AMERICAN ACADEMY *of* ACTUARIES

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June 3, 2016

Mr. Mike Boerner
Chair, Life Actuarial Task Force
National Association of Insurance Commissioners

Re: Exposure of the Amendment Proposal Consolidating the ACLI and Academy Revisions to VM-G

The Subgroup on the Role of the Actuary of the American Academy of Actuaries[1] Life Practice Council is pleased to submit comments on the Amendment Proposal for Consolidating the ACLI and Academy Revisions to VM-G ("Consolidating APF").

As we mentioned in our previous comments, the Academy takes no position on the changes recommended by the ACLI with respect to guidance for the board and senior management in Sections 2 and 3 of VM-G. Thus, our comments are directed entirely toward the changes in Section 1 and Section 4.

Section 1

We are in agreement with the changes to Section 1 in the Consolidating APF, except as follows:

The Combining APF adds an initial paragraph to Section 1 containing the definition of principle-based valuation. To avoid confusion, we added references to the original definition in VM-05 and the identical definition in VM-01.

Both subsection 1.C and subsection 1.D refer to "existing duties" of the board, senior management, the appointed actuary, and qualified actuaries, and state that the purpose of the remaining sections of VM-G is to provide "guidance" in the context of principle-based reserves (but not to expand these existing duties). Because qualified actuaries, apart from the appointed actuary, do not have any "existing duties," at least in the context of VM-20, it is inappropriate to include qualified actuaries in this list. In fact, one of the changes to VM-G contained in the Consolidating APF is the assignment of specifc responsibilities to qualified actuaries. The appointed actuary does have "existing duties," but VM-G does not offer any guidance for the appointed actuary, merely reiterating some of the requirements stated in VM-30. Thus, it is also inappropriate to include appointed actuaries in the "lists" in subsections 1.C and 1.D.

Section 4

The subgroup continues to believe that the original wording that has been in VM-G since the 2012 draft of the Valuation Manual properly describes the responsibilities of qualified actuaries with respect to principle-based valuations. We would prefer that this language be retained, with certain changes that are necessary because Section 4 now embodies requirements instead of just guidance.

The following is the subgroup's proposed Section 4 red-lined against the original (2012) language of Section 4, with our inserted:

[1] The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

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Section 4. ~~GUIDANCE FOR~~**RESPONSIBILITIES OF QUALIFIED ACTUARIES**~~, INCLUDING THE APPOINTED ACTUARY~~

A. A~~.~~ ~~One~~The responsibilities assigned to one or more qualified ~~actuary(ies) is (~~actuaries with respect to a group of policies or contracts under section 1.B are~~) responsible~~:

1. The responsibility for overseeing the calculation of principle-based reserves~~.~~ for that group of policies or contracts;

2. B~~. One or more qualified actuary(ies) is (are) responsible~~The responsibility for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves for that group of policies or contracts, as well as for reviewing and approving the company's documented internal standards for actuarial valuation processes, the company's documented internal controls, and documentation used for such reserves. The qualified ~~actuary(ies) does (do)~~actuaries are not required to review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but ~~does (do)~~are required to confirm that the prescribed assumptions and methods are being used as ~~required.~~prescribed;

Subgroup comment (Paragraph 4.A.2): We inserted the word "documented" prior to "internal standards" because the qualified actuary would not be in a position to review and approve standards that are not documented.

~~C. With regard to principle-based reserves, the qualified actuary(ies) is (are) responsible for providing a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves to assist their understanding of principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.~~

Subgroup comment (Deleted subsection 4.C): This subsection would require the qualified actuary to provide a summary report to the board and senior management regarding the principle-based valuation. We don't object to providing this information, but we are concerned that a special report of this kind would not receive the confidentiality protection that is accorded to other similar valuation reports, such as the PBR Actuarial Report, that contain sensitive information regarding the company's finances. We suggest including these requirements in VM-31, perhaps by making any such report an appendix of the PBR Actuarial Report.

