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AMERICAN ACADEMY *of* ACTUARIES

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August 11, 2011

Director Jack Messmore  
Chair, Valuation of Securities (E) Task Force  
Illinois Department of Insurance  
320 W. Washington Street, 4th Floor  
Springfield, Illinois 62767-0001

Re: Reporting Full Faith and Credit and Other U.S. Government Obligations

Dear Director Messmore:

The American Academy of Actuaries Invested Assets Work Group (AIAWG) is a work group of the American Academy of Actuaries<sup>1</sup> Life Capital Adequacy Subcommittee (LCAS). The AIAWG is charged with monitoring and commenting on life insurance industry investment practices with respect to appropriate risk-based capital treatment.

The AIAWG appreciates the opportunity to comment on the Reporting Full Faith and Credit and Other U.S. Government Obligations proposal from Matti Peltonen of the New York State Insurance Department that was made to the Valuation of Securities Task Force (VOSTF) on July 7, 2011.

The AIAWG supports the proposal (absent any modifications to it that may ensue as a result of the recent Standard and Poor's downgrade of US government debt) because we believe that it improves the Life RBC C-1 framework by achieving greater consistency of risk relative to required capital. As noted in our June 10, 2011 "Report of the Invested Assets Work Group regarding the C-1 Framework," we believe that consistent treatment of asset risk is important while still recognizing the tradeoffs of simplicity versus accuracy in achieving consistency of RBC. It is understandable how this inconsistency crept into the reporting and capital framework; we believe the proposal is a good approach for better alignment of the risks of government securities with the capital requirements. The proposed change is limited in scope and improves the reporting consistency for an established asset type. The proposal does not involve a new asset class or the revision of an RBC factor for an existing class of assets.

As stated in our C-1 Framework report, we are concerned with the ongoing practice of making incremental changes to RBC that are not integrated into a broad review of the entire framework as a whole. While the analysis of this specific change for government securities is based on a logical analysis of credit risks, we continue to stress the need for a cohesive, overarching review of the entire C-1 RBC framework. We understand that such a review of the C-1 framework will be started

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<sup>1</sup> The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

by the NAIC in the near future. That said, we believe that it is appropriate to implement the proposed change for year-end 2011 RBC filings.

The AIAWG will continue to follow the activities of VOSTF with a possible impact on RBC. We stand ready to aid in the improvement of investment risk monitoring for the regulatory community.

Sincerely,

David Berger, FSA, MAAA, Co-Chair of the AIAWG  
Jerry Holman, FSA, MAAA, Co-Chair of the AIAWG

Copies:       Matti Peltonen, NYID  
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