ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 10

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

Revised Edition

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

Adopted by the
Actuarial Standards Board
December 2022

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APPENDIXES

December 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: Actuarial Standard of Practice (ASOP) No. 10

This document contains the revision of ASOP No. 10, now titled *U.S. GAAP for Long-Duration Life, Annuity, and Health Products*.

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 risk of 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.

Exposure Draft

The exposure draft was approved in April 2022 with a comment deadline of June 30, 2022. Three comment letters were received and considered in making changes that were reflected in the final ASOP.

Notable Changes from the Exposure Draft

Notable changes made in this final ASOP are summarized below. Additional changes were made to improve readability, clarity, or consistency.

1. Several definitions were revised.

2. Sections 3.1 and 3.2 were revised to require that the actuary be familiar with relevant company accounting policies, rather than operating policies.

3. Section 3.2 was revised to provide guidance when the actuary is contributing to the classification of contracts, features, and benefits.

4. Section 3.9 was revised to cover a range of circumstances.

5. Section 3.12 was modified to better align with the actuary's responsibilities with respect to revenue recognition.

Notable Changes from the Existing ASOP

A cumulative summary of notable changes from the existing standard 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 3.2 was revised to provide guidance when the actuary is contributing to the classification of contracts, features, and benefits.

5. Sections 3.1 and 3.2 were also revised to require that the actuary be familiar with relevant company accounting policies

6. The statement regarding periodically reviewed and updated assumptions versus locked-in assumptions was added 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. Updated examples of classifications were added to section 3.9(b).

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

14. Section 3.12 was modified to better align with the actuary's responsibilities with respect to revenue recognition.

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

16. Guidance on documentation was expanded in section 3.17.

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

The ASB voted in December 2022 to adopt this standard.

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.

STANDARD OF PRACTICE

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 May 1, 2023.

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 capitalized policy acquisition expenses.

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

2.6 GAAP Net Premiums—The portion of **gross premiums** that provides for certain **costs**, as defined by authoritative GAAP guidance.

2.7 Gross Premiums—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, measured as the present value of future policy benefits minus the present value of future **GAAP net premiums**.

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

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 intangible balances, such as **DPAC**, **VOBA**, and **DSI**.

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.

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 balance 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 relevant company accounting 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 classified under GAAP. When contributing to accounting classification, the actuary should take into account all relevant levels of classification (for example, insurance or investment, **market risk**

benefit, embedded derivative), applicable law, authoritative GAAP guidance, and the company's accounting policies.

3.3 Types of Assumptions—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 the assumption includes any provisions for risk or uncertainty are dictated by the particular circumstances and applicable accounting guidance. The actuary should confirm that the proper type of assumption is used.

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

3.3.1 Best-Estimate Assumptions—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 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*.

3.3.2 Market-Estimate Assumptions—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 use **market-estimate assumptions** to determine a value for such items.

3.3.2.1 Direct Observation—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 determine whether a market participant would require a margin to compensate for uncertainty. If so, the actuary should include an estimate of that margin based on the considerations 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 a provision for the **risk of adverse deviation**, the actuary should take into account whether such assumptions bear a reasonable relationship to the anticipated experience.

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 **risk of adverse deviation** in an assumption is not clear, the actuary should attempt to determine the nature of a provision for **risk of adverse deviation** that is appropriate. If the actuary is unable to determine the directional effect, then the actuary need not include a provision for **risk of 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 **risk 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.

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 relevant to the product, line of business, block of business, or cohort for which financial statement values are being calculated. 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'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 **risk of 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—Methods to recognize premiums in income are determined by authoritative GAAP guidance and vary by the type of contract. Where the recognition of **GAAP net premiums** is applicable to the measurement of contract assets and liabilities including intangible balances, the actuary should confirm that the recognition is consistent with the recognition of **gross premiums**.

