

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 36

Comment Deadline: September 30, 2022

Instructions: Please review the exposure draft and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase ‘ASB COMMENTS’ in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Derek Freihaut, MAAA, FCAS American Academy of Actuaries, on behalf of the Committee on Property and Liability Financial Reporting

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

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	We suggest including premium deficiency reserves in the list of other reserves that may be included in the paragraph after the list of circumstances. “‘Other reserves’ include such items as retrospective reinsurance premium reserves, unearned premium reserves for property/casualty long duration contracts, unearned premium reserves for extended reporting endorsements, <u>premium deficiency reserves</u> or other reserve items for which the actuary is providing a statement of actuarial opinion.”	Adding this phrase would clarify that any opinion on premium deficiency reserves would be covered by this ASOP.
1.2	We have significant concerns that scope includes “ reviewing a statement of actuarial opinion” (emphasis added). We recommend that “reviewing” be specifically defined and that the application of this ASOP for a reviewing actuary be more clearly defined.	We have concerns about the application of the standard to actuaries that may review an actuarial opinion, including regulators, auditors, and peer reviewers. It is unclear how the standard would be applied to a reviewer of an actuarial opinion.

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1.2	<p>“If the actuary determines that the guidance in this standard conflicts with an applicable standard in another practice area, that ASOP governs.”</p>	<p>This statement could use further clarity. It would seem that it is possible that this standard should govern in some cases.</p> <p>If the ASOP were silent on this, ASOP No. 1 would apply, which requires the actuary to use their professional judgment to determine which ASOP governs.</p>
2.2	<p>We recommend revising the definition of “counterparty”:</p> <p>“Counterparty—Another entity involved in a financial transaction <u>that has a financial interest in the transaction</u> including, but not limited to, a ceding entity, an assuming entity, <u>or</u> an insured, or a service provider.”</p>	<p>The term “counterparty” is only used in a couple of locations in the ASOP and is always in reference to the collectability of recoverable amounts. It is unclear why it is necessary to include service providers that have no financial interest in the transaction.</p>
2.11	<p>The “review date” definition should include the situation where the review date and the valuation date are the same.</p> <p>“Review Date—The date (<u>on or</u> after the valuation date) through which material information known to the actuary is included in forming the statement of actuarial opinion.”</p>	<p>It is possible for the opining actuary to receive all of the information for review on the date of the evaluation.</p>
Old 3.1	<p>Section 3.1 (shown below) was removed from the ASOP with no discussion. We recommend that it <u>not</u> be deleted.</p> <p>“3.1 LEGAL AND REGULATORY REQUIREMENTS When an actuary prepares a statement of actuarial opinion to satisfy the requirements of law or regulation, the actuary should have the necessary knowledge to comply with the specific requirements of that law or regulation. The actuary should be satisfied that the statement of actuarial opinion is consistent with relevant requirements of applicable laws and regulations.”</p>	<p>We have a concern with removing the requirement for an actuary to understand the legal requirements when issuing an actuarial opinion. This does not appear to be covered in any other relevant ASOP for an actuarial opinion.</p>
3.10	<p>We recommend changing the language in the second paragraph to be more clear.</p> <p>“The actuary should find that a risk of material adverse deviation exists when the <u>difference between the high end of the actuary’s range of reasonable estimates and the recorded reserves is greater than the materiality standard.</u>” sum of the materiality standard and the loss and loss adjustment expense reserves is within the actuary’s range of reasonable estimates.</p>	<p>It is our understanding the current language comes from the NAIC. However, the current language is often misunderstood, and we believe the proposed language is easier for users to understand.</p>
2.7 and 3.10	<p>The “materiality standard” definition and the RMAD discussion are written specially for “loss and loss adjustment expense reserves” Both of these sections should reflect that the standard also covers “other</p>	<p>Based on the current language in the proposed ASOP, the definition of materiality and the RMAD do not apply to “other reserves,” such as a premium reserve for a long duration contract.</p>

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	reserves.”	
4.2[d] and 4.3[b]	In 4.2[d], the stated basis of the reserves is a required disclosure. However, in 4.3[b], the assumed basis of the reserves if the stated basis cannot be determined is an additional disclosure. 4.2[d] should be updated to read the stated basis of the reserves <i>or</i> the assumed basis of the reserves if the stated basis cannot be determined. In other words, 4.3[b] should be added to 4.2[d] with an “or” between them, as you won’t be able to disclose the required stated basis of the reserves if you are unable to determine it.	Combining these adds clarity.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Several definitions were removed with no explanation. Specifically, the term “unpaid claim estimate” has been removed from the document. The definition for “event” has also been removed despite being used several times throughout the standard.	It is our understanding that all definitions reside in a separate document on the ASB website. As this document isn’t well known to actuaries, we are unclear on what criteria are used to determine when definitions are specifically included or excluded from an ASOP.

V. Signature:

Commentator Signature	Date
Derek Freihaut, MAAA, FCAS	September 29, 2022