



Alphabet Soup – Roles & Flows of the Regulatory Process

**A presentation to the
Actuaries Club of the Southwest**

by

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Chairperson**

Actuarial Board for Counseling and Discipline

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Actuaries are subject to or affected by regulation from many sources

- Regulations affecting solutions we design or price
- Regulations affecting accounting for these solutions
- Professional regulation



Regulations Affecting Actuarial Solutions

- Insurance Products
 - States regulate design, pricing
 - NAIC issues models, interpretations
 - AAA frequently collaborates in development
 - Federal tax rules



Regulations Affecting Actuarial Solutions

- Pension plans are federally regulated
 - IRS: plan design, funding, general nondiscrimination, taxation
 - DoL: fiduciary issues
 - PBGC: benefit guarantees
 - EEOC: age discrimination



Regulations Affecting Actuarial Solutions

- Welfare benefit plans are federally regulated
 - IRS: deductions, nondiscrimination
 - DoL: fiduciary rules
 - EEOC: age discrimination
 - CMS: Medicare effects



Accounting for Actuarial Solutions

Agency	Insurers	Benefit Plan Sponsors
SEC/FASB	Yes	Yes
AICPA	Yes	Yes
PCAOB	Yes	Yes
FRC	International	International
GASB	No	Government
CAS	Some	Some
States	Yes	No



Professional Regulation

- U.S.
 - Membership organizations: Code of Professional Conduct
 - AAA: qualifications, practice notes
 - ASB: standards
 - ABCD: investigate/counsel
 - JBEA: pension actuaries
- International
 - CIA: Canadian work
 - IAA: International standards



Code of Professional Conduct

- Basic definition of how profession expects members to act
- 14 Precepts
- Key is Precept 1: act honestly, with integrity and competence
 - Annotation 1.1: Perform services with skill and care



AAA Role

- Qualification standards
 - Implement Precept 2 of Code
 - General qualification standard
 - Specific qualification standards
- Practice notes and discussion papers
 - Practice not covered by an ASOP
 - Assist in applying ASOPs
 - Not binding as standards



Actuarial Standards Board

- Jointly sponsored by five U.S. organizations
- Issue ASOPs
 - Implement Precept 3 of Code
 - Document/define generally accepted practice
 - Occasionally raise level of practice



Actuarial Board for Counseling and Discipline

- Jointly sponsored by five U.S. organizations to
 - **Investigate** alleged violations of the Code of Professional Conduct and recommend discipline, when warranted;
 - **Counsel** (provide guidance to) actuaries;
 - **Mediate** disputes between actuaries and others.



ABCD Membership

Appointed by Selection Committee (presidents and Presidents-elect of U.S. organizations)

Member	Area of Practice
Bill Falk, Chairperson	Health
Frank Irish, Vice Chairperson	Life
Larry Johansen, Vice Chairperson	Pension
Linda Bell	Casualty
Edward Burrows	Pension
Julia Phillips	Health
Dick Robertson	Life
Carol Sears	Pension
Michael Toothman	Casualty



Confidentiality

- All ABCD guidance, mediation and inquiries are confidential
- Actuary may make public or agree to publication



ABCD Inquiries

- Based on complaint from
 - Client
 - Regulator
 - Other actuary
- At ABCD's initiative
 - Based on published report that suggests possible actuarial issue



Filing a Complaint

- Letter, fax or email to ABCD chairperson, Tom Griffin or Lauren Bloom
- Describe circumstances surrounding complaint
- Describe each act or omission that may be a violation
- Provide any supporting information



ABCD Inquiry Procedures

Step	Options
1. Complaint Received a. reviewed by counsel	-Dismiss -Ask for further details -Commence inquiry
2. Subject Actuary Response a. reviewed by chairs	-Dismiss -Mediate -Initiate investigation
3. Appoint an Investigator	-Subject Actuary may object
4. Investigation Completed a. actuary responds to report b. reviewed by ABCD	-Dismiss -Counsel -Go to hearing
5. Hearing	-Dismiss -Counsel -Recommend discipline



An ABCD Inquiry

- Is a fact-finding effort, not an adversarial forum
- Looks at whether or not an actuary materially violated the Code, not whether the actuary is liable for damages
- May be suspended during litigation, at actuary's request



Requesting ABCD Guidance

- Letter to ABCD Chairperson, Tom Griffin or Lauren Bloom at
American Academy of Actuaries
1100 17th Street, N.W., 7th Floor
Washington, D.C. 20036-4601
- Fax to any of the above at (202)876-1948
- Email to abcd@actuary.org
- Phone to Tom Griffin or Lauren Bloom
(202)223-8186
- Phone, email or letter to any ABCD member
(see directory)



Requesting ABCD Guidance

- Request should state problem in general terms
- Anonymous requests are rare and hard to manage, but permitted
- May ask for review by the entire ABCD
 - Mostly for guidance to be published
- Requests are assigned to a board member for response.



Requesting ABCD Guidance

- Responding member will normally have some experience in the subject.
- Response will be rapid and usually by telephone.
- Key elements of a response include the following:
 - Informality
 - Dialogue about details
 - Answer based on Code and Standards
 - May include advice about good practices
 - One person's opinion



Mediation

- Actuaries sometimes get involved in disputes with clients, employers, or other actuaries.
- **If both parties agree**, the ABCD is available to mediate these disputes on a confidential basis.



ABCD Activity

Year	Guidance Requests	Inquiries Initiated	Inquiries Completed
2000	36	22	19
2001	21	32	33
2002	47	17	22
2003	30	9	15
2004	46	11	8



ABCD Activity

Final Resolution of Matters for Inquiry (1992 – 2004)

Action Taken	Number of Cases
Dismissed	151
Dismissed with Guidance	53
Counseled	36
Mediated	11
Recommended Discipline	<u>13</u>
	264



ABCD Activity

Inquiries in Process, 12/31/2004

Status	Number of Cases
Pending Disposition	3
Pending Hearing	3
Under Investigation	7
Initial Processing	<u>4</u>
	17



Issues Raised in Complaints (Complaints in process in 2004)

Issue	Number
Failure to act with integrity	12
Improper reserve estimate	5
Calculation & data errors	5
Conflict of interest	4
Improper reserve opinion	3
Unreasonable assumptions	2
Other	5



Questions or Discussion?





Actuarial Board for Counseling and Discipline

BILL FALK
Chairperson

Actuarial Board for Counseling and Discipline

Attention: Tom Griffin or Lauren Bloom

1100 17th Street, N.W., 7th Floor

Washington, D.C. 20036-4601

202-785-7860

Web Site: www.abcdboard.org

THANK YOU