3.13 Simplifications and Approximations—The actuary may, when appropriate, use assumptions, methods, and models that simplify calculations 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 Nos. 23, 41, and 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 amount, form, and detail 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 within the scope of this standard, the actuary should refer to ASOP Nos. 21, 23, 25, 41, and 56. In addition, the actuary should disclose the following, if applicable:

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

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

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

d. description of the risk adjustment, including the assumptions and methodology used (see section 3.6);

e. any known inconsistencies in the assumptions**,** provisions for **risk of adverse deviation**, or risk adjustment, and why these inconsistencies are appropriate (see section 3.7);

f. description of assumptions selected by another party and any review performed by the actuary (see section 3.8);

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

h. description of the actuary's contributions in preparing financial statement disclosures (see section 3.10);

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

j. description of the actuary's contributions in formulating recognition of premiums (see section 3.12);

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

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

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

n. 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 standard.

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

Appendix 1

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*.

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.

	GENERAL
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.
	SECTION 2. DEFINTIONS
Comment	One commentator suggested a definition of "assumption" be added.
Response	The reviewers disagree and made no change.

Section 2.1, Best-Estimate Assumption	
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.
Section 2.3, Costs	
Comment	One commentator suggested removing the parenthetic clause “(to the extent allowable by authoritative GAAP guidance).”
Response	The reviewers disagree and made no change in response to this comment.
Section 2.4, Deferred Policy Acquisition Cost (DPAC) and 2.5, Deferred Sales Inducements (DSI)	
Comment	One commentor 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.
Section 2.6, GAAP Net Premium	
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.
Sections 2.6, GAAP Net Premium, and 2.7, Gross Premiums	
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.
Section 2.8, Liability for Future Policy Benefits	
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.
Section 2.9, Lock-In	
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.
Section 2.12, Net GAAP Liability	
Comment	One commentator suggested removing the reference to “intangible balances related to reinsurance.”
Response	The reviewers agree and made the change.

Section 2.13, Policy Benefit Liability	
Comment Response	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.” Rather than expanding this definition, the reviewers deleted the reference to financial statement placement.
Section 2.14, Premium Deficiency	
Comment Response	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.” The reviewers believe the guidance is sufficient as written and made no change.
Section 2.15, Risk of Adverse Deviation	
Comment Response	One commentator suggested deleting this definition and removing all references to “risk of” adverse deviation from later sections. The reviewers disagree and made no change.
Section 2.16, Value of Business Acquired (VOBA)	
Comment Response	One commentator suggested inserting “or liability” after “asset” since purchase accounting may require a VOBA liability in certain situations. The reviewers substituted “balance” for “asset” to cover liability situations in response to this comment.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment Response	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. The reviewers replaced “operating policies” with “accounting policies” in response to this comment.
Section 3.2, Classification of Contracts, Features, and Benefits	
Comment Response	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. The reviewers modified this section in response to this comment.
Section 3.3.1, Best-Estimate Assumptions	
Comment Response	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.” 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.

Section 3.3.2.4, Anticipated Experience	
Comment Response	One commentator suggested shortening section 3.3.2.4 and combining the last two sentences. The reviewers modified the language in response to this comment.
Section 3.4, Discount Rate Assumptions	
Comment Response	One commentator suggested consolidating guidance on discount rates and other assumptions. The reviewers disagree and made no change.
Section 3.5.2, Relationship to Anticipated Experience	
Comment Response	Several commentators suggested removing the example because it could be viewed as providing an interpretation of authoritative GAAP guidance. The reviewers agree and made the change.
Section 3.10, Financial Statement Disclosures	
Comment Response	One commentator suggested removing the second sentence because it was not applicable in all circumstances. The reviewers agree and made the change.
Section 3.11, Premium Deficiency Testing	
Comment Response	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. 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.
Section 3.12, Recognition of Premiums	
Comment Response	One commentator suggested omitting the list of balances. The reviewers agree and modified the language in response to this comment.
Comment Response	Two commentators suggested modifications to this section because premium recognition methodologies are unlikely to be the actuary’s responsibility. The reviewers modified the language in response to these comments.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment Response	One commentator suggested making changes to this section to align with the suggested changes to section 3.2. The reviewers agree and made changes throughout section 4.1 to align with changes in sections 2 and 3.