications be disseminated together where practicable.

## 4.4 Deviation from the Guidance of an ASOP

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If, in the actuary's professional judgment, the actuary has deviated materially from the guidance set forth in an applicable ASOP, other than as covered under sections 4.2 or 4.3 of this standard, the actuary can still comply with that ASOP by providing an appropriate statement in the actuarial communication with respect to the nature, rationale, and effect of such deviation.

## Appendix 1 – Background and Current Practices

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*Note:* This appendix is provided for informational purposes, but is not part of the standard of practice.

### Background

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The current version of ASOP No. 41, adopted in March 2002, was adapted from and superseded Interpretative Opinion No. 3, *Professional Communications of Actuaries*. Interpretative Opinion No. 3 was itself adopted by the American Academy of Actuaries in 1981. The 2002 version of ASOP No. 41 conformed to the format adopted by the Actuarial Standards Board in May 1996 for all actuarial standards of practice, and while this standard generally followed Interpretative Opinion No. 3, it also expanded upon, clarified, and eliminated portions of that opinion.

This standard offers guidance to complement the requirements imposed by the *Code of Professional Conduct*. It was drafted and is still intended to help actuaries apply the *Code of Professional Conduct* when making professional communications (by written, electronic, or oral means) to clients, employers, regulators, policyholders, plan participants, investors, and other users of actuarial services. Actuaries commonly deal with confidential or proprietary information. The *Code of Professional Conduct* clearly precludes the actuary from disclosing this type of information to inappropriate parties.

This revision has used definitions that are consistent with those found in the *Code of Professional Conduct* and in the recently revised *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinions*. This revision also incorporates language in Section 4 that is the foundation of the ASB's new approach to creating consistency in the treatment of deviation language within all ASOPs.

It should be noted that all recorded forms of communication (including—but not limited to— paper, e-mail, spreadsheets, presentations, audio or video recordings, web sites, and court or hearing transcripts) could be considered records of such communications and may be, therefore, discoverable in legal proceedings.

## Current Practices

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Actuaries are currently guided by the *Code of Professional Conduct*, by ASOP No. 41, and by other actuarial standards of practice, depending on the nature of the work at hand.

In general, actuarial communications are provided in order to answer questions or address specific needs of one or more intended users. Actuarial communications may be made available to a variety of users of actuarial work products including clients, employers, regulators, policyholders, plan participants, and investors, as well as external audiences such as the general public. Actuarial communications may be delivered in many forms, including written, electronic, or oral; and may stand alone or be part of a broader pattern of communication. While preparing an actuarial communication, an actuary should be mindful of the needs and concerns of each of the intended users. In certain situations, some intended users may receive different actuarial documents. Thus, an actuarial report for one intended user may differ from the report for a different intended user. Even the least comprehensive version of an actuarial report is subject to the guidance of this standard.

An actuary, while functioning in a professional capacity, may be involved in informal communication with others. Actuarial findings may be communicated under circumstances that make inclusion of all supporting information impractical or unnecessary. This may be particularly common in a company environment. Other circumstances such as severe time constraints (for example, union negotiations, mergers and acquisitions) may make inclusion of all recommended disclosure items impractical, if not impossible. In these instances, the content of the actuarial report is often limited. These situations are addressed in Section 3.3.

## Appendix 2 – Comments on the Second Exposure Draft and Responses

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The second exposure draft of this ASOP, *Actuarial Communications*, was issued in December 2009 with a comment deadline of March 31, 2010. Thirty-seven comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The General Committee carefully considered all comments received, reviewed the exposure draft and proposed changes. The ASB reviewed the proposed changes and made modifications where appropriate.

[Click here](#) to view Appendix 2 in its entirety.

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