~~D. The appointed actuary is responsible for providing an opinion on the adequacy of company statutory reserves, both those developed using principle-based approaches and those developed using other approaches, as part of his/her annual Statement of Actuarial Opinion.~~

Subgroup comment (Deleted subsection 4.D): This subsection reiterates in abbreviated form the requirements that are detailed in VM-30. We believe that it is preferable to simply refer to VM-30, as our proposal does in (revised) subsection 4.B below.

3. The responsibility for preparing the PBR Actuarial Report with respect to that group of policies or contracts, as described in VM-31; and

Subgroup comment (Paragraph 4.A.3): We added the requirement that the qualified actuary prepare the PBR Actuarial Report, consistent with the requirements of VM-31.

4. ~~E. The qualified actuary(ies) is (are) responsible for cooperating with the company's internal and external auditors and regulators and is (are) responsible for working with the external auditors, regulators, and company senior management to resolve significant issues regarding the company's principle-based reserves. This includes, but is not limited to,~~ The responsibility for disclosing to external auditors and regulators any significant unresolved issues regarding the commpany's principle-based reserves held with respect to that group of policies or contracts.

Subgroup comment (Paragraph 4.A.4): We propose retaining the requirement that the qualified actuary disclose any unresolved issue regarding PBR to external auditors and regulators. We propose not retaining the responsibility stated in the original (2012) version of VM-G to "cooperate with" and "work with" the auditors, regulators, and company senior management. This may have been appropriate as guidance, but is not appropriate as a requirement. For example, would the qualified actuary be out of compliance with the requirement to "cooperate with senior management" if he or she were unable to support a prudent estimate assumption selected by senior management? Moreover, the qualified actuary is already subject to the Academy's Code of Professional Conduct and the actuarial standards of practice (ASOPs), in particular, ASOP No. 21, *Responding to or Assisting Auditors and Examiners in Connection with Financial Statements for All Practice Areas*, which already establishes that an actuary "should be appropriately responsive to the auditor's or examiner's requests" (Section 3.1) and ASOP No. 41, *Actuarial Communications*, which applies to communications with the actuary's principal (the company).

B. A qualified actuary assigned responsibilities under Section 1.B with respect to a group of policies or contracts may be required to make any certification required by the Valuation Manual, but is not required, except as regards any responsibilities he or she may have as the appointed actuary under VM-30, to opine upon or certify the adequacy of the aggregate reserve for that group of policies or contracts, the company's surplus or the company's future financial condition. The appointed actuary is responsible for the actuarial opinion and memorandum as described in VM-30, *Actuarial Opinion and Memorandum Requirements.*

Subgroup comment (Subsection 4.B): This paragraph is new. It arose from our review of VM-21, valuations under which are also subject to VM-G. We noticed that VM-21 provides (Section 4.C.1): "A qualified actuary (referred to throughout these requirements as "the actuary") shall certify that the work performed has been done in a way that substantially complies with all applicable Actuarial Standards of Practice. The scope of this certification does not include an opinion on the adequacy of the Aggregate Reserve, the company's surplus or the company's future financial condition." We believe that this limitation on the scope of the qualified actaury's certification should apply to all certifications of principle-based valuations, including VM-20 certifications and, eventually, VM-22 and other future certifications relating to principle-based valuation. (We note that the Aggregate Reserve mentioned in VM-21 is the equivalent of the minimum reserve for a group of policies in VM-20.)

We have also included below a copy of VM-G with our proposed changes red-lined against the Combining APF version.

Thank you for the opportunity to comment on this APF. We have not responded at this time to the request for comment on the cover page of the Consolidating APF, but we intend to offer a response before the end of the exposure period.

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If you have any questions or would like further dialogue on the above topics, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org.

Sincerely,

Arnold Dicke, MAAA, CERA, FSA
Chairperson
Role of the Actuary Subgroup
American Academy of Actuaries

VM-G APPENDIX G CORPORATE GOVERNANCE GUIDANCE
FOR PRINCIPLE-BASED RESERVES

Table of Contents

Section 1. INTRODUCTION, DEFINITIONS AND SCOPE

The term "principle-based valuation" ~~means~~is defined in Section 1.B.8 of VM-05, *NAIC Standard Valuation Law*, as well as in VM-01 (42), to be a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with Section 12 of the Standard Valuation Law (VM-05) as specified in this Valuation Manual.

