

**Standard Valuation Law (SVL) – Peer Review**

The purpose of the call was to discuss peer review issues related to the proposed revision of the SVL. LHATF made no decisions and did not reach any conclusions about any of the issues raised. The discussion will continue at the March meeting.

Dennis Lauzon emphasized the importance of peer review in principles-based financial reporting standards by citing statements from the Federal Reserve Board and the SEC.

David Sandberg summarized the work to date of the AAA SVL2 Work Group. Major activities include a summary of the practices and results of Canada's two-year old peer review requirement for actuarial opinions, a study of England's Morris Report, the official investigation into the failure of the Equitable in England, and coordination of activities with such entities as ASB, AAA's Professionalism Committee, SOA, rating agencies, etc.

Sandberg disclosed some interesting feedback from Canada's regulators: (1) They believe the process has been quite successful so far, (2) There are legal protections for the opining actuary, (3) The peer review is done before the opinion is released publicly, and (4) Some company's Boards have rejected the appointed actuary's choice of reviewer because of perceived lack of independence.

Allen Elstein (CT) raised some key points. He believes that the peer review requires expertise in many areas, such as modeling, investments and hedging. He does not want to create excess costs for small companies. He emphasized that volatility requires sensitivity testing of the assumptions. He is also concerned about independent verification of any standardized models that are developed, either for assets or for liabilities. Finally, he observed that he sees less external scrutiny of the current cash flow testing requirements, which he does not want to see happen with peer review.

Lauzon said that one possibility for regulatory review is to establish an NAIC facility similar to SVO that focuses solely on the mission of peer review of actuarial opinions.

Having used up its allotted time, LHATF adjourned.

Donald P. Maves, FSA, MAAA

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