4.2 GAAP with adjustments

Q33

Q33 Section 4.2.5 The AOCI adjustment is proposed to only apply to unrealised gains and losses related to debt securities backing long-term liabilities where it is more likely than not that the unrealised gains and losses would not be realised. Is this an appropriate way to segregate non-economic volatility from the fair value measurement of investments in debt securities? If “no”, what alternative would you propose, and why?

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	We understand the AOCI adjustment is trying to achieve a similar conceptual objective as the one which is targeted by the adjustments to the basic yield curve under the MAV approach. However, such objective is pursued in a different manner, starting from the assumption that Insurance Liabilities should continue to be valued using average historical asset return rates, and artificially changing the value of assets in the balance sheet back to an amortized cost valuation. For this reason, while we can agree with the objective which underlies the AOCI adjustment (mitigation of excessive volatility of Capital Resources), we believe the overall approach is not suitable for a risk-based ICS. We believe the reflection of this is clear when observing the knock-on implications of such approach in the calculation of the ICS capital charges. It is not acceptable that the measurement of important risks, such as Interest Rate Risk, is materially affected (reduced) by the introduction of an AOCI adjustment. Another point against the introduction of the proposed AOCI adjustment is the fact that it will lead to different solutions being implemented in different jurisdictional GAAP+ approaches,

					therefore making comparability (one key objective of the ICS) very difficult to achieve. We believe the adjustment should be introduced in the discount rates used to value insurance liabilities, maintaining to the extent possible the link to market values on both sides of the balance sheet. This would facilitate convergence with MAV as well as among the different jurisdictional versions of GAAP+.
BaFin	Germany	IAIS Member	No	No	In the context of a supervisory regime the concept of an AOCI is questionable because of the direct impact to the capital. An alternative concept would be to adjust the yield curve.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	
Ping An Insurance (Group) Company of China Ltd.	China	Other	No	No	Not applicable for China for this section.
AIA Group	Hong Kong	Other	No	No	We believe that the solution used in Hong Kong should be applicable to US GAAP as well, i.e. the discount rates in the gross premium reserve loss recognition test should be adjusted so that they are based on rates consistent with the asset values reported on the balance sheet. These gross premium reserves are actually envisioned under US GAAP for “shadow loss recognition testing”.
International Actuarial Association	International	Other	No	No	As we understand it, for GAAP+, the goal is to put both assets and liabilities on a comparable basis, easily built from audited statements. This method would allow for both locked in amortized cost bases and/or realistic investment earnings and assumptions to be used. The use of an AOCI adjustment means that market changes in credit spreads do not directly

					affect the results. Under GAAP+ asset values are adjusted from GAAP by removing the AOCI mark-to-market adjustment from the balance sheet. That is a move towards amortized cost valuation. Under GAAP+ the liabilities are then discounted at the rate used in GAAP loss recognition. For assets currently on the books this is the book yield on the assets (less basis points for expected expenses and defaults), not the current market rate of interest. The result is a liability valuation that is not an estimate of market value – it is connected with the book yield on assets and can therefore be characterized as an amortized cost valuation. The GAAP+ approach based on loss recognition provides a liability value that is smaller than US GAAP because there is no margin in GAAP+ while US GAAP often includes provisions for adverse deviations. There is no top-down spread in the discount rate because in GAAP loss recognition there are no margins (as you are using your actual asset yields on a best estimate basis). Therefore it is important to add a MOCE for market, credit and insurance risk to the liability in a GAAP+ approach. This contrasts with the IAIS MAV approaches where the market and credit risk MOCE may already be implicitly provided by disallowing some of the spread in the discount rate. If GAAP+ includes a reasonable MOCE, then the resulting measurement of company net worth or surplus should be about the same magnitude as the measurement under the MAV approach. But both the asset and liability numbers will differ because one is on a current market value basis and the other is on amortized cost. Within each approach the assets and liabilities are valued consistently. However, the following caveats may need to be addressed outside of the ICS valuation basis. They include: 1. The assumption that the assets and liabilities are duration matched. The degree of duration (and/or convexity) mismatch should be able to be found/addressed in the ORSA documents to see if this is a material issue: if a mismatch is identified its impact on the appropriateness of the ICS requirement may need to be assessed. 2. Duration matching may have three competing objectives. The ORSA or some other reporting mechanism should be able to identify and document the relative priority given to weighting statutory vs. economic vs. reported earnings surplus.

