ACTUARIAL STANDARDS BOARD

● EXPOSURE DRAFT ●

Proposed Revision of
Actuarial Standard
of Practice
No. 10

U.S. GAAP for Long-Duration Life, Annuity, and Health Products

Comment Deadline:
June 30, 2022

Developed by the
Task Force to Revise ASOP No. 10 of the
Life Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
April 2022

STANDARD OF PRACTICE

APPENDIX

April 2022

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in U.S. GAAP for Long-Duration Life, Annuity, and Health Products

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 10

This document contains the exposure draft of a proposed revision of ASOP No. 10, now titled *U.S. GAAP for Long-Duration Life, Annuity, and Health Products*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found here and submitted electronically to comments@actuary.org. Include the phrase ["ASOP No. 10 COMMENTS"] in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received on its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted on the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of comments: **June 30, 2022**

History of the Standard

ASOP No. 10 was originally adopted by the ASB in 1989. The 1989 standard was developed by the American Academy of Actuaries (Academy) Committee on Life Insurance Financial Reporting for the Life Committee of the ASB. In 1992, ASOP No. 10 was expanded to incorporate certain Financial Reporting Recommendations. In 2000, it was revised to reflect developments in generally accepted accounting principles (GAAP) since 1992.

Since 2000, several American Institute of Certified Public Accountants' Statements of Position pertinent to insurance contract accounting have been issued. In addition, certain features of insurance contracts are now considered under GAAP to be embedded derivatives. These features are accounted for at fair value, which has been more specifically defined. As a result of these developments, the ASB authorized an update to ASOP No. 10.

The 2011 revision removed interpretations of GAAP literature and focused the standard on those activities for which actuaries are most directly responsible. This resulted in the deletion of the “Special Situations” and “Lock-In/Adjustment” sections in the previous version of ASOP No. 10. The ASB believes these sections included interpretations of authoritative GAAP guidance, which is beyond the scope of the actuary’s role. Actuaries can refer to other relevant literature for further information on topics that were deleted.

In 2018, the Financial Accounting Standards Board (FASB) issued amended guidance in Accounting Standards Update (ASU) 2018–12, *Targeted Improvements to the Accounting for Long-Duration Contracts*. ASU 2018–12 makes significant changes to how insurers account for and make financial disclosures relating to long-duration contracts. These accounting changes include periodic review and potential updates to assumptions and discount rates used to calculate liabilities for future policyholder benefits, a new classification called market risk benefits, a simplification of the deferred acquisition cost amortization methodology, and a significant expansion of required disclosures. ASU 2018–12 amended guidance on premium deficiency testing and provisions for adverse deviation for certain long-duration contracts. The mandatory implementation date was subsequently delayed and also allowed for a later implementation date for certain smaller companies and non-SEC filers as defined by FASB. This will give rise to multiple accounting standards being applicable at the same time. Because of these changes, the ASB authorized another update to ASOP No. 10.

This revision adds guidance reflecting ASU 2018–12 while retaining relevant existing guidance for GAAP because the ASB recognizes that individual company adoption dates of ASU 2018–12 will vary.

Notable Changes from the Existing ASOP

Notable changes made in this exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. The title, purpose, and scope of the ASOP now encompass long-duration life, annuity, and health products. The scope was also clarified to include the review of GAAP financial statements.

2. Definitions of “cohort,” “liability for future policy benefits,” and “market risk benefit” were added to section 2, and several definitions were revised.

3. Section 3.1 was revised to encompass the review of methods and assumptions and to clarify the role of the actuary in developing qualitative and quantitative disclosures related to financial statements.

4. Section 3.1 was also revised to recommend that the actuary should be familiar with relevant company operating policies.

5. Section 3.2 was added to provide guidance on the classification of contracts, features, and benefits.

6. The statement regarding periodically reviewed and updated assumptions versus locked-in assumptions was moved from section 3.3 (Types of Assumptions) to section 3.3.1 (Best-Estimate Assumptions) for clarity.

7. In section 3.3.2, market risk benefits were added to the examples of items that are measured at fair value.

8. Section 3.4 was added to address discount rate assumptions.

9. Section 3.6 was added to provide guidance on the risk adjustment.

10. Section 3.7 was updated to address internal consistency by cohort and to extend the concept of consistency to risk adjustment.

