

Title of Exposure Draft: ASOP 10, “U.S. GAAP for Long-Duration Life, Annuity, and Health Products”

Comment Deadline: June 30, 2022

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase ‘ASB COMMENTS’ in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

The ASB posts all signed comments received to 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 to 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.

I. Identification:

Name of Commentator / Company
Rowen B. Bell, FSA, MAAA (personal comment, not the views of my employer or any professional committees to which I belong)

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response
1	No response
2	No response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
2.13	<p>Add language as shown below:</p> <p>“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. <u>Similarly, the amount accrued for unpaid claim reserves for incurred claims 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.</u>”</p>	<p>This section defines the term policy benefit liability and the proposed definition newly includes the parenthetical “(including unpaid claim reserves for incurred and future claims)”. This inclusion reflects the new guidance, in light of ASU 2018-12, that was added to paragraph A.17 of the AICPA’s Audit and Accounting Guide for Life and Health Insurance Entities. However, that same paragraph goes on to say that “entities may elect to present the incurred claim component of the liability measurement separately from the liability for future policy benefits as a claim liability.” As such, just as the ASOP already contains a sentence clarifying that unearned revenue is included in the ASOP 10 definition of policy benefit liability even if it is separately presented on the financial statements, so too would it be logical for the ASOP to make a similar clarifying statement with respect to the incurred claim liability.</p>
3.2	<p>Modify language as shown below:</p> <p>“The actuary should confirm that each relevant contract, contract feature, and contract benefit has</p>	<p>The wording “short-duration or long-duration” does not exist in the current version of ASOP 10 but was added in this exposure draft. The determination of whether a type of insurance contract is classified</p>

Title of Exposure Draft: ASOP 10, “U.S. GAAP for Long-Duration Life, Annuity, and Health Products”

Comment Deadline: June 30, 2022

	<p>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 <u>and accounting</u> policies.</p>	<p>under ASC 944 is short-duration or long-duration is an accounting policy of the entity that, after having been made, would be difficult for an entity to revisit (e.g., for an SEC registrant it would likely require issuance of a preferability letter from the entity’s public accounting firm). (Note that there are common health insurance products, such as group long-term disability, for which some entities apply long-duration accounting while others apply short-duration accounting.) As such, I do not believe it would be appropriate for ASOP 10 to suggest that an actuary has a duty to “confirm” the appropriateness of the entity’s classification of contracts into short-duration versus long-duration.</p> <p>The intended meaning of “the company’s operating policies” is not completely clear, but I think it would helpful to clarify that it includes the company’s accounting policies.</p>
<p>3.5.2</p>	<p>Delete language as shown below:</p> <p>“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.”</p>	<p>The language that I am proposing be deleted does not exist in the current ASOP 10, and has been added in this exposure draft. ASU 2018-12 significantly decreases the frequency of situations under which an actuary involved in the preparation of GAAP financial statements would need to determine assumptions that include provision for the risk of adverse deviation. As such, it seems very odd to be adding new guidance on that topic at this juncture. Moreover, it is not immediately clear to me that the language whose deletion I am proposing is the only correct interpretation of GAAP; and I recall that in a previous iteration of ASOP 10, the ASB was criticized for including an accounting interpretation (with which, ultimately, the AICPA did not agree) within an actuarial standard of practice. For both of these reasons, I think deletion is appropriate.</p>
<p>3.12</p>	<p>Modify language as shown below:</p> <p>“The actuary should use appropriate mMethods employed 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, <u>the actuary should confirm that said recognition should be</u> is consistent with the treatment of gross premiums in the income statement.”</p>	<p>I recognize that the phrase “the actuary should use appropriate methods to recognize premiums in income” is not new to this exposure draft but rather exists in the current ASOP 10. However, that phrasing seems to imply that the actuary is expected to bear some responsibility for the reporting entity’s revenue recognition practices, which in my view is unlikely to lie within the scope of actuarial responsibility. As such I believe edits to this section are warranted, so as to remove that implication.</p>
<p>4.1</p>	<p>Delete the following language, and make conforming changes to the numbering of the remainder of the section:</p>	<p>For reasons similar to those discussed in my comments above on Section 3.2, I do not believe that it would typically be the actuary’s role to <u>make recommendations</u> with respect to how an entity</p>

Title of Exposure Draft: ASOP 10, “U.S. GAAP for Long-Duration Life, Annuity, and Health Products”

Comment Deadline: June 30, 2022

	<p>“a. recommendations that the actuary made with respect to classification of contracts, features, and benefits (see section 3.2);”</p>	<p>classifies its contracts, features and benefits, as those questions represent accounting policies of the entity. As such I do not believe the ASOP should contain a suggestion that an actuary involved in the preparation of the financial statements is expected to be making recommendations on those topics, and in order to prevent that suggestion I believe this language ought to be deleted.</p>
--	--	--

