

## Appendix 2

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

The exposure draft of this revised actuarial standard of practice was issued in September 2000 with a comment deadline of March 31, 2001. (Copies of the exposure draft are available from the ASB office.) Fifteen comment letters were received. The Cash Flow Testing Task Force of the Life Committee of the ASB carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters and the task force's responses.

<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.2, Scope</b>	
Comment	One commentator wanted the ASOP expanded to include GAAP reserve testing.
Response	The task force believes that is beyond the scope of this standard.
Comment	The exposure draft asked for comments on the wording in the draft about the standard not requiring the actuary to perform asset adequacy analysis where an actuarial opinion requiring asset adequacy analysis is not required by applicable law. Some commentators supported the wording in the exposure draft. Some believed that ACG No. 4 should be kept in place to give the actuary guidance on "Section 7"-type (non-asset-adequacy testing) opinions. Some commentators believed this standard needed to make it clear whether Financial Reporting Recommendation No. 7 was still applicable. Some commentators believed that ASOP No. 22 should be expanded to require actuaries to perform asset adequacy testing regardless of regulations on the subject.
Response	The task force believes the standard's language regarding the actuary not being required to perform asset adequacy analysis where an actuarial opinion requiring asset adequacy analysis is not required by applicable law is appropriate for actuaries who are allowed to issue Section 7 opinions. Further, the task force agreed with the comments that suggested ACG No. 4 is still appropriate guidance for actuaries in this situation. The task force also believes that Financial Reporting Recommendation Nos. 7, Statement of Actuarial Opinion for Life Insurance Company Statutory Annual Statements; 7-A, Responsibilities of the Actuary and Others; 7-B, Adequacy of Reserves; and 7-C, Qualification of Actuary's Statement of Opinion, are no longer appropriate and should be repealed.
<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.3, Asset, and 2.14, Liability (previously section 2.13)</b>	
Comment	Many commentators suggested changes in these definitions.
Response	The task force believes the definitions are appropriate. The definitions are consistent with those found in other standards, where practical. The definitions in ASOP No. 22 are for just this standard and are appropriate for this standard.

## ASOP No. 22—September 2001

<b>Section 2.7, Cash Flow Analysis, and 2.8, Cash Flow Testing</b>	
Comment	One commentator did not like the distinctions made between “cash flow analysis” and “cash flow testing.”
Response	The task force believes the definitions are appropriate, since ASOP No. 22 is now designed to make a hierarchy of types of analysis, with “cash flow analysis” being the most general term, and “cash flow testing” being one type of cash flow analysis.
<b>Section 2.15, Moderately Adverse Conditions (previously section 2.14)</b>	
Comment	One commentator wanted more guidance on what constitutes a moderately adverse condition; a second commentator believed the definition “watered-down” the standard.
Response	The task force disagreed and believes the term is defined in a reasonable manner for the purposes of this ASOP.
<b>Section 2.16, Other Liability Cash Flows</b>	
Comment	One commentator noted that the term “other liability cash flows” was used, but not defined, in the exposure draft. One commentator thought that the definition should include surplus notes.
Response	The task force agreed and added a definition of “other liability cash flows,” which includes a reference to surplus notes, to both ASOP No. 7 and No. 22.
<b>Section 2.18, Policy Cash Flows (previously section 2.16)</b>	
Comment	One commentator noted that the definition used in the exposure draft did not treat premium taxes properly, as premium taxes are not paid on behalf of policyholders, but rather are paid as required by applicable law.
Response	The task force agreed and changed the definition accordingly.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.2, Appointed or Qualified Actuary (previously titled “Appointment as Appointed or Qualified Actuary”)</b>	
Comment	One commentator noted a qualified actuary is not “appointed.”
Response	The task force agreed with the point and changed the wording of the section.
<b>Section 3.3.1, Asset Adequacy Analysis</b>	
Comment	One commentator wanted further guidance about the use of expenses with specific guidance on overhead expenses.
Response	The task force believes the level of guidance in this section is appropriate.
<b>Section 3.3.2, Analysis Methods</b>	
Comment	One commentator noted that the wording in section 3.3.2 seemed to imply that the list of methods in section 3.3.2(a–e) was an exhaustive list of methods, and that this implied no other methods were possible.
Response	The task force agreed that the intention was not to exclude other methods from being considered and clarified the language.
Comment	One commentator noted that the wording in the first paragraph did not properly discuss the two separate issues of testing existing (in force) cash flows vs. testing combined cash flows. On the latter, it was noted that in some situations changes in asset and liability cash flows may offset.
Response	The task force agreed and expanded upon the exposure draft wording to make this clearer.

