

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this revised ASOP, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with U.S. GAAP*, was issued in June 2010 with a comment deadline of September 30, 2010. Eight 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 Task Force to Revise ASOP No. 10 carefully considered all comments received, and the Life Committee and the ASB reviewed the proposed changes and made modifications to the ASOP where appropriate.

Summarized below are the significant issues and questions contained in the comment letters and responses to each. The term “reviewers” includes the task force, the Life Committee, and the ASB. Unless otherwise noted, the section numbers and titles used below refer to those in the exposure draft.

GENERAL COMMENTS	
Comment	One commentator asked for examples of relevant literature that would help the actuary address “special situations.”
Response	The reviewers do not believe it would be appropriate to reference specific sources of non-authoritative literature within the ASOP, as the list could not be complete and may suggest that certain sources are more relevant than others. The Financial Accounting Standards Board has consolidated the authoritative literature into the Accounting Standards Codification, and there are various references to this literature throughout this standard. Anything outside of the authoritative GAAP literature is an interpretation and outside the scope of this standard.
Comment	One commentator suggested that an actuary who is performing functions within the scope of this ASOP should be familiar with the various sources of relevant literature.
Response	The reviewers agree and believe this is covered in section 3.1.
Comment	One commentator recommended that the ASB be prepared to revise this standard as the accounting for insurance contracts is currently under review by the Financial Accounting Standards Board.
Response	The reviewers agree that the ASB should be prepared to revise this standard as GAAP for insurance contract accounting changes.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	

Comment	Several commentators indicated that the references to authoritative GAAP literature needed to be updated to reflect Accounting Standards Codification.
Response	The reviewers agree and modified the references to authoritative GAAP literature to reflect this change in this section and throughout the ASOP.
SECTION 2. DEFINITIONS	
Comment	One commentator suggested referring the actuary to relevant definitions included in authoritative GAAP guidance.
Response	The reviewers believe that the language in the exposure draft is sufficient.
Comment	One commentator suggested including a definition of “VOBA.”
Response	The reviewers agree and added a definition of “VOBA.”
Comment	One commentator suggested capitalizing terms that are defined in this standard.
Response	The reviewers disagree, as capitalizing terms is not the format used in actuarial standards of practice.
Section 2.8, Market-Estimate Assumptions	
Comment	Two commentators addressed the difficulty of obtaining market-estimate assumptions from market sources in situations where it can be extremely difficult to find an appropriate market for the instruments being valued. It was suggested that the definition exclude the phrase “obtained from market data.”
Response	The reviewers agree and deleted the clause from the definition.
Section 2.12, Risk of Adverse Deviation	
Comment	One commentator suggested instead (or in addition) the ASOP should define Provision for Risk of Adverse Deviation.
Response	The reviewers believe the definition of “Risk of Adverse Deviation” is appropriate and that section 3.5 adequately covers the topic of provision for adverse deviation and made no change.

SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, The Role of the Actuary	
Comment	One commentator suggested that while the financial statements are indeed the responsibility of management, the actuary has responsibility for ensuring that reasonable assumptions are used in the computation of the value of assets and liabilities related to insurance policies in force.
Response	The reviewers believe that actuaries are frequently asked by management to review or recommend the assumptions used to compute the stated values of assets and liabilities related to insurance policies in force. The reviewers also felt that actuaries, by virtue of their training and experience are well suited for such work. However, there is no requirement that an actuary take on these responsibilities in preparing GAAP financial statements; therefore, no change was made in this section.
Section 3.2, Categories of Assumptions	
Comment	One commentator suggested that in the second sentence “provisions are added to the assumption” be changed to “provisions are made to the assumption” to account for situations where assumptions are reduced by such provisions.
Response	The reviewers agree and revised the language in response to the comment.
Section 3.3, Best- Estimate Assumptions	
Comment	One commentator suggested that this section did not adequately address the situation when there is no emerging experience, as when one must establish assumptions for an entirely new product or risk factor. It was suggested that the actuary could use any available and relevant data even if that data might not contain emerging experience.
Response	The reviewers agree and added a sentence to this section addressing this situation.

