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May 29, 2019

Actuarial Standards Board (ASB)
1850 M Street NW, Suite 300
Washington, DC 20036
Via email to: comments@actuary.org

RE: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities*

Thank you for the opportunity to provide comments on the proposed revision of ASOP No. 22, now titled *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life or Health Liabilities*. The Enterprise Risk Management/Own Risk and Solvency Assessments (ERM/ORSA) Committee of the American Academy of Actuaries[1] has reviewed the document and offers comments.

Below are the committee's specific responses organized by section number:

Section 3:

- **3.1.1 Analysis Method:**
  - It would be helpful to see some additional clarification for what "other acceptable analysis method" entails in analysis methods. For instance, if an actuary wanted to use the "Demonstration for Conservatism" approach for a reserve, what would that mean? How should they think about proving that conservatism?
  - "Demonstration of Conservatism" can be presented better when such demonstration is made by product-specific. Disclosure of comparison of the conservatism applied in this year vs. prior year(s) with explanations including causes or conservatism reflected in current assumptions by product line can be a better approach to present the conservatism in asset adequacy analysis.

- **3.1.2 Discount Rates:**
  - Adding a clarification of "the Expected Yield" is recommended.
  - There are other factors than just the expected yields on the current and new assets that should be considered in setting the discount rates, such as the cost of capital, risk premium, etc. The

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

actuary should also have the option to use multiple discount rates as he/she sees fit in his/her analysis based on professional judgment.
  - Adding more guidance in underlying assumptions disclosure including reinvestment assumptions in setting the expected yield would be helpful.

- **3.1.3 Trends in Assumptions:**
  - Is this intended for both unfavorable and favorable trends? More guidance is needed here.
  - In addition to taking into account different trends for different types of business, correlations (either positive or negative) between such trends need to be considered.

- **3.1.4 Assumption Margins:**
  - If the expense assumption assumes a decreasing unit cost due to the growth of business, the actuary should consider adding a margin to account for the uncertainty of the business growth.
  - An additional consideration might be the extent of adverse deviation that a flat margin implies over a 30+ year projection. For example, a 5% deviation in disability recovery rates might be considered moderately adverse for one year in particular, but a sustained 5% improvement over a 30+ year projection period would be extremely adverse.

- **3.2.3 Analysis of Scenario Results:**
  The actuary could predetermine the threshold ahead of time to determine if additional analysis is needed in the situation of an inadequate asset being detected in some but not all scenarios. That threshold should be consistent with the company's risk limit or risk tolerance level.

<u>Section4</u>:

- **4.1.c and 4.1.e:**
  Consider combining **4.1.c** and **4.1.e** because both refer to assumptions in disclosure.

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Thank you for this opportunity to provide comments to the ASB. We hope these comments are helpful. If you have any questions or would like to discuss this letter in more detail, please contact Vaun Cleveland, the Academy's policy analyst for risk management and financial reporting, at 202-785-7851 or cleveland@actuary.org.

Sincerely,
Seong-Min Eom, MAAA, FSA
Chairperson, ERM/ORSA Committee
Risk Management and Financial Reporting Council
American Academy of Actuaries