Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice No. 10

Comment Deadline: June 30, 2022

Instructions: Please review the exposure draft, and give the ASB the benefit or 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
Charles Chacosky, Chairperson, Life Financial Reporting Committee of the American Academy of Actuaries Steven Malerich, Chairperson, Financial Reporting Committee of the American Academy of Actuaries

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

Question No.	Commentator Response
1	We have identified several provisions where the accommodation of different effectives dates is inadequate but otherwise do not see areas where the guidance creates issues with individual company adoption dates.
2	There are areas where interpretation is still evolving but we have not identified any that are likely to affect this ASOP.

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)
2.1	Rewrite to reflect actual GAAP requirements more accurately: "<u>Best-Estimate Assumption</u>—An assumption that produces a current estimate of expected performance with no provision for adverse deviation."	GAAP's emphasis is on product performance, not on the assumptions used to estimate it. "Best estimate assumption" is an actuarial tool for measuring expected performance and, here and in section 3.3.1, it should be identified as such.
2.3	Remove the parenthetic clause "(to the extent allowable by authoritative GAAP guidance)".	This, together with section 2.6, does not satisfy the requirements of ASU 2018-12. (As worded, net premium would include acquisition costs.) The changing requirements with respect to expenses can be better addressed in section 2.6.
2.4 & 2.5	Insert the word "intangible" before "asset."	Similar to VOBA (paragraph 2.16) these are intangible assets; their descriptions should be consistent.
2.4 & 2.5	Insert the phrase, "that were deferrable" at the end.	GAAP has strict rules on what is and is not deferrable. Though not an actuarial determination, these affect actuarial calculations and should therefore be recognized.

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2.6	Rewrite in a way that satisfies GAAP both before and after the effective date of ASU 2018-12: “GAAP Net Premium—The portion of gross premium that provides for all costs except (a) those that are required to be charged to expense as incurred and (b) after the effective date of ASU 2018-12, policy acquisition costs.” After the effective date of ASU 2018-12, GAAP Net Premium may not exceed 100% of gross premium.	Exception (a) adds clarity but is open enough to allow for changing guidance about what that is. Exception (b) and the constraint are essential to compliance with the ASU.
2.6 and 2.7	Define these premium terms in plural and update the references in section 3.5.2 (unless that sentence is deleted as we recommend later). All other reference to gross and net premiums are already plural. (“Premium deficiency” should remain singular since that is a GAAP term that is defined in aggregate.)	Defining these in singular could be misleading after ASU 2018-12, which relies on grouping of multiple contracts for valuation. This would also be consistent with the definition of the Liability for Future Policy Benefits, which refers to “policyholders” in plural or (as suggested in the next comment) to “contracts” in plural. Defining in plural should not be a problem since the affected balances are presented in aggregate even if they’re calculated seriatim.
2.8	Rewrite to read: “A liability of traditional insurance contracts, measured as the present value of future policy benefits minus the present value of future net premiums.”	Under ASU 2018-12, LFPB is expressed as a present value of future cash flows rather than an accrual of past cash flows. Both expressions were used previously. The change was deliberate, and necessary given the constraint on net premium.
2.9	Rewrite to read: “A requirement to continue using an original basis assumption as set at issue or acquisition or, prior to the effective date of ASU 2018-12, upon redetermination for a premium deficiency. After the effective date of ASU 2018-12, this requirement applies only to certain discount rates and, if the reporting entity has elected, to non-level cost assumptions.”	Though not necessarily incorrect before or after the effective date of ASU 2018-12, the wording of this definition might create some confusion since it does not acknowledge the ASU’s significant changes with respect to lock-in or the unchanged option to lock in an original discount rate for additional liabilities in universal life contracts.
2.12	Remove the reference to “intangible balances related to reinsurance.”	Whether reinsurance is included in the assessment and measurement of premium deficiency (§2.14) is an accounting policy choice. GAAP makes no prescription one way or the other and ASU 2018-12 does not change that. Reinsurance is not relevant in the setting of PADs (§3.5.3) for the underlying reinsured contracts.
2.14	Add a sentence for ASU 2018-12 changes. “After the effective date of ASU 2018-12, DPAC and maintenance costs are excluded from this determination.”	ASU 2018-12 removed DPAC from the scope of premium deficiency, such that net GAAP liability is no longer an appropriate measure within the assessment of premium deficiency. It also removed future maintenance costs from the measurement.
2.15	Delete this section and remove all references to “risk of” adverse deviation from later sections.	GAAP’s requirement (pre-ASU 2018-12) is to include “provision for adverse deviation” in certain estimates. It does not include “risk of” in the stated requirement. Removing all references to “risk of” adverse deviation will help to avoid confusion with situations, such as fair value measurement, where provision for “risk” is required. To the extent provision for adverse deviation is still relevant, there is no need to define it.