A. A principle-based approach to the calculation of reserves places the responsibility for actuarial and financial assumptions with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. This responsibility requires that sufficient measures are established for oversight of the function related to principle-based reserves.

B. In carrying out the responsibility described in subsection A above for each group of policies ~~and~~or contracts subject to Section 12 of VM-05, *NAIC Model Standard Valuation Law*, the company shall assign to one or more qualified actuaries the responsibilities indicated in ~~Sections~~Section 4.A.

C. For the purposes of VM-G:

1. The term "group of insurance companies" means a set of insurance companies in a holding company system (for purposes of applicable insurance holding company system acts) that is designated as a group of insurance companies by the senior management of any holding company that is a holding company of all the insurance companies in such set of insurance companies;

2. The terms "board" and "board of directors" mean (a) the board of an insurance company that has not been designated to be part of a group of insurance companies, or (b) the board of a single company within a group of insurance companies that is designated by the senior management of any holding company of all the insurance companies in such group of insurance companies, or a committee of such board, consisting of members of such board, duly appointed by such board and authorized by such board to perform functions substantially similar to those described in this section; and

3. The term "senior management" includes the highest ranking officers of an insurance company or group of insurance companies with responsibilities for operating results, risk assessment, and financial reporting (e.g., the chief executive officer, chief financial officer, chief actuary, and chief risk officer) and such other senior officers as may be designated by the insurance company or group of insurance companies.

~~C.~~ Sections 2~~, 3~~ and ~~4 below~~3 below, while not expanding the existing legal duties of a company's board of directors~~,~~, or senior management~~ and appointed actuary or qualified actuaries~~, provides guidance on their roles in the context of principle-based reserves.

D While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, Sections 2~~, 3,~~ and ~~4~~3 below describe guidance for the roles of the board of directors~~,~~, and senior management ~~and the appointed actuary and/or other qualified actuaries~~, in light of their existing duties as applied in the context of principle-based reserves. It is not intended to create new duties but rather to emphasize and clarify how their duties apply to the principle-based reserves actuarial valuation function of an insurance company or group of insurance companies. To the extent that any law or regulation conflicts with the guidance described herein, such other law or regulation shall prevail, and the conflicting parts of this section VM-G shall not apply.

Section 2. GUIDANCE FOR THE BOARD

A. Commensurate with the materiality of principle-based reserves in relationship to the overall risks borne by the insurance company, and consistent with its oversight role, the board is responsible for:

1. Overseeing the process undertaken by senior management to identify, and correct where needed, any material weakness in the internal controls of the insurance company or group of insurance companies with respect to a principle-based reserve valuation;

2. Overseeing the infrastructure (consisting of policies, procedures, controls and resources) in place to implement principle-based reserve processes;

3. Receiving and reviewing the reports and certifications referenced in Section 3.A.6;

4. Interacting with senior management to resolve questions and collect additional information as the board requests; and

5. Documenting the review and actions undertaken by the board, relating to the principle-based reserving function, in the minutes of all board meetings where such function is discussed.

Section 3. GUIDANCE FOR SENIOR MANAGEMENT

A. Senior management is responsible for directing the implementation of the principle-based actuarial valuation function. This includes:

1. Ensuring that an adequate infrastructure (consisting of the policies, procedures, controls, and resources) has been established to implement the principle-based reserving function;

2. Reviewing the principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the insurance company or group of insurance companies) that have been put in place, and whether these principle-based reserve elements appear to be consistent with, but not necessarily identical to, those for other company risk assessment processes, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods;

3. Reviewing and addressing any significant and unusual issues and/or findings in light of the results of the principle-based reserve valuation processes and applicable sensitivity tests of the insurance company or group of insurance companies;

4. Ensuring the adoption of internal controls with respect to the principle-based reserve valuations of the insurance company or group of insurance companies that are designed to provide reasonable assurance that all material risks inherent in the liabilities and assets subject to such valuations are included, and that such valuations are made in accordance with the Valuation Manual and regulatory requirements and actuarial standards. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and for communicating the results of that evaluation to the board of directors;