11. Section 3.8 was added to provide guidance when assumptions are selected by another party.

12. In section 3.9(b), examples of classification were added, which reflect updated authoritative GAAP guidance.

13. Section 3.10 was added to address financial statement disclosures.

14. Section 3.11 was revised to refer to the policy benefit liability and clarification regarding ASU 2018–12.

15. In section 3.12, intangible balances related to reinsurance were incorporated.

16. New guidance was added on reliance on others for data, projections, and supporting analysis; reliance on another actuary; and reliance on expertise of others in sections 3.14, 3.15, and 3.16.

17. Guidance on documentation was expanded in section 3.17.

18. Disclosure requirements in section 4 were restructured and expanded.

Request for Comments

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

In addition, the ASB would like to draw the readers' attention to the following questions:

1. Are there areas where the guidance creates issues with individual company adoption dates of ASU 2018–12? If so, please explain or provide examples.

2. Are there interpretations of ASU 2018–12 that are still evolving and that might affect this ASOP? If so, please explain or provide examples.

The ASB voted in April 2022 to approve this exposure draft.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ACTUARIAL STANDARD OF PRACTICE NO. 10

U.S. GAAP FOR LONG-DURATION LIFE, ANNUITY, AND HEALTH PRODUCTS

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services related to the preparation or review of insurance company financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for long-duration life, annuity, or health products.

1.2 Scope—This standard applies to actuaries when performing actuarial services related to the preparation or review of insurance company financial statements in accordance with GAAP for long-duration life, annuity, or health products.

The actuary should comply with this standard except to the extent it may conflict with applicable law (statutes, regulations, and other legally binding authority) or authoritative GAAP guidance (such as Accounting Standards Codification [ASC], Staff Accounting Bulletins issued by the U.S. Securities and Exchange Commission, and other guidance issued by authoritative bodies).

If the actuary is performing actuarial services that involve the review of insurance company financial statements in accordance with GAAP for long-duration life, annuity, or health products, the actuary should use the guidance in section 3 to the extent practicable.

If a conflict exists between this standard and applicable law, the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, authoritative GAAP guidance, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should follow the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for actuarial services related to the preparation or review of insurance company GAAP financial statements applicable to fiscal periods ending on or after four months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. They are intended to conform with authoritative GAAP guidance, where applicable.

2.1 Best-Estimate Assumption—An assumption that reflects anticipated experience with no provision for **risk of adverse deviation**.

2.2 Cohort—A grouping of insurance contracts or policies for the purpose of measuring the **liability for future policy benefits**, **DPAC**, and any other related balances.

2.3 Costs—All benefit payments and expenses associated with issuing, maintaining (to the extent allowable by authoritative GAAP guidance), and settling a company's insurance policies and contracts, with no provision for profit.

2.4 Deferred Policy Acquisition Cost (DPAC)—An asset representing the unamortized portion of policy acquisition expenses.

2.5 Deferred Sales Inducements (DSI)—An asset representing the unamortized portion of sales inducements to policyholders.

2.6 GAAP Net Premium—The portion of **gross premium** that provides for **costs**.

2.7 Gross Premium—Amounts contractually required to be paid or anticipated to be contributed by the policyholder.

2.8 Liability for Future Policy Benefits—An accrued obligation to policyholders that relates to insured events, such as death or disability.

2.9 Lock-In—A requirement to continue using original basis assumptions (as set at issue, acquisition, or prior redetermination due to a **premium deficiency**).

2.10 Market-Estimate Assumption—An assumption that represents what a typical market participant would use in assessing the amount the participant would pay to acquire a given asset, or the amount the participant would require to assume a given liability (also known as an "exit market" price).

2.11 Market Risk Benefit—A contract or contract feature in a long-duration contract issued by an insurance entity that both protects the contract holder from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk by providing a benefit in excess of account value.

2.12 Net GAAP Liability—The GAAP **policy benefit liability** less any associated balances, such as **DPAC**, **VOBA**, **DSI**, and intangible balances related to reinsurance.

2.13 Policy Benefit Liability—An accrued obligation to policyholders that relates to the payment of future **costs** (including unpaid claim reserves for incurred and future claims) and amounts accrued for unearned revenue. The amount accrued for unearned revenue may or may not be shown separately in the company's financial statements but is included in the **policy benefit liability** for purposes of this standard.

2.14 Premium Deficiency—A condition that exists when the sum of the **net GAAP liability** and the present value of future **gross premiums** is less than the present value of future benefits and expenses using current **best-estimate assumptions**.

