

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of this ASOP, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*, was approved in March 2020 with a comment deadline of November 30, 2020. Eight comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 22 Task Force and Life Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed.

Summarized below are the significant issues and questions contained in the comment letters and responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 22 Task Force, the ASB Life Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the second exposure draft.

GENERAL COMMENTS	
Comment	One commentator suggested replacing the phrase “reserves and other liabilities” with “liabilities.”
Response	The reviewers disagree and made no change.
SECTION 2. DEFINITIONS	
Section 2.1, Asset	
Comment	One commentator believed the definition of assets was vague and proposed rewording the definition of assets to align with the definition under statutory accounting principles.
Response	The reviewers disagree and made no change.
Section 2.3, Cash Flow	
Comment	One commentator said “or other assets” was unclear and suggested clarifying the phrase.
Response	The reviewers agree and clarified the language.
Section 2.4, Cash Flow Risk	
Comment	One reviewer suggested replacing the phrase “expectations or assumptions” with either “expectations” or “assumptions” because they have the same meaning.
Response	The reviewers disagree and made no change.
Section 2.5, Cash Flow Testing	
Comment	One commentator suggested that the use of the term “cash flow risk” should be singular throughout the ASOP.
Response	The reviewers disagree and made no change.

Section 2.10, Scenario	
Comment	One commentator suggested replacing “economic and other assumptions” with “assumptions.”
Response	The reviewers disagree and made no change.
Section 2.11, Subsequent Events	
Comment	One commentator suggested removing the word “material” from the definition of subsequent events.
Response	The reviewers disagree and made no change in response to this comment.
Comment	Two commentators suggested using the date the statement of actuarial opinion is signed rather than the date the statement of actuarial opinion is filed.
Response	The reviewers agree and made the change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Asset Adequacy Analysis	
Comment	One commentator suggested adding a list of specific asset risks to be considered.
Response	The reviewers believe the guidance is appropriate and therefore made no change in response to this comment.
Comment	One commentator suggested clarifying that asset adequacy reserves established in prior years should be excluded when performing asset adequacy analysis.
Response	The reviewers believe the guidance is appropriate and therefore made no change in response to this comment.
Comment	One commentator suggested modifying the language to remove the implication that asset adequacy analysis is a guarantee.
Response	The reviewers agree and modified the language.
Section 3.1.1, Analysis Methods	
Comment	One commentator proposed additional disclosure when liability cash flows have a material dependency on the asset cash flows and cash flow testing is not used.
Response	The reviewers believe the guidance covers these issues at the appropriate level of detail and made no change in response to this comment.
Comment	Several commentators suggested wording to clarify when cash flow testing would be appropriate.
Response	The reviewers agree and clarified the language.
Comment	One commentator suggested specifying that the methods given in the examples should only be considered when cash flow testing is not warranted, and not as alternatives in general.
Response	The reviewers believe the guidance is appropriate and note that section 3.1.1 states “The actuary should use professional judgment in choosing an appropriate analysis method.” The reviewers made no change in response to this comment.
Section 3.1.1(a), Gross Premium Reserve Test	
Comment	One commentator suggested additional language to clarify when GPV would not be appropriate.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.

Section 3.1.1(c), Demonstration of Immaterial Variation	
Comment	Two commentators suggested additional language for the example.
Response	The reviewers agree and updated the language.
Section 3.1.1(e), Loss Ratio Methods	
Comment	One commentator suggested adding a definition for “Loss Ratio Method.”
Response	The reviewers disagree and made no change in response to this comment.
Section 3.1.2.1, Trends	
Comment	One commentator suggested adding a reference to ASOP No. 25, <i>Credibility Procedures</i> , and adding more detail regarding the impact of the source and credibility of data when setting assumption trends.
Response	The reviewers added references to ASOP No. 23, <i>Data Quality</i> , and ASOP No. 25.
Section 3.1.2.1(c)	
Comment	One commentator noted that the consideration of trends should not be dependent on the results of the analysis.
Response	The reviewers agree and modified the language.
Section 3.1.2.2, Margins	
Comment	One commentator suggested that the actuary should document the rationale for excluding margin in an assumption.
Response	The reviewers note that this is covered in sections 3.4 and 4.1(g) and made no change.
Comment	One commentator suggested adding a provision for the actuary to consider the overall impact of margins included in the analysis when determining the level of assumption margin.
Response	The reviewers agree and modified the language accordingly.
Section 3.1.2.2(g)	
Comment	One commentator suggested replacing “the impact of any prescribed margin on the overall analysis” with “whether the margin is prescribed.”
Response	The reviewers removed the reference to prescribed margins in response to another comment.
Section 3.1.2.3, Discount Rates	
Comment	Two commentators suggested that the discount rate should also reflect reinvestment rates.
Response	The reviewers agree and modified the language accordingly.
Comment	One commentator suggested modifying the language so it applies to all analysis methods.
Response	The reviewers agree and modified the language accordingly.
Comment	One commentator suggested adding detailed guidance for choosing a discount rate when cash-flow testing is used.
Response	The reviewers disagree and made no change in response to this comment.
Section 3.1.3, Reinsurance Ceded	