5. Determining that:

   a. Resources are adequate to carry out the modeling function with skill and competence;

   b. A process exists that ensures that models and procedures produce the intended results relative to the principle-based valuation objectives as outlined in Section 12.A of the Standard Valuation Law;

   c. A process exists that validates data for determination of model input assumptions, other than input assumptions that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves;

   d. A process exists that is appropriately designed to ensure that model input is appropriate given the experience of the insurance company or group of insurance companies, other than model inputs that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves;

e. A process exists that reviews principle-based reserve valuations to find and limit material errors and material weaknesses (such process (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist, and (b) to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes); and

f. A review procedure and basis for reliance on principle-based reserve valuation processes has been established that includes consideration of reporting on the adequacy of principle-based reserves, the implementation of policies, reporting and internal controls, and the work of the appointed actuary.

6. Facilitating the board's oversight role by reporting to the board, no less frequently than annually, regarding such matters as:

a. The infrastructure (consisting of the policies, procedures, controls, resources) that senior management has established to support the principle-based reserves actuarial valuation function;

b. The critical risk elements of the valuation as applicable, related to the assumptions, methods, and models; and their relationship to those for other risk assessment processes, noting differences in financial reporting structures and any prescribed assumptions or methods;

c. The level of knowledge and experience of senior management personnel responsible for monitoring, controlling and auditing principle-based reserves; and

d. Reports related to governance of principle-based reserves, including: (a) the certification of the effectiveness of internal controls with respect to the principle-based valuation, as provided in section 12.B.(2) of the Standard Valuation Law; and (b) the certification from a duly authorized investment officer that the modeled asset investment strategy is consistent with the company's current investment strategy and the actuarial certification regarding the modeling of clearly defined hedging strategies, as provided in section 3.E.(13) of VM-31.

Section 4. ~~GUIDANCE FOR~~RESPONSIBILITIES OF QUALIFIED ACTUARIES~~, INCLUDING THE APPOINTED ACTUARY~~

A. ~~A. One~~The responsibilities assigned to one or more qualified ~~actuary(ies) is (~~actuaries with respect to a group of policies or contracts under section 1.B are~~) responsible~~ :

1. The responsibility for overseeing the calculation of principle-based reserves for ~~the groups of policies and contracts assigned by the company (see Section 1.B.) For each group of policies or contracts so assigned, this responsibility also includes:~~that group of policies orcontracts;

2. ~~Reviewing~~The responsibility for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves~~, The qualified actuary is~~ for that group of policies or contracts, as well as for reviewing and approving the company's documented internal standards for actuarial valuation processes, the company's documented internal controls, and documentation used for such reserves. The qualified actuaries are not required to review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but ~~is~~are required to confirm that the prescribed assumptions and methods are being used as ~~required~~prescribed;

~~Alternate language: Verifying that the assumptions, methods, and models that are used in determining principle-based reserves meet the requirements of this valuation manual, and for ensuring that the models and procedures produce the intended results relative to the principle-based valuation objectives as outlined in Section 12.A of the Standard Valuation Law. The qualified actuary(ies) does (do) not review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but does confirm that the prescribed assumptions and methods are being used as required.~~

~~1. Reviewing and approving the company's documented internal standards for actuarial valuation processes, the company's documented internal controls, and documentation used for such reserves.~~

3. ~~Providing a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves, the principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings;~~

~~4.4. Preparing the PBR Actuarial Report as described in VM-31; and~~

~~5. Working with the company's internal and external auditors, regulators, and company senior management to resolve significant issues regarding the company's principle-based reserves. This includes, but is not limited to, disclosing to such internal and~~

3. The responsibility for preparing the PBR Actuarial Report with respect to that group of policies or contracts, as described in VM-31; and

~~3.~~4. The responsibility for disclosing to the company's external auditors and regulators any significant unresolved issues regarding the company's principle-based reserves held with respect to that group of policies or contracts.