2.15 Risk of Adverse Deviation—The risk that actual experience may differ from **best-estimate assumptions** in a manner that produces **costs** higher than assumed or revenues less than assumed.

2.16 Value of Business Acquired (VOBA)—The intangible asset that arises in the application of GAAP purchase accounting as the difference between the reported value and the fair value of insurance contract liabilities, or comparable amounts determined in purchased insurance business combinations.

Section 3. Analysis of Issues and Recommended Practices

3.1 Overview—The principles and methodologies used in determining financial statement amounts are generally prescribed by authoritative GAAP guidance. While insurance company GAAP financial statements are the responsibility of management, actuaries frequently participate in the processes of developing specific techniques for application of GAAP methods and selecting or considering assumptions used in the preparation of insurance company financial statements. Actuaries also frequently participate in developing both quantitative and qualitative disclosures related to financial statements, as required under GAAP. When participating in these activities, the actuary should be familiar with the company's operating policies as well as relevant accounting and actuarial literature.

Because GAAP financial statements are typically audited by internal and external auditors, the actuary should also refer to ASOP No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*.

3.2 Classification of Contracts, Features, and Benefits—The actuary should confirm that each relevant contract, contract feature, and contract benefit has been appropriately classified under GAAP. When doing so, the actuary should take into account all relevant levels of classification (for example, insurance or investment, short-duration or long-duration, **market risk benefit**, embedded derivative), applicable law, authoritative GAAP guidance, and the company's operating policies.

3.3 <u>Types of Assumptions</u>—Two types of assumptions are used in the preparation of GAAP financial statements: **best-estimate assumptions** and **market-estimate assumptions**. The type of assumption used and whether any provisions for risk or uncertainty are included in the assumption are dictated by the particular circumstances and applicable accounting guidance. The actuary should ensure that the proper type of assumption is used.

3.3.1 <u>Best-Estimate Assumptions</u>—Certain GAAP financial statement items (for example, **liability for future policy benefits**) are measured using **best-estimate assumptions**. The actuary should choose assumptions that reflect management's assessment of emerging experience without provisions for risk or uncertainty. Where there is no emerging experience, the actuary should choose assumptions that reflect management's expectations of how experience will emerge.

Best-estimate assumptions may be established as the "most likely," "average," or "central" outcome, corresponding, respectively, to the mode, mean, or median of a probability distribution. Other interpretations of best estimate are possible. The actuary should use actuarial judgment to determine which interpretation of best-estimate is appropriate for the circumstances and consistent with the applicable authoritative GAAP guidance.

When advising management on the selection of **best-estimate assumptions**, the actuary should take into account items such as the characteristics and magnitude of the company's business; the maturity of the company and its rate of growth; the prior experience of the company and the trends in that experience; and medical, economic, social, and technological developments that might affect future experience. The actuary's advice should take into account the company's actual recent experience data, if, in the actuary's judgment, it is relevant and credible.

The actuary should also consider supplementing available company-specific data with relevant industry data or data from other similarly situated companies. The actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 25, *Credibility Procedures*.

The actuary should identify which **best-estimate assumptions** are periodically reviewed and updated, and which assumptions are subject to **lock-in**.

3.3.2 <u>Market-Estimate Assumptions</u>—Certain GAAP financial statement items (for example, derivatives, embedded derivatives, and **market risk benefits**) are measured at fair value. When the fair value of an item is not readily observable in the marketplace, the actuary should determine a value for such items. The following approaches are commonly used to determine the **market-estimate assumptions**.

3.3.2.1 <u>Direct Observation</u>—The actuary should use **market-estimate assumptions** that reflect reliable market information to the extent reasonably observable. Some assumptions (for example, the market's assessment of future interest rates) may be directly observable in published sources that are commonly quoted for market-based information. The general acceptance of such information by the market may serve to enhance the actuary's comfort with its reliability. The actuary should consider using multiple sources of information, when available, to help validate the reliability of the information.

3.3.2.2 Inference—When market information is not directly observable, the actuary should use **market-estimate assumptions** inferred from other observable information. Such information may be obtained by observing market transactions that imply the market's assessment of the assumption. For example, when making a **market-estimate assumption** for the volatility of one-year returns on a stock market index, the actuary may be able to deduce that assumption from observing the price at which options on that index are trading.

