

Actuarial Standards Board

Re: Proposed Revision of Actuarial Standard of Practice Principle-Based Reserves for Life Products

### 3.3.2 Certification

This section notes that a qualified actuary may certify that a group of policies is not subject to material interest rate risk or asset return volatility risk in order to satisfy the exclusion test in some cases. However, it is unclear in which cases a qualified actuary may provide this certification. The section of VM-20 that allows for certification (Section 6.A.1.a.iii.) should be referenced to avoid confusion.

### 3.4.2.d Expenses

This section conveys the message that the actuary should be responsible for allocating expenses that are classified as “direct sales expenses” or as “taxes, licenses, and fees” to the activity creating the expense. However, it is possible that the allocation may have been performed by someone other than an actuary. Commonly, the actuary is using someone else’s work product, and the actuary will review the allocations. This section should be reviewed to note that the actuary should review the allocations rather than allocate the expenses themselves.

### 3.4.2.f.4) Overall Margins

Although Actuarial Standards of Practice are written in specific and technical language, it is always optimal to be concise and remove redundancies in the language. There appears to be some redundant language in this paragraph. At the end of the third sentence is the language “and the regulatory requirements for reserves”. We view this as redundant as it is mentioned earlier and suggest removing it.

### 3.5.4.c Recognition of Reinsurance Cash Flows in the Deterministic Reserve or Stochastic Reserve

The first half of this sentence notes that the actuary should choose assumptions and margins based on the reinsurance agreement. On the other hand, the second half of the sentence notes that the actuary may take into account the context of the agreement in the entire economic relationship between the parties. As a result, the second half of the sentence contradicts the first half of the sentence, and the consequence of the sentence is mitigated. We suggest removing this paragraph.

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