

## Appendix 2

### Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 10, *U.S. GAAP for Long-Duration Life, Annuity, and Health Products*, was issued in April 2022 with a comment deadline of June 30, 2022. Three 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. 10 Task Force and the Life Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the Life Committee.

Summarized below are the significant issues and questions contained in the comment letters and the 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. 10 Task Force, the ASB Life Committee, and the ASB. Also, the section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the final ASOP.

<b>GENERAL</b>	
Comment	Two commentators suggested having the ASOP apply only to services relating to entities that have adopted ASU 2018-12, and temporarily keeping the existing version of ASOP No. 10 for services relating to entities that have yet to adopt ASU 2018-12.
Response	The reviewers acknowledge that entities are adopting ASU 2018-12 at different times but believe relevant GAAP guidance should be contained in one ASOP, and therefore made no change in response to this comment.
Comment	One commentator suggested removing the proposed expansion of ASOP No. 10 to include the review of financial statements in addition to preparation (or alternatively, providing expended guidance relating to review).
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested adding long-duration property and casualty contracts to the scope of the ASOP.
Response	The reviewers believe the scope is appropriate and made no change.
Comment	One commentator suggested except for sections 1.1 and 1.2, and the opening paragraph of section 2, references to “authoritative GAAP guidance” should be removed.
Response	The reviewers believe that the references to authoritative GAAP guidance are appropriate and made no change in response to this comment.
<b>SECTION 2. DEFINITIONS</b>	
Comment	One commentator suggested a definition of “assumption” be added.
Response	The reviewers disagree and made no change.

<b>Section 2.1, Best-Estimate Assumption</b>	
Comment	One commentator suggested revising section 2.1 as follows: “Best-Estimate Assumption—An assumption that produces a current estimate of expected performance with no provision for adverse deviation.”
Response	The reviewers disagree and made no change in response to this comment.
<b>Section 2.3, Costs</b>	
Comment	One commentator suggested removing the parenthetical clause “(to the extent allowable by authoritative GAAP guidance).”
Response	The reviewers disagree and made no change in response to this comment.
<b>Section 2.4, Deferred Policy Acquisition Cost (DPAC) and 2.5, Deferred Sales Inducements (DSI)</b>	
Comment	One commentator suggested inserting the word “intangible” before “asset” and inserting the phrase, “that were deferrable” at the end.
Response	The reviewers added the word “capitalized” to the definitions in response to this comment.
<b>Section 2.6, GAAP Net Premium</b>	
Comment	One commentator suggested rewriting section 2.6 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.
Response	The reviewers revised the definition in response to this comment.
<b>Sections 2.6, GAAP Net Premium, and 2.7, Gross Premiums</b>	
Comment	One commentator suggested defining these premium terms in plural and updating the references in section 3.5.2 (now section 3.4.2) to conform with other references.
Response	The reviewers agree and made the suggested changes.
<b>Section 2.8, Liability for Future Policy Benefits</b>	
Comment	One commentator suggested revising section 2.8 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.”
Response	The reviewers clarified the language in response to this comment.
<b>Section 2.9, Lock-In</b>	
Comment	One commentator suggested rewriting section 2.9 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.”
Response	The reviewers clarified the definition in response to this comment.
<b>Section 2.12, Net GAAP Liability</b>	
Comment	One commentator suggested removing the reference to “intangible balances related to reinsurance.”
Response	The reviewers agree and made the change.

<b>Section 2.13, Policy Benefit Liability</b>	
Comment	One commentator suggested adding the following language to section 2.13: “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. 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.”
Response	Rather than expanding this definition, the reviewers deleted the reference to financial statement placement.
<b>Section 2.14, Premium Deficiency</b>	
Comment	One commentator suggested adding a sentence for ASU 2018-12 changes to read: “After the effective date of ASU 2018-12, DPAC and maintenance costs are excluded from this determination.”
Response	The reviewers believe the guidance is sufficient as written and made no change.
<b>Section 2.15, Risk of Adverse Deviation</b>	
Comment	One commentator suggested deleting this definition and removing all references to “risk of” adverse deviation from later sections.
Response	The reviewers disagree and made no change.
<b>Section 2.16, Value of Business Acquired (VOBA)</b>	
Comment	One commentator suggested inserting “or liability” after “asset” since purchase accounting may require a VOBA liability in certain situations.
Response	The reviewers substituted “balance” for “asset” to cover liability situations in response to this comment.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
Comment	One commentator suggested deleting the “...company’s operating policies...” term from sections 3.1, 3.2, 3.3.1, and 3.5.1(b), citing concerns that many accounting decisions are made at the product-level.
Response	The reviewers replaced “operating policies” with “accounting policies” in response to this comment.
<b>Section 3.2, Classification of Contracts, Features, and Benefits</b>	
Comment	One commentator suggested deleting the reference to short-duration vs. long-duration classification since this determination is part of accounting policy. Additionally, this commentator suggested including a reference to company accounting policies.
Response	The reviewers modified this section in response to this comment.
<b>Section 3.3.1, Best-Estimate Assumptions</b>	
Comment	One commentator suggested substantial revisions to the guidance on “best estimate assumptions” to include the following: “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 nonguaranteed benefits might require a range of scenarios to estimate the amount and timing of such benefits.”
Response	The reviewers believe that this section adequately addresses the need to consider multiple scenarios in the development of best-estimate assumptions and made no changes in response to this comment.

<b>Section 3.3.2.4, Anticipated Experience</b>	
Comment	One commentator suggested shortening section 3.3.2.4 and combining the last two sentences.
Response	The reviewers modified the language in response to this comment.
<b>Section 3.4, Discount Rate Assumptions</b>	
Comment	One commentator suggested consolidating guidance on discount rates and other assumptions.
Response	The reviewers disagree and made no change.
<b>Section 3.5.2, Relationship to Anticipated Experience</b>	
Comment	Several commentators suggested removing the example because it could be viewed as providing an interpretation of authoritative GAAP guidance.
Response	The reviewers agree and made the change.
<b>Section 3.10, Financial Statement Disclosures</b>	
Comment	One commentator suggested removing the second sentence because it was not applicable in all circumstances.
Response	The reviewers agree and made the change.
<b>Section 3.11, Premium Deficiency Testing</b>	
Comment	One commentator stated that the current draft appears to retain premium deficiency testing wording from the prior version of the ASOP, with room for ambiguity as to whether premium deficiency testing will continue.
Response	While premium deficiency testing will be limited under ASU 2018-12, the existing language was retained because the revised ASOP No. 10 will cover pre- and post-ASU 2018-12 adoption. Authoritative GAAP guidance will determine whether premium deficiency testing must be performed.
<b>Section 3.12, Recognition of Premiums</b>	
Comment	One commentator suggested omitting the list of balances.
Response	The reviewers agree and modified the language in response to this comment.
Comment	Two commentators suggested modifications to this section because premium recognition methodologies are unlikely to be the actuary's responsibility.
Response	The reviewers modified the language in response to these comments.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Required Disclosures in an Actuarial Report</b>	
Comment	One commentator suggested making changes to this section to align with the suggested changes to section 3.2.
Response	The reviewers agree and made changes throughout section 4.1 to align with changes in sections 2 and 3.