

### **Appendix 3**

#### **Comments on the Revised Standard as Adopted in September 2001 and ASB Responses**

As appendix 2 indicates, the exposure draft of this revised actuarial standard of practice was issued in September 2000 with a comment deadline of March 31, 2001. The Cash Flow Testing Task Force of the Life Operating Committee of the ASB, after carefully considering all comments received, presented a proposed final revised standard to the ASB for adoption. At its September 2001 meeting, the ASB adopted the revised standard (with minor edits) with an effective date of April 15, 2002.

In March of 2002, representatives of the Casualty Practice Council of the American Academy of Actuaries identified concerns regarding the application of the revised standard to property and casualty practice. Specifically, they expressed concern that the scope of the revised standard went beyond generally accepted actuarial practice in the property and casualty area and, arguably, called for casualty actuaries to consider cash flow testing in settings where they typically would not do so and where, in their view, cash flow testing would not be needed.

In light of these concerns, the Casualty Practice Council formally requested that the ASB defer the effective date of the revised standard to July 15, 2002, in order to provide the Council with an opportunity to present its concerns and offer one or more suggested remedies. The ASB carefully considered the Casualty Practice Council's request and agreed to defer the effective date of the revised standard to July 15, 2002.

Representatives of the Casualty Practice Council attended the ASB's June 2002 meeting and presented the Council's concerns. The chairperson of the Life Operating Committee of the ASB was also present. After considerable discussion and consideration, the ASB agreed that it would be appropriate to do the following:

1. amend the scope of the revised standard to conform more closely to current, generally accepted practice among property and casualty actuaries;
2. proceed with such amended scope without re-exposure to the membership since the scope and content of the revised standard (as adopted at the September 2001 meeting) with respect to life and health practice remained unaltered; and
3. inform the membership and all interested parties of these developments and the effective date of July 15, 2002.

The Casualty Practice Council representatives also opined that section 3.2, Determining the Level of Analysis of Cash Flows, in requiring the actuary to consider "all material risks and

options embedded in the asset, policy or other liability cash flows,” was unclear as to what is or is not “material.” The ASB agreed a clarification was appropriate for all practice areas, and modified the section to require the actuary to consider only those risks and options that the actuary believes to be material.