					3. The ability to assess the risk/exposure to options and guarantees embedded in the insurance contracts.
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	・This approach does not ensure stability and fairness of AOCI adjustment. ・Should approve all adjustments that would reduce non-economic volatility.
The Life Insurance Association of Japan	Japan	Other	No	No	・In the case of evaluating unrealised gains and losses under the more likely than not criteria, we are concerned that the reasonable and stable measurement of realizability of the unrealised gains and losses would become difficult, and the practical burden on insurers would increase (for example, additional evaluation of each securities may be needed).
Aegon NV	The Netherlands	Other	No	No	Aegon supports the use of an AOCI adjustment on debt securities. In order to avoid creating situations where hedging increases volatility, we would support expanding the adjustment to include hedges used to manage risks on the relevant business lines. We do note, however, that hedge accounting rules in general are too stringent to capture an insurance company's ALM needs.
American International Group (AIG)	U.S.	Other	No	No	The appropriateness of the approach would depend on the treatment of liabilities, as misalignments of assets and liabilities could potentially introduce noise within the capital framework and encourage unwarranted capital arbitrage. AIG believes that the IAIS should develop and test an own assets approach, building on certain key elements of the current Option 2/Ref 3 and GAAP+ approaches. We believe the IAIS efforts should focus on the development of a single, viable valuation standard, rather than on seeking to achieve a comparable relative calibration of the MAV and GAAP+, which individually are sub-optimal approaches.
American Council of Life Insurers	United States	Other	No	Yes	ACLI supports the use of an AOCI adjustment, although we believe the approach can be

					improved. Specifically, the AOCI on qualifying hedges on debt securities should be included in the AOCI adjustment calculation. The current process identifies the AOCI on the debt securities, but does not consider the AOCI on foreign currency swaps or interest rate swaps hedging the debt security.]
MetLife	United States	Other	No	No	We believe the approach could be improved. Specifically, the AOCI on qualifying hedges on debt securities should be included in the AOCI adjustment calculation. The current process identifies the AOCI on the debt securities, but does not consider the AOCI on foreign currency swaps or interest rate swaps hedging the debt security.
American Academy of Actuaries	United States of America	Other	No	No	The accumulated other comprehensive income (AOCI) adjustment as currently defined will capture a significant portion of non-economic volatility given the high proportion of bonds in insurers' invested asset portfolios. However, there are other components of AOCI that, similar to unrealized gains/losses on available for sale (AFS) bonds, contribute non-economic volatility to GAAP equity. In general, unrealized gains/losses are non-economic—the "economic" impact occurs when the gain/loss is realized (i.e., when the asset is sold). As such, a simple and transparent approach would be to exclude all AOCI in the GAAP Plus basis and leverage other supervisory tools such as stress testing, liquidity risk management standards, Own Risk and Solvency Assessments (ORSA), and other tools to provide transparency into asset-liability management and any timing and/or liquidity mismatches on the insurer's balance sheet.
Prudential Financial, Inc.	United States of America	Other	No	No	The AOCI adjustment as currently defined will capture a significant portion of non-economic volatility given the high proportion of bonds in insurers' invested asset portfolios. However, there are other components of AOCI which, similar to unrealized gains/losses on AFS bonds, contribute non-economic volatility to GAAP equity. For instance, insurers often invest in equities to support "tail" liability cash flows beyond the hedgeable space (beyond the last liquid, observable point on the yield curve) and roll these investments into bonds as the cash flows move into the hedgeable space. As such, the unrealized gains/losses on equity investments are a form of non-economic volatility on the balance sheet. In general, unrealized gains/losses are non-economic – the "economic" impact occurs when the