3.3.2.3 Relevant Information—Often, the actuary will not be able to observe market transactions that incorporate some or all of the assumptions that are needed. In such situations, the actuary should use available observable information that may have relevance in determining market participants' assessment of the assumption that is required. For example, an actuary may have no means of directly observing the market's assessment of mortality for a specific group of lives. However, industry mortality data or mortality assumptions used by market participants in pricing transactions involving similar sets of lives may be observable. The actuary may consider this information to be relevant in establishing an assumption even though the information is not directly observable for the specific group of lives under consideration.

3.3.2.4 Anticipated Experience—When there is insufficient observable information, the actuary may choose a **market-estimate assumption** based on the actuary's expectations for that assumption. Such assumptions should reflect market-observable information to the extent possible. When incorporating anticipated experience assumptions, the actuary should consider whether including a margin for uncertainty is appropriate. If such a margin is included, the actuary should consider how much margin a market participant would use, based on the same considerations as discussed in sections 3.3.2.1 through 3.3.2.3.

3.4 Discount Rate Assumptions—When determining the discount rate assumptions for certain long-duration contracts (for example, upper-medium-grade fixed-income instrument yield used in calculating the **liability for future policy benefits**), the actuary should apply the principles of authoritative GAAP guidance and the guidance from this standard.

Where the actuary has limited or no observable market inputs to determine the discount rate assumptions, the actuary may need to extrapolate or interpolate. In such situations, the actuary should refer to applicable sections of authoritative GAAP guidance on fair value measurement (ASC 820) and section 3.3.2 of this standard.

3.5 Provision for Risk of Adverse Deviation—In certain instances, GAAP requires a provision for the **risk of adverse deviation** in assumptions.

3.5.1 Degree of Risk—When determining a provision for **risk of adverse deviation**, the actuary should take into account the following:

a. the degree of risk and uncertainty in that assumption in total and at each future duration;

b. any policy features that reduce risk to the company, such as indeterminate premiums or dividends; and

c. the magnitude and frequency of fluctuations in relevant historical experience, if available.

For assumptions that are relatively insignificant, the actuary may decide to add little or no provision for **risk of adverse deviation**.

3.5.2 Relationship to Anticipated Experience—When determining assumptions that include provision for the **risk of adverse deviation**, the actuary should take into account whether such assumptions bear a reasonable relationship to the anticipated experience. For example, in situations where a **premium deficiency** does not exist using **best-estimate assumptions**, the provision for **risk of adverse deviation** should not be so significant as to increase the resulting **GAAP net premium** above the **gross premium**.

3.5.3 Effect of Provision—The provision for **risk of adverse deviation** should be such that the **net GAAP liability** is increased. If the direction of the effect of` including a provision for adverse deviation in an assumption is not clear, the actuary should attempt to determine the nature of a provision for adverse deviation that is appropriate. If the actuary is unable to determine the directional effect, then the actuary need not include a provision for adverse deviation in that assumption. The actuary should establish the individual provisions for **risk of adverse deviation** at a level that provides for an appropriate amount of adverse deviation in aggregate.

3.6 Risk Adjustment—In certain instances, GAAP requires a risk adjustment (also referred to as risk margin or risk premium) in the fair value calculation. The risk adjustment is not a provision for **risk of adverse deviation**; rather, it represents the additional amount that a market participant would demand as compensation for bearing uncertainty in the cash flows. The actuary should use professional judgment when applying the risk adjustment and document the assumptions and methodology used.

3.7 Internal Consistency—When advising management on the selection of assumptions, the actuary should identify assumptions that, when taken together, reflect all pertinent areas of expected future experience. The actuary should recommend assumptions that are internally consistent within each product, line of business, block of business, or **cohort**. When assumptions are not dependent on specific product features or company specific considerations (for example, U.S. Treasury yields or volatility of a common equity index), the actuary should recommend assumptions that are consistent across product lines. The actuary should apply similar concepts of consistency in establishing provisions for **risk of adverse deviation** or risk adjustment. If the assumptions or other provisions are not internally consistent, the actuary should document any known inconsistencies.

3.8 Assumptions Selected by Another Party—When using assumptions selected by another party, the actuary should review the assumptions for reasonableness. If, in the actuary's judgment, an assumption selected by the party is not reasonable or the actuary cannot determine whether it is reasonable, the actuary should refer to ASOP No. 41, *Actuarial Communications*.

3.9 Methods—Methods used to determine GAAP financial statement amounts are generally prescribed by authoritative GAAP guidance and will vary according to the specific literature that applies.

