

## Appendix 2

### Comments on the Exposure Draft and Task Force Responses

The exposure draft of this proposed actuarial standard of practice (ASOP), titled *Appraisals of Casualty, Health, and Life Insurance Businesses*, was issued in June 2004, with a comment deadline of November 30, 2004. Thirteen 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. 19 carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters and the task force’s responses. Unless otherwise noted, the section numbers and titles used below refer to those in the exposure draft.

<b>GENERAL COMMENTS</b>	
Comment	Several commentators questioned the applicability of the standard to property/casualty appraisals. Other commentators stated the scope was appropriate.
Response	The task force believed that the scope of the standard was appropriate as written. In reaching this conclusion, the task force noted that property/casualty appraisals were included in the scope of the existing ASOP No. 19, and that at the request of the ASB, a property/casualty actuary actively participated in the drafting of the standard. In addition, after receiving these comments, the task force consulted several property/casualty actuaries, including the Casualty Practice Council, and the responses indicated that the scope was appropriate.
Comment	One commentator questioned why the ASOP was assigned to the ASB Life Committee.
Response	The ASB assigns ASOPs that might apply to more than one practice area, but not necessarily to all practice areas, to the operating committee that it deems most appropriate. The ASB usually bases this determination on which committee represents the practice area that would be most affected by the ASOP or has the most history with the development or periodic review of the ASOP. In this case, the ASB assigned ASOP No. 19 to the ASB Life Committee but requested health and property/casualty members be recruited for the task force.
Comment	One commentator suggested that “embedded value” be defined in the standard.
Response	The task force added a definition of “embedded value” in appendix 1.
The task force implemented editorial changes in addition to those addressed specifically below if they enhanced clarity and did not alter the intent of the section.	
<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.1, Actuarial Appraisal</b>	
Comment	One commentator suggested that the definition should mention that distributable earnings projections should reflect the applicable regulatory accounting basis.
Response	The task force believed that section 2.7 (now 2.6) sufficiently covered this concern.

Comment	One commentator was concerned that the specific definition of an actuarial appraisal in the standard could put U.S. actuaries at a disadvantage when asked to perform an appraisal of a non-U.S. entity.
Response	The task force believed that, while this could be the case, it was important to have a clear definition of this term.
<b>Section 2.7, Distributable Earnings (now 2.6)</b>	
Comment	One commentator urged that the standard provide guidance as to what is the level of “appropriate capital.”
Response	The approaches to determining the level of required capital continue to evolve, and the appropriate level of capital has varied over time with the evolution of regulatory accounting and will likely vary in the future. For these reasons, the task force believed that the determination of the appropriate level of capital should not be addressed in the standard. Note, however, that Section 4.1(k) requires disclosure of the level of capital and the rationale for that level.
Comment	One commentator suggested that this definition did not correctly describe the recognition of capital flows in the determination of distributable earnings.
Response	The task force agreed and revised the definition to reflect more clearly the recognition of capital flows.
<b>Section 2.8, Insurance Entity (now 2.7, Insurance Business)</b>	
Comment	Several commentators believed that the term “insurance entity” could be misunderstood to refer to a legal entity and that a more descriptive term such as “insurance business” would better convey the intended meaning.
Response	The task force agreed and changed the defined term to “insurance business.”
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.1, Introduction</b>	
Comment	One commentator suggested the second sentence be revised. The commentator acknowledged that in some types of work, particularly certain property/casualty work, it is not typical that an actuarial appraisal will be done.
Response	The task force agreed and changed the word “typically” to “often.”
<b>Section 3.2, Projected Earnings</b>	
Comment	Several commentators suggested the definition of projected earnings should be clarified.
Response	The task force explicitly included the terms “investment earnings” and “claim payments” in the discussion of cash flow and accrual amounts to clarify the definition.
<b>Section 3.4, Discount Rate</b>	
Comment	One commentator believed that this section left the impression that an actuarial appraisal should be performed based on a single deterministic set of assumptions, as opposed to a stochastic approach. The commentator believed that this was not an accurate reflection of current trends in actuarial practice.
Response	The task force agreed that stochastic approaches to performing actuarial appraisals are an important part of current practice in this area, revised section 3.7 to include review of stochastic scenarios, and added a section to appendix 1 that discusses stochastic methods applied to appraisals.
<b>Section 3.5, Applicability of Appraisal</b>	
Comment	One commentator suggested that reference to sensitivity testing be included.
Response	The task force agreed and added wording to this section to address sensitivity testing.