**ASOP No. 22—September 2001**

Comment	One commentator wanted guidance specifically on allowing other methods of asset adequacy analysis when either or both the C-1 and C-3 risks are not likely to impact present values.
Response	The task force agreed that the exposure draft wording implied the actuary would have to vary all assumptions, even those that were basically fixed or immaterial to the analysis being performed. The task force changed the wording to clarify that the actuary should use professional judgment in determining which assumptions should be varied.
Comment	One commentator asked why, under the method discussed in section 3.3.2(b) (conservatism in the reserves being so great as to not need to cash flow test), accidental death and dismemberment insurance is always an appropriate example.
Response	The task force agreed and added wording that stated accidental death and dismemberment insurance would be an example only if the block is reserved using conservative interest rates and mortality tables.
Comment	A few commentators noted that the phrase “short-term products” in section 3.3.2(d) has meaning under GAAP.
Response	The task force agreed that the use of the phrase “short-term products” could cause confusion in that regard and changed the language to refer to products with short-term liabilities.
<b>Section 3.3.3, Assumptions</b>	
Comment	A few commentators wanted more detailed guidance on the choice of assumptions.
Response	The task force believes the level of guidance in this section is appropriate.
Comment	Two commentators believed the actuary should provide supporting rationale for the choice of assumptions in addition to simply documenting what they were.
Response	The task force agreed and clarified the wording.
<b>Section 3.3.4, Additional Considerations</b>	
Comment	A few commentators noted the issue of cash flows being more uncertain the further into the future a projection is done.
Response	The task force agreed, but believed no change to ASOP No. 22 was necessary. Rather, the task force changed section 3.10.2, Number of Scenarios, in ASOP No. 7, noting more potential for variability the further into the future the cash flows are projected.
<b>Section 3.4.2, Adequacy of Reserves and Other Liabilities</b>	
Comment	One commentator noted that the phrase “would usually imply an excessive level of reserves or liabilities” should be deleted.
Response	The task force disagreed, since those words are needed to help define what it means for reserves to be adequate under moderately adverse conditions.
Comment	One commentator wanted wording to clarify what reserving assumptions should be used under the current Health Insurance Reserves model regulation in doing that regulation’s required gross premium reserve test.
Response	The task force disagreed, since guidance on meeting the Health Insurance Reserves model regulation is beyond the scope of this standard.

**ASOP No. 22—September 2001**

<b>Section 3.4.3, Analysis of Scenario Results</b>	
Comment	A few commentators asked for guidance in terms of what happens if a few scenarios out of a large number of scenarios tested showed failure.
Response	The task force agreed that guidance was needed and added language noting that a small percentage of failures may not indicate the need for additional reserves.
<b>Section 3.4.4, Aggregation During Testing</b>	
Comment	One commentator wanted further guidance on what aggregation should be done.
Response	The task force believes the level of guidance in this section is appropriate.
<b>Section 3.4.5, Aggregation of Results</b>	
Comment	A few commentators noted there may be restrictions on aggregation of results; in addition, some commentators asked for further guidance.
Response	The task force agreed with the first point and added a sentence noting that the actuary should review applicable law when aggregating results. Regarding further guidance, the task force believes the level of guidance in this section is appropriate.
<b>Section 3.4.6, Trends</b>	
Comment	One commentator wanted to require the actuary to analyze trends and reconcile results.
Response	The task force disagreed, noting that while the actuaries should consider these steps, the steps should not be required, as in some situations they may be of limited value.
<b>Section 3.4.8, Subsequent Events</b>	
Comment	Many comments were received on this section. Some commentators believed the draft went beyond what is required by the <i>AOMR</i> in requiring an actuary to write a subsequent events paragraph. Other commentators believed the draft should go further and require the actuary to consider subsequent events that are in process. Some commentators essentially supported the wording in the draft ASOP.
Response	The task force believes that the wording does not go beyond the <i>AOMR</i> , in that it merely clarifies how the regulation applies to existing practice. The task force further believes that requiring the actuary to consider events that happen beyond the date the opinion is signed would go too far. The task force left the wording unchanged.
Comment	One commentator asked about procedures to recall the opinion, if subsequent events beyond the date the opinion was signed lead the actuary to believe that opinion is no longer valid.
Response	The task force believes no general guidance is needed on this and that the actuary can deal with this on a case-by-case basis as needed.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.2, Format and Content of Statement</b>	
Comment	Two commentators noted that any departure from the recommended language should be explained, as well as disclosed.
Response	The task force disagreed.
<b>Section 4.5, Additional Disclosures</b>	
Comment	One commentator noted that section 4.5(a) on disclosure and discussion of Actuarial Guidelines was not appropriate for this section.
Response	The task force agreed and removed it.

**ASOP No. 22—September 2001**

<b>Section 4.9, Prescribed Statement of Actuarial Opinion (previously section 4.8)</b>	
Comment	A few commentators noted that the phrase “whether or not it is issued for purposes of compliance with the law, regulation, or other standard” at the end of the first sentence does not make any sense, since opinions are required only when there are laws or regulations.
Response	The task force agreed and removed this phrase.
	<b>Note: This section was removed in the global update of PSAO and deviation language.</b>

**ASOP No. 22—September 2001**