IV. General Recommendations (If Any):


<p>Commentator Recommendation (Identify relevant sections when possible)</p>	<p>Commentator Rationale (Support for the recommendation)</p>
<p>Consider having this exposure draft apply only to services relating to entities that have adopted ASU 2018-12, and temporarily keeping the existing version of ASOP 10 for services relating to entities that have yet to adopt ASU 2018-12</p>	<p>As noted in the exposure draft’s transmittal memorandum, the exposure draft is intended to be applicable to both services provided in connection with GAAP financial statements to which ASU 2018-12 applies, as well as services provided in connection with GAAP financial statements to which ASU 2018-12 does not apply (e.g., private company financial statements in 2023-2024). While this aim is understandable, it does lead to a standard that spends a lot of time on topics that are far more relevant under historical GAAP literature than they are under ASU 2018-12, such as provision for adverse deviation (Section 3.5) and premium deficiency testing (Section 3.11). This may engender confusion over time, as pre-ASU 2018-12 guidance becomes increasingly irrelevant to current actuarial practice.</p> <p>Given this, I think a preferable approach would be to restrict the scope of this exposure draft to services provided in connection with financial statements prepared under ASU 2018-12, and temporarily keep the current version of ASOP 10 in force with respect to financial statements not prepared under ASU 2018-12, sunsetting that current version of ASOP 10 circa 2025. This approach would allow this exposure draft to be further modified to de-emphasize concepts that are far less relevant under ASU 2018-12 than they were previously.</p>
<p>Remove the proposed expansion of ASOP 10 to include “preparation and review” of financial statements instead of just “preparation”, or alternatively, provide considerably expanded guidance regarding the applicability of the ASOP to the review, as opposed to the preparation, of financial statements (Sections 1.1, 1.2, and throughout)</p>	<p>Historically ASOP 10 has only applied to actuarial services relating to the <u>preparation</u> of U.S. GAAP insurance company financial statements (hereafter, “preparation services”). As stated in Section 1.1, this exposure draft proposes to expand its scope to include actuarial services relating to the <u>review</u> of U.S. insurance company financial statements (hereafter, “review services”). However, review has not been defined, and the only guidance on how the ASOP is intended to now pertain to review services is the following new sentence in Section 1.2: “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.”</p> <p>As an actuary who works for a public accounting firm, I do not believe ASOP 10 has historically applied to my work as an</p>

Title of Exposure Draft: ASOP 10, “U.S. GAAP for Long-Duration Life, Annuity, and Health Products”

Comment Deadline: June 30, 2022

	<p>actuarial specialist assisting audit teams in their review of GAAP financial statements, but it now appears that it would apply under this exposure draft. However, there are significant differences between preparation services, in which the actuary’s assignment is to select specific assumptions and/or methodologies, and review services, in which the actuary’s assignment is to assess the reasonability of assumptions and/or methodologies selected by a client’s actuaries and/or accountants.</p> <p>As such, much of the phrasing used in Section 3 of the exposure draft is inapposite to the context of review services, to the extent that it employs wording like the following (emphasis added):</p> <ul style="list-style-type: none"> • “The actuary should <i>choose</i> assumptions...” (Section 3.3.1) • “When <i>advising management</i> on the selection of best-estimate assumptions, the actuary...” (Section 3.3.1) • “When <i>developing</i> detailed techniques for the application of GAAP methods, the actuary should...” (Section 3.9) <p>This suggests to me that attempting to expand the scope of ASOP 10 to include review services in addition to preparation services, without re-writing ASOP 10 to a greater extent than has been done in this exposure draft, is akin to putting a square peg in a round hole. If the ASB feels that there is a need for specific guidance on actuarial services relating to the review of long-duration GAAP financial statements, over and above the more general guidance in ASOP 21, then I think significant further revision to ASOP 10 would be needed in order to accomplish that objective in a way that will be clear to practicing actuaries.</p>
<p>Add long-duration property & casualty contracts to the ASOP’s scope (Section 1.2)</p>	<p>This exposure draft has expanded the scope of ASOP 10 to include actuarial practice relating to long-duration health contracts regardless of whether the entity writing the contract meets the definition of a “life insurance company”. I support this expansion, but I question why the exposure draft stops there, instead of expanding the scope to <u>all</u> long-duration insurance contracts. My understanding is that it is rare, but not completely unheard of, for a property & casualty insurance contract to be classified as long-duration under ASC 944. I am aware of no reason actuaries performing services relating to GAAP financial reporting for long-duration P&C contracts should not be subject to the guidance in this exposure draft. I also believe that the ASB should strive to make its standards non-sector-specific wherever possible.</p>

V. Signature:

<p>Commentator Signature </p>	<p>Date June 24, 2022</p>
--	---------------------------