When developing detailed techniques for application of GAAP methods, the actuary should take into account the following:

a. the substance of the relationship between the issuer of the policy and the policyholder;

b. the classification of the contract (for example, short duration versus long duration, or insurance versus investment) or contract features (for example, **market risk benefits** or embedded derivatives);

c. the expected life of the contract;

d. the cash flow characteristics of the contract, including insurance company cash flows related to the contract but not directly associated with the contract provisions;

e. any other items that are expected to have a material impact on the policy cash flows;

f. the materiality of resulting financial statement amounts;

g. the sensitivity of the resulting financial statement amounts to changes in assumptions; and

h. the consistency with methods used for valuing contracts similar to those issued by the insurance company, if such information is available.

3.10 Financial Statement Disclosures—When contributing to disclosures related to GAAP financial statements, the actuary should comply with the prescribed requirements related to such disclosures. If the actuary contributes to quantitative disclosures, the actuary should use methods and assumptions that are consistent with the methods and assumptions underlying the financial statement values. If the actuary's contribution to these disclosures meets the definition of an actuarial communication, the actuary should follow the guidance in ASOP No. 41.

3.11 Premium Deficiency Testing—When testing for **premium deficiency**, the actuary should use **best-estimate assumptions**, current at the time of testing, without making provision for adverse deviation, consistent with authoritative GAAP guidance. If a **premium deficiency** arises, the actuary should use current **best-estimate assumptions** to determine future changes in the **policy benefit liability**, consistent with authoritative GAAP guidance. For types of contracts where **lock-in** applies, the current **best-estimate assumptions** are then subject to **lock-in**.

3.12 Recognition of Premiums—The actuary should use appropriate methods to recognize premiums in income. These methods are determined by authoritative GAAP guidance and vary by the type of contract. Where the recognition of **GAAP net premiums** is applicable to the computation of the **policy benefit liability**, **DPAC**, **VOBA**, **DSI**, or intangible balances related to reinsurance, that recognition should be consistent with the treatment of **gross premiums** in the income statement.

3.13 Simplifications and Approximations—The actuary may, when appropriate, use assumptions, methods, and models that simplify calculations. Consistent with authoritative GAAP guidance, simplification and approximations are acceptable only if the results are reasonably expected not to differ materially from more detailed calculations. The actuary should seek guidance from accounting professionals on questions related to financial statement materiality.

3.14 Reliance on Others for Data, Projections, Models, and Supporting Analysis—The actuary may rely on data, projections, models, and supporting analysis supplied by others. When practicable, the actuary should review the data, projections, models, and supporting analysis for reasonableness and consistency. For further guidance, the actuary should refer to ASOP No. 23, ASOP No. 41, and ASOP No. 56, *Modeling*.

3.15 Reliance on Another Actuary—The actuary may rely on another actuary who has performed actuarial services related to the preparation or review of GAAP financial statements. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to perform such services, that the actuarial service was performed in accordance with applicable ASOPs, and that the actuarial service performed is appropriate for the preparation or review of GAAP financial statements.

3.16 Reliance on Expertise of Others—An actuary performing actuarial services related to the preparation or review of GAAP financial statements may rely on the expertise of others (including actuaries not performing actuarial services) in other fields of knowledge for input that is relevant and useful to the GAAP financial statements. In determining the appropriate level of such reliance, the actuary should take into account the following:

a. whether the individual or individuals upon whom the actuary is relying has expertise in the applicable field;

b. the extent to which the input provided has been reviewed or opined on by others with expertise in the applicable field, including any commonly known significant differences of opinion among others with expertise concerning aspects of the input that could be material to the actuary's use of such input; and

c. whether there are legal, regulatory, professional, industry, or other standards that apply to the input supplied by others with expertise in the applicable field, and whether the input has been represented as having met such standards.

3.17 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 21, 23, 25, 41, and 56. In addition, the actuary should disclose the following, if applicable:

a. recommendations that the actuary made with respect to classification of contracts, features, and benefits (see section 3.2);

b. the assumptions chosen and the information reflected in the assumptions (see section 3.3);

c. description of the discount rates used, including any methodology used to determine the discount rates (see section 3.4);

d. description of the provision for **risk of adverse deviation** (see section 3.5);

e. description of the risk adjustment (see section 3.6);

f. any known inconsistencies between assumptions or provisions for **risk of adverse deviations** and why these inconsistencies are appropriate (see section 3.7);

g. description of any techniques developed by the actuary to determine financial statement amounts (see section 3.9);

h. description of any professional judgment used by the actuary in preparing financial statement disclosures (see section 3.10);

i. discussion of any recognition of **premium deficiency** (see section 3.11);

j. discussion of any significant simplifications or approximations (see section 3.13);

k. extent of any reliance on others for data, projections, models, and supporting analysis (see section 3.14);

l. extent of any reliance on another actuary (see section 3.15); and

m. extent of any reliance on expertise of others (see section 3.16).

