Thank you for the opportunity to comment on this exposure.

My general comment, with potential application to many sections of this exposure, is that the ASOP should minimize inconsistency with VM-30 as well as the AAA Asset Adequacy Analysis Practice Note of September, 2014.

I have not cross-referenced every element of these three documents, but do note a few areas where some clarification or expansion of the exposure may be warranted:

- **3.1.1 Analysis Methods b. Demonstration of Conservatism**
  Section L of the AAA Practice Note addresses many elements of testing of PBA reserves. In particular, given the manner in which PBA reserves are calculated there exists the possibility that a PBA reserve would have a great degree of inherent conservatism. In such a case, an appropriate method for asset adequacy analysis of this reserve might be via Demonstration of Conservatism. I therefore suggest including this possibility as another example within this section.

- Further to the suggestion for section 3.1.1(b) above, I would caution that other methods for testing of a PBA reserve may not always be appropriate, or may need modification or other consideration to be made so. For example, cash flow testing of a VM-21 variable annuity reserve, if using only scenarios where interest rates vary (such as the New York 7), would likely not address other pertinent risks of the business, such as equity returns. In this example, other scenarios (i.e. equity scenarios) might be needed to ensure that the cash flow testing method is suitable. Alternatively, another method might be more suitable. To be clear, I believe that cash flow testing can be used for testing of a PBA reserve if the scenarios analyzed properly consider the risks of the business, and to this end, I suggest that some clarification/expansion of section 3.1.1 is needed. Specifically, I suggest that section 3.1.1 caution that any method, including cash flow testing, may be inappropriate if the scenarios and/or assumptions considered do not appropriately address the characteristics of the business being analyzed.

- Related to the immediately preceding suggestion, the method used for the analysis must also be suitably address the intent/requirements of the analysis. VM-30 asset adequacy analysis is by-and-large a "pass/fail" test. For a certain block of business many methods might be able to clearly demonstrate the "pass" or "fail" result. However, for another block of business some methods may be less conclusive. Thus it is important that the method used suitably meets the intent and purpose of the analysis. I suggest inclusion of a statement directing the actuary to consider the appropriateness of the method used for the analysis, both with respect to the business being tested, and with respect to the intent and purpose of the analysis be included in the ASOP. Section 3.1.1 contains the statement “The actuary should use professional judgment in choosing an appropriate analysis method.” I suggest enhancing this statement to “The actuary should use professional judgment in choosing an analysis method appropriate to both i) the business being analyzed and ii) the intent and purpose of the analysis.”

- **3.2.6 Management Action**
  The second sentence of this section is: 
  *For example, if the actuary reflects future changes in premiums or other policy charges in the analysis, the actuary should consider the asset adequacy, regulatory, and policyholder impact of those changes.*

  It seems that if the actuary has reflected future changes in the asset adequacy analysis then the actuary has already also considered the impact of these directly as the impact would be found in the results of the analysis. If so, this makes this sentence somewhat nonsensical or at least unnecessary. I suggest though that there may be one or two situations that this section is attempting to address, and where some rewording would accomplish this: 1) the actuary should consider quantifying the impact, perhaps by running before/after sensitivity tests, and/or 2) to the extent that the actuary includes a future item in the asset adequacy analysis consideration should be given to consistently including the future item in similar
or related regulatory analyses. While I am not certain if the intent of this section is to address either, both, or none of the two situations described above, I offer the following as a possible rewording if both of these situations are intended to be addressed:

For example, if the actuary reflects future changes in premiums or other policy charges in the analysis, the actuary should consider the need for quantification of the impacts of these changes as part of the analysis, and also consider the need to reflect such changes in similar regulatory analyses.

- 4.1 Actuarial Report Disclosures

Many of the items listed are referred to in VM-30. Given this, I have two suggestions:

i) The opening paragraph of this section should also refer to VM-30. While section 1.2(a) does make such reference, I believe that a further reference in section 4.1 is relevant and needed.

ii) Many of the items (a) through (o) of section 4.1 are listed in and required under VM-30. Listing them in this ASOP is somewhat redundant, potentially confusing (or even potentially contradictory), and subject to risk of divergence over time (the VM is updated annually and ASOPs are also updated: keeping these documents in sync may be challenging). While I appreciate that the ASOP may be attempting to establish a professional “floor” for disclosure, given the explicit requirements of VM-30, and the fact that this ASOP is centered around standards relating to VM-30, I suggest removal of most, if not all of these items in the ASOP. Of course, to the extent that any item is merely a suggestion or possible further consideration or enhancement of the VM-30 requirement, such could be retained/reworded. I suggest though that a reference to the requirements of VM-30, supplemented with a more general statement regarding other disclosure enhancements or considerations, would be more efficacious.

As stated above, I have not cross-referenced every element of the exposure, VM-30, and the AAA Practice Note. I respectfully suggest, to the extent that the Task Force has not already done so, that this cross-referencing effort be undertaken.

Donald R. Krouse, FSA, MAAA