Section 3.4, Market-Estimate Assumptions	
Comment	One commentator questioned the suggestion in section 3.4.1 that the actuary consider multiple sources of the same information.
Response	The reviewers agree and modified section 3.4.1 to more clearly indicate how multiple sources of information can be used to enhance the actuary's comfort with the reliability of the data used as a basis for market-estimate assumptions.
Comment	One commentator suggested clarifying the language in section 3.4.1, Reliability of Market-Estimate Assumptions, and section 3.4.3, Use of Relevant Information.
Response	The reviewers agree and the language in these sections has been revised from the exposure draft with the intent of clarification.
Comment	One commentator recommended providing a clarifying example of how one might use market observable information as inputs into establishing market-estimate assumptions related to insurance or policyholder behavior risks.
Response	The reviewers agree with this comment and section 3.4.3 now includes an illustrative example of how market observable data might be used to establish a market-estimate mortality assumption.
Comment	One commentator suggested improving the language in section 3.4.4, Using Best-Estimate Assumptions, to ensure that the suggested practices were supported in GAAP literature and are not an interpretation.
Response	The reviewers agree and section 3.4.4 has been modified to clarify how best-estimate assumptions might be used as an input into market-estimate assumptions in certain situations. The reviewers believe that the revised language is not an interpretation of GAAP literature.
Section 3.5, Provision for the Risk of Adverse Deviation	
Comment	One commentator suggested the third sentence in section 3.5.1 be modified as, "The actuary should consider the magnitude and frequency in relevant experience, through quantitative as well as qualitative analysis."
Response	The reviewers believe the guidance is sufficient as written and made no change.

Comment	One commentator suggested the last sentence of section 3.5.2 introduces a new example of a reasonable relationship between assumptions with and without provision for the risk of adverse deviations. Is the example really a matter of reasonable relationships, or is it actually addressing a different question, namely loss recognition? Another commentator was concerned the sentence could be viewed as an interpretation of GAAP.
Response	The reviewers agree with both commentators and removed the final sentence of section 3.5.2.
Comment	One commentator suggested the first sentence of section 3.5.3 be changed to, “The provision for risk of adverse deviation for each assumption should be such that it contributes to an increase in the Net GAAP liability as well as an increase in the net GAAP liability in aggregate from all risk margins.” It was also suggested the last sentence provide more specificity as to what is meant by the authors and how the actuary should determine the appropriate amount.
Response	The reviewers believe the guidance is sufficient as written and made no change, as further revision might lead to a possible interpretation of GAAP.
Comment	One commentator suggested that section 3.5.3 address the difficulty of selecting a provision for adverse deviation that will have the desired impact on GAAP reserves and that part of the challenge is that the provision may need to vary by age, duration, and possibly other parameters. It was also suggested that it may be both mechanically and conceptually difficult to find a pattern that will have the desired effect on reserves both as a stand-alone adjustment and in the aggregate and that the most important sentence was the last one: a set of assumptions that provides “for an appropriate amount of adverse deviation in aggregate.”
Response	The reviewers believe that incorporating these considerations would lead to a possible interpretation of GAAP.
Comment	One commentator requested greater clarification in section 3.5.3. For example: Does the provision need to increase the net GAAP liability at each duration? At what point in time should the impact of the provision be measured? What is an appropriate amount of provision? And, is the actuary responsible for determining the level of aggregation used in measuring the provision?
Response	The reviewers believe including guidance in response to these questions would result in an interpretation of GAAP and would not be appropriate.
Section 3.6, Lock-In	

<p>Comment</p>	<p>Several commentators recommended that the last sentence of this section be deleted or modified because it was considered both confusing and an interpretation of GAAP literature. An additional comment suggested that the reference in this paragraph to “loss recognition” be changed to refer to “premium deficiency” to be consistent with the language used in Accounting Standards Codification 944-60-25-8 & 9 (paragraph 35 of FAS 60).</p> <p>Another commentator suggested that examples of the assumptions subject to lock-in be provided in that it is not always clear what is or is not an assumption. In the comment, indeterminate premium changes were used as an example of an area that may be considered ambiguous in this regard.</p>
<p>Response</p>	<p>The reviewers agree with these comments and deleted this section.</p>

Section 3.7, Internal Consistency	
Comment	One commentator suggested revising the title of this section to incorporate the comprehensiveness required by the first sentence of this section. Another commentator suggested eliminating the application of consistency to the determination of provisions for the risk of adverse deviation. A third commentator recommended using examples that more clearly illustrated assumptions that would not be dependent on specific product features or company considerations.
Response	The reviewers believe the title of this section adequately describes the content. Further, the reviewers believe that the language regarding the application of internal consistency to provisions for risk of adverse deviation is appropriate. The examples in the exposure draft have been changed to reference U.S. Treasury interest rates and the volatility of common equity index returns.
Section 3.8, Methods and Techniques	
Comment	One commentator recommended that the relationship between a company and the distributor of a product may be an important consideration in establishing the detailed methods and techniques discussed in this section.
Response	The reviewers agree and a category was added for other items that may materially impact policy cash flows.
Section 3.11, Simplifications and Approximations	
Comment	One commentator suggested certain edits to this section to improve its readability.
Response	The reviewers agree and revised the language in this section.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Communications	
Comment	One commentator suggested including references to the communication requirements included in the U.S. Qualification Standards for Actuaries and the documentation requirements included in ASOP No. 21, <i>Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas</i> .
Response	The reviewers agree and revised this section to include a reference to ASOP No. 21. However, the reviewers consider the communication requirements included in the U.S. Qualification Standards for Actuaries to be broadly applicable and do not believe those requirements should be added to this standard, specifically.