					gain/loss is realized, i.e., when the asset is sold. As such, we believe a simple and transparent approach would be to exclude all AOCI in the GAAP Plus basis and leverage other supervisory tools such as stress testing, liquidity risk management standards, ORSA and other tools to provide transparency into asset-liability management and any timing and/or liquidity mismatches on the insurer's balance sheet. In addition a full exclusion of AOCI from the balance sheet would facilitate better measurement of risk under the Standard Method stresses.
MassMutual Financial Group	USA	Other	No	Yes	

Q34

Q34 Section 4.2.5 Are there any refinements that should be made to identify assets backing long-term liabilities for purposes of the AOCI adjustment? For example, would a bucketing approach similar to that proposed for assets under MAV discounting option 3 (based on liquidity characteristics of the liabilities) be an appropriate way to identify assets backing long-term liabilities? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	We support convergence between the technical solutions implemented in GAAP+ and MAV, for the sake of comparison of the valuation of assets, liabilities and capital resources, as well as the quantification of capital requirements. The current definition of assets backing long term liabilities is too broad and likely to overestimate the impact of the adjustment, given that not all life and health liabilities are necessarily long term in nature.
BaFin	Germany	IAIS Member	No	Yes	
Aegon NV	The Netherlands	Other	No	No	Aegon believes that the AOCI adjustment should be applied to assets backing all liabilities, not just long-term liabilities. We believe that a more relevant way to supervise an insurer's exposure to timing and liquidity mismatches is through liquidity standards, reporting, ORSA, and liquidity testing. As such, a full AOCI adjustment is a reasonable approach to avoid non-economic volatility in the GAAP with Adjustments approach.
American Council of Life Insurers	United States	Other	No	Yes	Yes, there are refinements that should be made. This proposal could identify the AOCI on assets backing long-term liabilities; however, reductions to this AOCI balance would need to be taken into consideration for instruments where the unrealized is more likely than not expected to be realized. This would include callable bonds and RMBS expected to be prepaid. In addition, an

					adjustment for the AOCI from qualifying hedges on the assets backing long-term liabilities would be necessary. Non-fixed income investment elements of AOCI should also be excluded as these contribute non-economic noise in the measurement of available capital. Regarding AOCI on equity securities – equity securities typically make up a small percentage of a U.S. life insurer's portfolio and are generally used to back liabilities that extend beyond the investible horizon. Insurers transition to a fixed income investment as the liability becomes investible and given the long term nature of the liability are unlikely to be in a position where the equity investments need to be abruptly liquidated. [Note: The consultation tool did not let us enter our text to Question 33. Please find below our answers to question 33] [**Explanatory Answer to Q. 33**: ACLI supports the use of an AOCI adjustment, although we believe the approach can be improved. Specifically, the AOCI on qualifying hedges on debt securities should be included in the AOCI adjustment calculation. The current process identifies the AOCI on the debt securities, but does not consider the AOCI on foreign currency swaps or interest rate swaps hedging the debt security.]
MetLife	United States	Other	No	Yes	This proposal could be improved by identifying the AOCI on assets backing long-term liabilities, however, reductions to this AOCI balance would need to be taken into consideration for instruments where the unrealized is more likely than not expected to be realized. This would include callable bonds and RMBS expected to be prepaid. In addition, an adjustment for the AOCI from qualifying hedges on the assets backing long-term liabilities would be necessary.
American Academy of Actuaries	United States of America	Other	No	No	It is unclear what "long term" means for purposes of the AOCI adjustment. Assets backing insurance liabilities, as well as assets backing surplus, are held to support risks to which insurers are exposed. These include both long-term slow-bleed risks and "shorter-term" event-based risks (for which liability cash flows nevertheless extend over longer time horizons than those associated with short-term risks in the banking context). We note that virtually all insurance liabilities have longer durations and lower liquidity than banking liabilities. Even "short-duration"

