

**Comment #5 – 5/30/17 – 8:07 a.m.**

AAA PBR ASOP exposure comments

Cover page & subsection 1.2 first paragraph – refers to “Life Products” without specifying individual vs group – should it be more specific?

Subsection 3.1 first paragraph – specifies individual here – what about group?

Throughout the document: “should consider” is frequently ineffective wording leaving the actuary an overly-easy “out” & this phrase appears frequently in the ASOP. If the actuary generally should do something then it should say “should do it” & compel the actuary to explain why he/she is not doing it rather than “should consider doing it”, which leaves the peer reviewer or regulator with an unnecessarily weak position from which to play devil’s advocate if the actuary states that he/she has “considered” it but not actually done it.

3.3.2 a. - seems to be saying that the potential for future changes in the economic environment or competitive landscape (that could cause material interest rate & asset return volatility impacts on the business) is not necessarily a concern now. I would have thought such potential exposure would be a concern now. Consequently, the exposed wording seems unintended & overly aggressive & would therefore seem to need rewording.

3.4.1 a. 4) - it’s too harsh to require CF projections out until no obligations remain – it might be better to require projections until additional projection years would not materially impact the results

3.4.1 c. 1) - Wording doesn’t seem clear - are they suggesting back-casting “projections”? Prospective projections from an historical date? Or, are they suggesting validating by comparing future projected CF with historical actual CF?

3.4.1 d 1) last paragraph – “unless the actuary determines” seems to provide that particular actuary with too easy an “out” – it should be something more like “unless a reasonably-informed actuary would determine” or something to that effect

3.5.2 2<sup>nd</sup> paragraph & a. , b., & c. – is construction of a hypothetical portfolio being required? Is such construction necessarily practical enough to be a requirement?

3.7 3<sup>rd</sup> paragraph – The sentence starting “The **qualified actuary** assigned...” is too much of a mouthful. It might need commas, parentheses, and/or to be broken into multiple sentences.

4.2 b. - This item is problematic. It can be interpreted to mean that, if the appointed actuary concluded that CFT was not required, then the PBR actuary can certify with no further analysis that the block is not subject to material interest rate risk. This is not reasonable. The PBR actuary should be required to be prepared to defend/explain any such certification based on his/her own familiarity with the business. A problem with the more simple reliance exposed is that the CFT ASOP (for one) only requires that the appointed actuary consider doing CFT. In practice, the appointed actuary has too much leeway to conclude that CFT isn’t necessary even on blocks with material interest rate risk. This is known to occur with LTC business (where asset adequacy testing is sometimes limited to GPV), and via similar arguments could plausibly occur with other business including blocks subject to this PBR ASOP exposure. Absent stricter rules for when CFT is required, the PBR actuary should not be permitted the suggested reliance for such a certification.