Comment	One commentator suggested adding more detail for direct written business.
Response	The reviewers disagree and made no change.
Section 3.1.4, Aggregation During Testing	
Comment	One commentator suggested adding language related to AG 51 limitations on aggregation.
Response	The reviewers believe this is already addressed in section 3.2.4 and ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , and made no change.
Section 3.1.5, Use of Cash Flows from Other Financial Calculations	
Comment	One commentator questioned whether cash flows from one scenario-based calculation would be used in another scenario-based calculation.
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
Comment	One commentator suggested deleting “under moderately adverse conditions” because the phrase is not necessary.
Response	The reviewers disagree and made no change in response to this comment.
Section 3.1.6, Separate Account Assets	
Comment	One commentator suggested providing a definition of “insulated.”
Response	The reviewers clarified the language.
Section 3.1.7, Management Action	
Comment	One commentator suggested replacing the word “changes” with “actions” in the last sentence.
Response	The reviewers agree and made the change.
Comment	Two commentators suggested adding a consideration reflecting obstacles to the implementation of management actions, such as regulatory approval.
Response	The reviewers agree and added new section 3.1.7(e).
Comment	One commentator suggested changing the wording from “consider quantifying” to “quantify” the impacts of these changes as part of the analysis.
Response	The reviewers disagree and made no change in response to this comment.
Comment	Two commentators observed that there was an inconsistency between 3.1.7 and 4.1(l).
Response	The reviewers agree and made a change to 4.1(l) (now section 4.1[m]).
Section 3.1.8, Use of Data or Analyses Predating the Valuation Date	
Comment	One commentator suggested replacing “opinion” with “statement of actuarial opinion” in sections 3.1.8, 3.1.10, 4.1(m), and 4.1(o) (now sections 4.1[n] and 4.1[o], respectively).
Response	The reviewers agree and made the changes.
Section 3.1.10, Changes in Methods, Models, or Assumptions	
Comment	Two commentators suggested removing “Similarly, when the analysis is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change within the meaning of this section.”
Response	The reviewers agree and removed the language.

Section 3.1.11, Completeness	
Comment	One commentator suggested replacing “not analyzed” with “that has not been subject to asset adequacy analysis.”
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested adding more detail and examples to describe anticipated material cash flows.
Response	The reviewers believe the guidance covers these issues at the appropriate level of detail and therefore made no change in response to this comment.
Comment	One commentator suggested clarification regarding how the ASOP reconciles with language in the Actuarial Opinion and Memorandum Regulation (Section 5.E.1), which requires that “the statement of actuarial opinion shall apply to all in force business on the statement date....”
Response	The reviewers believe that the interpretation of regulations is beyond the scope of the standard and therefore made no change in response to this comment.
Section 3.1.13, Subsequent Events	
Comment	One commentator suggested that additional guidance was needed related to the disclosure of subsequent events.
Response	The reviewers believe that this issue is addressed in section 4.1(r) (now section 4.1[s]) of this ASOP, as well as in ASOP No. 41, <i>Actuarial Communications</i> , and therefore made no change.
Section 3.2.6, Opinions of Other Actuaries	
Comment	One commentator suggested adding the word “only” to claiming reliance on the opinions of other actuaries.
Response	The reviewers disagree and made no change.
Section 3.4, Documentation	
Comment	One commentator suggested deleting “or could assume the assignment if necessary.”
Response	The reviewers agree and made the change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
4.1, Required Disclosures in an Actuarial Report	
Comment	One commentator noted that the disclosures in section 4.1 do not need to be repeated in each document.
Response	The reviewers agree and clarified the language.