Comment 1 – 6/21/22 – 9:58 p.m.

I have read through this proposed ASOP, and appreciate the efforts, and thinking that has gone into it. The development of a discount rate appears to be very flexible to a company's own assets (presumably adjusting for asset risk).

What I feel is missing is a direct cash flow offset which does not provide a discount rate, but uses specific amounts of specific assets to arrive at cash flows which completely offset the claim payment cash flow estimations (which could also have various margins as you indicated int he paper). A cash flow method is more accurate, and is not subject to unknown reinvestment risks or inaccurate weighting of duration of the claims cash flows. As we all know, the average duration of liabilities can be say 3.5 years, but the actual cash flows are heavily weighted in the early years, and has a very extended tail.

The technique for this method would be to develop claims payment cash flow alternatives based upon different liability variance, and then use (risk adjusted) asset cash flows from the actual company's assets adjusting for reinvestment assumptions when asset cash flow is insufficient. In simplistic terms, the market value of assets used to precisely offset the claims payment cash flow (adjusting for the necessary components of risk) is a fair discounted value of the outstanding claims/ultimate liability. There is probably a method that could be developed to arrive at an equivalent discount rate using this method but that requires a little reverse engineering.

There are several papers in the CAS archives that refer to this.

I hope this helps.

Yours faithfully,

John Burville