Sent via e-mail to comments@actuary.org

ASOP No. 4, Second Exposure Draft
Actuarial Standards Board
1850 M Street, Suite 300
Washington, DC 20036

July 31, 2020

Subject: Actuarial Standard of Practice (ASOP) No. 4, Second Exposure Draft

I would like to thank the Actuarial Standards Board (ASB) for the opportunity to provide comments on the second exposure draft of ASOP No. 4. These brief comments attempt to go beyond the specifics of this draft and discuss the standard-making process in general.

It is becoming increasingly clear that the current standard-making process requires a fundamental "reinvention." As a result of this process, certain violations of common academic standards are no longer highly unusual in ASOPs. Some ASOPs adopted in recent years contain incorrect calculations, questionable math, poorly defined concepts, and other deficiencies that normally should be unacceptable in ASOPs. The fact that suitable sources of information are available in most cases makes the presence of these deficiencies in ASOPs especially disconcerting.

This exposure draft is no exception. The most controversial part of the draft is the concept of Low-Default-Risk Obligation Measure (LDROM), which is undefined. Any introduction of a concept that has the term "low-risk" in its description must defined the risk, specify the risk measurement, and demonstrate that the specified risk measurement is "low." This exposure draft does nothing of the sort. ASOP No. 51 may be a better place for LDROM, but LDROM (and any other concept) must be properly defined regardless of the ASOP that presents it. Proper definitions would've uncovered the connection between LDROM and the underlying portfolio as well as demonstrated the usefulness (or lack thereof) of this concept.

The recently adopted revision of ASOP No. 27 is no exception as well. While some violations of common academic standards have been eliminated, some remain. For example, the terms forward-looking expected geometric and arithmetic returns are undefined and inconsistent with other terms in the ASOP.

This author discusses violations of common academic standards in "A Tale of Two 'Scandals'" submitted to "The Retirement Forum" earlier this year. The paper analyses certain leading publications in detail, presents formulas and numerical examples, and outlines the required steps to correct the situation. The latest draft of this paper is available upon request from either Mary Stone, SOA Staff Fellow (Retirement), or this author.

In recent years, the ASB has occasionally proposed and adopted short-term temporary fixes to emerging fundamental problems. The current revision contains certain reflections of this unfortunate trend. I would like to urge the ASB to embrace long-term solutions and reconnect the standard to the key principles of actuarial science and finance in general.

Thank you for your attention to these comments. Feel free to contact me if you have any questions/comments.

Sincerely,

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