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2.16	Insert "or liability" after "asset."	Purchase accounting requires a VOBA liability when the fair value exceeds the reported value of the insurance liability.
3.3 and 3.4 (including sub-sections)	Either • Expand 3.3 to cover all discount rate assumptions and remove 3.4, or • Expand 3.4 to cover all discount rate assumptions and explicitly state that 3.3 doesn't cover discount rates.	The distinction between discount rates and other assumptions here is ambiguous, with both sections applicable to some but not all discount rates.
3.3.1	The first two paragraphs need substantial revision. Perhaps: "<u>Best-Estimate Assumptions</u>—Certain GAAP financial statement items (for example, **liability for future policy benefits**) require assumptions that do not include provision for adverse deviation or for the price of risk. The actuary should choose assumptions to represent management's expectations of future cash flows including the effects of volatility. "Depending on the probability distribution of target cash flows, **best-estimate assumptions** might be represented in a single scenario or in a range of scenarios. For example, death benefits of life insurance contracts depend on mortality which, in large numbers, approximates a normal distribution, such that a single set of expected mortality rates will produce substantially the same expected cash flows as a range of scenarios around mean mortality rates. In contrast, one-sided constraints on non-guaranteed benefits might require a range of scenarios to estimate the amount and timing of such benefits."	"Best estimate assumptions" is an actuarial term, not accounting. GAAP's first and only mention of "best estimate assumptions" (almost 20 years ago in SOP 03-1) is now codified in ASC paragraphs 944-40-30-24 and 30-28, which say <u>not to use</u> "a single set of best-estimate assumptions." This remains the only explicit reference in GAAP to "best estimate assumptions." Rather than doing away with the term, let's define it to recognize the true requirement—a current estimate of the liability including any cost produced by asymmetric distributions but excluding any provision for adverse deviation or price of risk.
3.3.2.4	Shorten and combine the last two sentences so that they read: "When incorporating anticipated experience assumptions, the actuary should include an estimate of how much of a margin, if any, a market participant would require to compensate for uncertainty, based on the same considerations as discussed in sections 3.3.2.1 through 3.3.2.3."	The phrase, "whether including a margin … is appropriate" without an explicit tie to market participant could mislead an actuary in the assessment of what's appropriate. Going straight to a margin that a market participant would use links the decision to the GAAP requirement and would still permit a zero margin if that's what a market participant would use.
3.5 and its subsections	Remove "Risk of" from the term. In the descriptions, remove "risk of" and drop the bold formatting of "adverse deviation."	See comments above for 2.15. (Ok to keep "degree of risk" in 3.5.1(a) and "reduce risk" in 3.5.1(b).)
3.5.2	Remove the entire "For example" sentence.	The wording is ambiguous and too narrow. It seems to emphasize only the relationship between PADs and premium deficiency, which is measured at a different level of aggregation than the setting of product assumptions.
3.10	Remove the second sentence.	Some disclosures are required to be shown on a basis different from the financial statement values. (For example, fair value measurements of certain investment contract liabilities.)
3.12	Remove the first two sentences. Reword the remaining sentence to:	Accountants, not actuaries, are responsible for recognizing premiums in income.

	"Where the recognition of GAAP net premiums is applicable to the measurement of contract assets and liabilities, including intangible balances, that recognition should be consistent with the recognition of gross premiums."	The draft wording fails to mention tangible reinsurance balances. Better to drop the list than to present an incomplete list.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Consider releasing two versions of the standard, applicable before and after the effective date of ASU 2018-12. Or, be more explicit within the standard about before and after the effective date.	Having one ASOP applicable both before and after the effective date of ASU 2018-12 requires wording in several places that is too vague to convey much of significance. In a few places (noted in earlier comments) we see a need for explicit references to the ASU's effective date. Separate versions or more explicit distinctions could add clarity and facilitate a later update, once the ASU is effective for all GAAP reporting.
Add a definition of "Assumption": "A type of explicit input that is derived from data, represents possibilities based on professional judgment, or may be prescribed by law or by others. When derived from data, an assumption may be statistical, financial, economic, mathematical, or scientific in nature, and may be described as a parameter."	Assumptions are critical to measurement of many GAAP balances, as they are to actuarial models generally. Copy the definition from ASOP 56.
Except for sections 1.1 and 1.2, and the opening paragraph of section 2, references to "authoritative GAAP guidance" should be removed.	Everything in this ASOP is subject to authoritative GAAP guidance and making specific reference to that in a select few places could be misleading. If removal of the clause renders any sections meaningless, then consider deleting those sections. If the only direction they provide is to follow authoritative GAAP guidance, then they add no value to the ASOP.

V. Signature:

Commentator Signature	Date
Charles Chacosky	06/30/2022
Steven Malerich	06/30/2022