B. A qualified actuary assigned responsibilities under Section 1.B with respect to a group of policies or contracts may be required to make any certification required by the Valuation Manual, but is not required, except as regards any responsibilities he or she may have as the appointed actuary under VM-30, to opine upon or certify the adequacy of the aggregate reserve for that group of policies or contracts, the company's surplus or the company's future financial condition. The appointed actuary is responsible for the actuarial opinion and memorandum as described in VM-30, *Actuarial Opinion and Memorandum Requirements.*

The following is the Academy's proposed Section 4 red-lined against the original (2012) language of Section 4:

Section 4. ~~GUIDANCE FOR~~**RESPONSIBILITIES OF QUALIFIED ACTUARIES**~~, INCLUDING THE APPOINTED ACTUARY~~

C. ~~A. One~~The responsibilities assigned to one or more qualified ~~actuary(ies) is (~~actuaries with respect to a group of policies or contracts under section 1.B are~~) responsible~~:

~~3.~~1. The responsibility for overseeing the calculation of principle-based reserves~~.~~ for that group of policies or contracts;

~~4.~~2. ~~B. One or more qualified actuary(ies) is (are) responsible~~The responsibility for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves for that group of policies or contracts, as well as for reviewing and approving the company's documented internal standards for actuarial valuation processes, the company's documented internal controls, and documentation used for such reserves. The qualified ~~actuary(ies) does (do)~~actuaries are not required to review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but ~~does (do)~~are required to confirm that the prescribed assumptions and methods are being used as ~~required.~~prescribed;

~~C. With regard to principle-based reserves, the qualified actuary(ies) is (are) responsible for providing a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves to assist their understanding of principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.~~

~~D. The appointed actuary is responsible for providing an opinion on the adequacy of company statutory reserves, both those developed using principle-based approaches and those developed using other approaches, as part of his/her annual Statement of Actuarial Opinion.~~

3. ~~E. The qualified actuary(ies) is (are) responsible for cooperating with the company's internal and external auditors and regulators and is (are) responsible for working with the external auditors, regulators, and company senior management to resolve significant issues regarding the company's principle-based reserves. This includes, but is not limited to, disclosing to such~~The responsibility for preparing the PBR Actuarial Report with respect to that group of policies or contracts, as described in VM-31; and

~~5.~~4. The responsibility for disclosing to the company's external auditors and regulators any significant unresolved issues regarding the company's principle-based reserves held with respect to that group of policies or contracts.

D. A qualified actuary assigned responsibilities under Section 1.B with respect to a group of policies or contracts may be required to make any certification required by the Valuation Manual, but is not required, except as regards any responsibilities he or she may have as the appointed actuary under VM-30, to opine upon or certify the adequacy of the aggregate reserve for that group of policies or contracts, the company's surplus or the company's future financial condition. The appointed actuary is responsible for the actuarial opinion and memorandum as described in VM-30, *Actuarial Opinion and Memorandum Requirements.*

Proposed Amendments to VM-20:

Change to the guidance note in subparagraph 7.G.2.b:

b. The company shall map each of the proxy funds defined in Sections 7.J and 7.K to the prescribed fund returns defined in Section 7.G.2.a. This mapping process may involve blending the accumulation factors from two or more of the prescribed fixed income and/or equity returns to create the projected returns for each proxy fund. If a proxy fund cannot be appropriately mapped to some combination of the prescribed returns, the company shall determine an appropriate return and disclose the rationale for determining such return.

Guidance Note: Mapping of the returns on the proxy funds to the prescribed funds returns is left to the judgment of the qualified actuary to whom responsibility for this group of policies is assigned, but the returns so generated must be consistent with the prescribed returns. This does not imply a strict functional relationship between the model parameters for various markets/funds, but it would generally be inappropriate to assume that a market or fund consistently "outperforms" (lower risk, higher expected return relative to the efficient frontier) over the long term.