					insurance liabilities have cash flows that can extend months or years. We caution against developing an AOCI adjustment that is overly complex and potentially prone to false precision. A more risk-sensitive approach to capture an insurer's exposure to timing and liquidity mismatches on the balance sheet is through reporting (e.g., on ALM practice, duration, and cash flow management, etc.) and liquidity stress testing. We recognize that such measures are outside the scope of the ICS; however, it is important that the ICS provide a comparable, transparent, and meaningful capital measure, and not attempt to become a "silver bullet" to address any/all supervisory concerns, such as those better served through appropriate liquidity risk management standards. Indeed, the ICS cannot and should not be laden with elements that will be addressed in more robust ways through other aspects of ComFrame. As such, a simple full AOCI adjustment is a reasonable approach to address non-economic volatility in the GAAP with Adjustments basis. We recommend that stress testing, reporting, ORSA, and liquidity standards be recognized as more appropriate and useful ways to address supervisory objectives pertaining to ALM and liquidity.
Prudential Financial, Inc.	United States of America	Other	No	No	The ICS should allow for all AOCI to be included in the AOCI adjustment, not just the portion related to fixed income securities. Non-fixed income investment elements of AOCI also contribute non-economic noise to the measurement of available capital and further insurers utilize different asset classes to perform their asset and liability management for long-term liabilities. Regarding AOCI on equity securities – equity securities typically make up a small percentage of U.S. life insurer's portfolio and are generally used to back liabilities that extend beyond the investible horizon. Insurers transition to a fixed income investment as the liability becomes investible and given the long term nature of the liability are unlikely to be in a position where the equity investments need to be abruptly liquidated. Prudential does not support the use of a bucketing approach for MAV valuation purposes and does not believe it would improve the AOCI adjustment. Our response to question 25 includes additional views on the use of a bucketing approach. There are several other refinements needed to the AOCI adjustment. It is not fully clear what

					"long term" means for purposes of the AOCI adjustment. Assets backing insurance liabilities as well as assets backing surplus are held to support risks to which insurers are exposed, which include both long term slow bleed risks and "shorter term" event-based risks (for which liability cash flows nevertheless extend over longer time horizons than those associated with short term risks in the banking context). We note that insurance liabilities generally have significantly longer durations and lower liquidity than banking liabilities. Even "short duration" insurance liabilities have cash flows that can extend months or even years. We caution against developing an AOCI adjustment that is overly complex and potentially prone to false precision. A more risk sensitive approach to capture an insurer's exposure to timing and liquidity mismatches on the balance sheet is through reporting (for instance on ALM practice, duration and cash flow management, etc.) and liquidity stress testing. We recognize that such measures are outside the scope of the ICS; however, it is important that the ICS provide a comparable, transparent, and meaningful capital measure, and not attempt to become a "silver bullet" to address any/all supervisory concerns, such as those better served through appropriate liquidity risk management standards. Indeed, the ICS cannot and should not be laden with elements which will be addressed in more robust ways through other aspects of ComFrame. As such, a simple full AOCI adjustment is a reasonable approach to address non-economic volatility in the GAAP with Adjustments basis. We recommend that stress testing, reporting, ORSA, and liquidity standards be recognized as more appropriate and useful ways to address supervisory objectives pertaining to ALM and liquidity.
MassMutual Financial Group	USA	Other	No	No	We support the AOCI adjustment related to debt securities backing long term liabilities. Our general investment strategy is ´buy and hold´, with an approach of holding securities until they mature. Such is likely characteristic of the asset liability matching strategy of many life insurers. To that point, reflecting volatility driven by the price of an asset, for which there is no intention of selling, does not accurately reflect the economics of the balance sheet. We do not support the bucketing approach for MAV discounting and would not suggest a similar approach here. The criteria for including an adjustment only when "it is more likely than not that the unrealized gains and losses would not be realized" should be sufficient to accomplish the intended goal.