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

a. if any material assumption or method was prescribed by applicable law or authoritative GAAP guidance;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.

4.3 Confidential Information—Nothing in this ASOP is intended to require the actuary to disclose confidential information.

Appendix

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

The American Institute of Certified Public Accountants (AICPA) developed *Audits of Stock Life Insurance Companies* (*Audit Guide*) in 1972 with the cooperation of life insurance company accountants and actuaries. The *Audit Guide* represented the first effort by the accounting profession to establish GAAP for the life insurance industry. The Financial Accounting Standards Board (FASB) is now responsible for the determination of GAAP for companies whose financial statements are audited.

Until 2009, the FASB published Statements of Financial Accounting Standards (SFAS) to guide accountants on specific transactions. Once published, these SFAS were then considered to be GAAP. On September 15, 2009, the multiple SFAS were replaced by the FASB's Accounting Standards Codification (ASC), which became the standard for GAAP in the United States. The FASB now updates the ASC by issuing Accounting Standards Updates (ASUs).

GAAP standards for stock life insurance companies are primarily established by ASC Topic 944 "Financial Services, Insurance" but other topics are also relevant. Prior to GAAP codification, these standards could be found in SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, and SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, among others. The FASB issued SFAS No. 60, which generally codified the concepts in the *Audit Guide*, in 1972. In 1987, the FASB issued SFAS No. 97, which (1) established GAAP for certain forms of insurance contracts not specifically addressed by SFAS No. 60, primarily universal life-type contracts; (2) established GAAP for investment contracts not involving a significant insurance component; and (3) revised GAAP for limited-payment contracts. In November 1990, the AICPA issued *Practice Bulletin 8*, providing guidance for certain questions related to SFAS No. 97.

In 1995, the FASB issued SFAS No. 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*. This statement extended the requirements of SFAS No. 60 and SFAS No. 97 to mutual life insurers, established accounting for certain participating life insurance contracts of mutual life insurance enterprises (and stock life insurance subsidiaries of mutual life insurance enterprises), and permitted other stock life insurers to apply its provisions to participating life insurance contracts that meet the statement's conditions. At the same time, the AICPA provided further clarification of the accounting requirements for long-duration participating contracts in Statement of Position (SOP) No. 95-1, *Accounting for Certain Insurance Activities of Mutual*

Life Insurance Enterprises. Other standards are also relevant, as is prevailing accounting practice in areas not specifically addressed by an SFAS. Prior to the issuance of SFAS No. 120, mutual life insurers' statutory financial statements were, in practice, described as being in accordance with GAAP.

In 2018, the FASB issued ASU 2018–12, *Targeted Improvements to the Accounting for Long-Duration Contracts*. This amendment changed the measurement and disclosure requirements for insurance products and product features. The mandatory effective date for public entities filing statements with the Securities Exchange Commission (SEC) is January 1, 2023. For certain smaller companies and non-public companies, as defined by the FASB, the ASU will be effective for annual statements in 2025. Early adoption is permitted in 2022. This will give rise to multiple accounting standards being applicable at the same time.

Current Practices

The Academy promulgated *Financial Reporting Recommendations and Interpretations* applicable to GAAP for insurance companies to provide guidance to actuaries in this area before the formal appearance of ASOP No. 10 in 1989. Because of changes in GAAP resulting from SFAS No. 97, SFAS No. 120, and evolution in actuarial practice, ASOP No. 10 was revised in 2011. The 2011 revision removed interpretations of GAAP literature and focused the standard on those activities for which actuaries are most directly responsible. Since 2011, GAAP has continued to evolve, and it is appropriate once again to replace certain existing guidance and to promulgate a more generally applicable standard of actuarial practice with respect to insurance company GAAP financial statements.

The Insurance Experts Panel of the AICPA has developed certain interpretations of insurance accounting as promulgated by the FASB including for certain elements of ASU 2018–12. These interpretations have been added to the AICPA's *Audit and Accounting Guide, Life and Health Insurance Entities*.