Change paragraph 9.A.6:

6. The company shall use its own experience, if relevant and credible, to establish an anticipated experience assumption for any risk factor. To the extent that company experience is not available or credible, the company may use industry experience or other data to establish the anticipated experience assumption, making modifications as needed to reflect the circumstances of the company.

a. For risk factors (such as mortality) to which statistical credibility theory may be appropriately applied, the company shall establish anticipated experience assumptions for the risk factor by combining relevant company experience with industry experience data, tables, or other applicable data in a manner that is consistent with credibility theory and accepted actuarial practice.

b. For risk factors (such as premium patterns on flexible premium contracts) that do not lend themselves to the use of statistical credibility theory, and for risk factors (such as the current situation with some lapse assumptions) to which statistical credibility theory can be appropriately applied but cannot currently be applied due to lack of industry data, the company shall establish anticipated experience assumptions in a manner that is consistent with accepted actuarial practice and that reflects any available relevant company experience, any available relevant industry experience, or any other experience data that are available and relevant. Such techniques include:

i. Adopting standard assumptions published by professional, industry or regulatory organizations to the extent they reflect any available relevant company experience or reasonable expectations;

ii. Applying factors to relevant industry experience tables or other relevant data to reflect any available relevant company experience and differences in expected experience from that underlying the base tables or data due to differences between the risk characteristics of the company experience and the risk characteristics of the experience underlying the base tables or data;

iii. Blending any available relevant company experience with any available relevant industry experience and/or other applicable data using weightings established in a manner that is consistent with accepted actuarial practice and that reflects the risk characteristics of the underlying policies and/or company practices.

c. For risk factors that have limited or no experience or other applicable data to draw upon, the assumptions shall be established using sound actuarial judgment and the most relevant data available, if such data exists.

d. For any assumption that is set in accordance with the requirements of Section 9.A.6.c, the qualified actuary to whom responsibility for this group of policies is assigned shall use sensitivity testing and disclose the analysis performed to ensure that the assumption is set at the conservative end of the plausible range.

The qualified actuary to whom responsibility for this group of policies is assigned shall annually review relevant emerging experience for the purpose of assessing the appropriateness of the anticipated experience assumption. If the results of statistical or other testing indicate that previously anticipated experience for a given factor is inadequate, then the qualified actuary shall set a new, adequate, anticipated experience assumption for the factor.

Change paragraph 9.G.2:

G. Revenue Sharing Assumptions

1. The company may include income from projected future revenue sharing (as defined in these requirements equals gross revenue sharing income (GRSI)) net of applicable projected expenses (net revenue sharing income) in cash flow projections, if:

a. The GRSI is received by the company;

b. A signed contractual agreement or agreements are in place as of the valuation date and support the current payment of the GRSI; and

c. The GRSI is not already accounted for directly or indirectly as a company asset.

2. For purposes of this section, GRSI is considered to be received by the company if it is paid directly to the company through a contractual agreement with either the entity providing the GRSI or an affiliated company that receives the GRSI. GRSI would also be considered to be received if it is paid to a subsidiary that is owned by the company and if 100% of the statutory income from that subsidiary is reported as statutory income of the company. In this case the company shall assess the likelihood that future GRSI is reduced due to the reported statutory income of the subsidiary being less than future GRSI received.

Change to paragraph 9.G.7:

7. The qualified actuary to whom responsibility for this group of policies is assigned is responsible for reviewing the revenue sharing agreements that apply to that group of policies, verifying compliance with these requirements, and documenting the rationale for any source of GRSI used in the projections for that group of policies.

Change to paragraph 9.G.8:

8. The amount of net revenue sharing income assumed in a given scenario shall not exceed the sum of (a) and (b), where:

a. Is the contractually guaranteed GRSI, net of applicable expenses, projected under the scenario; and

b. Is the company's estimate of non-contractually guaranteed net revenue sharing income multiplied by the following factors:

i. 1.0 in the first projection year;

ii. 0.9 in the second projection year;

iii. 0.8 in the third projection year;

iv. 0.7 in the fourth projection year;

v. 0.6 in the fifth projection year;

vi. 0.5 in the sixth and all subsequent projection years. The resulting amount of non-contractually guaranteed net revenue sharing income after application of this factor shall not exceed 0.25% per year on separate account assets in the sixth and all subsequent projection years.