Comment	One commentator asked if the actuary should consider the perspective of the entity initiating the appraisal.
Response	The task force believes that this has been addressed, in that section 3.5 states the actuary should consider the circumstances, needs, and strategies of the intended audience for the appraisal.
<b>Section 3.6, Treatment of Assets</b>	
Comment	One commentator suggested deleting the phrase “that support related liabilities” from the first sentence of this section since there could also be assets supporting required surplus.
Response	The task force agreed and deleted the phrase.
Comment	One commentator suggested adding wording to state that projected earnings rates should be consistent with a company’s current investment strategy.
Response	Although this will often be the case, the task force believes that it may be appropriate at times for an appraisal to reflect an investment strategy different from a company’s current strategy and made no change.
<b>Section 3.7, Modeling and Model Validation</b>	
Comment	One commentator suggested adding guidance regarding when an actuary should do stochastic testing.
Response	The task force carefully considered this issue and noted that any recommendation on when to use stochastic testing is likely to be obsolete quite quickly as this is a rapidly changing area. The task force concluded that the choice of appropriate methodology should be left to the professional judgment of the actuary given the particular circumstances involved and made no change.
<b>Section 3.9, Documentation (now 3.10)</b>	
Comment	One commentator suggested that the term “actuary’s employer” be changed to “actuary’s principal” as it relates to retention of documentation.
Response	The task force agreed and changed the term to “actuary’s principal.”
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Appraisal Report</b>	
Comment	One commentator believed the report should include a summary of information provided/reviewed in connection with performing the appraisal.
Response	The task force believed that the disclosures called for in sections 4.1, 4.3, and 4.4 sufficiently covered what the commentator suggested.
<b>Section 4.3, Required Disclosure If Not an Actuarial Appraisal (now Appropriate Use of the Term “Actuarial Appraisal”)</b>	
Comment	Several commentators thought that the disclosure required by section 4.3 was inappropriate, that it could be confusing to some readers, and that it perhaps could lead some actuaries to an inappropriate application of an actuarial appraisal simply to avoid the disclosure.
Response	The task force agreed that it was more important to disclose what was done rather than what was not done and revised the language in sections 4.3, 4.1(h), and 4.1(i) to address this concern.
Comment	Two commentators challenged the necessity for this type of disclosure.
Response	The task force believed that only appraisals that meet the definition in this standard should be considered actuarial appraisals. The task force wanted to distinguish any appraisal done by an actuary from an actuarial appraisal that meets the definition per this standard.  The task force revised the requirements of section 4.3 to state that actuarial communications related to an appraisal that does not meet the definition of an actuarial appraisal contained in this standard should not refer to the appraisal as an actuarial appraisal.
Comment	One commentator thought that there might be an inconsistency between this section and ASOP No. 41, <i>Actuarial Communications</i> , and asked what an actuary calls an actuarial communication that is an

Response	appraisal but not an actuarial appraisal as defined in ASOP No. 19. While acknowledging that this may be somewhat awkward, the task force believed that this problem would not prevent the actuary from preparing a suitable communication and disclosure and made no change.
<b>Section 4.7, Deviation from Standard (now 4.6)</b>	
Comment	One commentator thought that section 4.7 (now 4.6) was too harsh without proper context as might be found in the proposed <i>Introduction to the Actuarial Standards of Practice</i> .
Response	The task force revised this section to be consistent with the new wording developed by the ASB in light of the adoption of the <i>Introduction to the Actuarial Standards of Practice</i> .
<b>APPENDIX (now Appendix 1)</b>	
Comment	One commentator thought that since appraisals are often based on a set of stochastic projections, this should be acknowledged in the appendix.
Response	The task force agreed and added language on stochastic projections to the appendix.
Comment	One commentator thought that the discussion of current practices should make clearer the distinction between an appraisal value itself and the items, such as price or fair value, that may be influenced by the appraisal value.
Response	The task force believed the existing language was clear and made no change.