Q35

Q35 Section 4.2.5 Is the “more likely than not” criterion to exclude certain unrealised gain/losses an appropriate element of the AOCI adjustment calculation? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	Our understanding is that the criteria would rely on existing accounting interpretations, which may not be convergent across jurisdictions. That could significantly impair comparability of ICS results across IAIGs and jurisdictions.
BaFin	Germany	IAIS Member	No	No	The “more likely than not” criterion is a vague legal concept that could leave room for interpretation and to different applications amongst firms.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	It could be possible to exclude certain unrealised gain/losses an appropriate element of the AOCI adjustment calculation but it depends on the data which were used to calculate unrealised gain/losses and as well as the type of debts securities.
International Actuarial Association	International	Other	No	No	The question of whether the gains will or will not be realized seems not to be a good indicator for the application of the adjustment. The basic economic issue is more whether the assets concerned would change in value if brought back to an amortized basis consistent with the liabilities, and if so, what amounts of the assets need to be adjusted. It may be necessary to solve for an amount of assets which, if brought back to the consistent basis, would cover the relevant liabilities.

Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	Please refer to the answer for Q33.
The Life Insurance Association of Japan	Japan	Other	No	No	・Please refer to the comment(s) on Question 33.
Aegon NV	The Netherlands	Other	No	No	Aegon supports the broad use of an AOCI adjustment for all liabilities in order to create a consistent accounting basis between assets and liabilities. We therefore do not support the "more likely than not" criterion.
American Council of Life Insurers	United States	Other	No	Yes	ACLI believes the "more likely than not" criterion is appropriate with the following reservations/amendments to the proposed approach: In determining the amount of AOCI that is included in the GAAP Plus AOCI Adjustment there is a requirement to exclude those assets that are backing non-life insurance liabilities. We believe that any reference to product type should be removed and the determination of whether an AOCI amount should be included should be based entirely on whether it is more likely than not that the unrealized gain/loss would be realized. Assets are purchased so that the overall entity's asset portfolio matches the overall entity's cash flow needs. Introducing a generalization based on product type incorporates unrealized gains/losses that are not likely to be realized. A methodology that relied solely on the likelihood of the realization of an unrealized gain/loss would provide a more accurate view of what is expected to be realized. In addition, the criteria presumes that insurers know in advance which assets they will need to dispose of in the future, which could result in different interpretations of which assets should be included or excluded. Accounting guidance (e.g. STAT, GAAP, etc.) requires insurers to regularly assess assets for impairment which captures potential liquidity concerns for securities and credit downgrades, bankruptcy or other adverse financial conditions of the respective issuers and may offer more appropriate criterion.

MetLife	United States	Other	No	Yes	We believe the "more likely than not" criterion is appropriate with the following reservations. In determining the amount of AOCI that is included in the GAAP Plus AOCI Adjustment there is a requirement to exclude those assets that are backing non-life insurance liabilities. We believe that any reference to product type should be removed and the determination of whether an AOCI amount should be included or not should be based entirely on whether it is more likely than not that the unrealized gain/loss would be realized. Assets are purchased so that the overall entity's asset portfolio matches the overall entities cashflow needs. By introducing a generalization based on product type you are incorporating unrealized gains/losses which are not likely to be realized. A methodology that relied solely on the likelihood of the realization of an unrealized gain/loss would provide a more accurate view of what is expected to be realized
American Academy of Actuaries	United States of America	Other	No	Yes	GAAP provides rules for recognizing impairments. GAAP Plus should align with this framework (and not create a different definition for purposes of the AOCI adjustment in the ICS).
Prudential Financial, Inc.	United States of America	Other	No	No	As noted in our response to question 34, the ICS should allow for all AOCI to be included in the AOCI adjustment, not just the portion related to fixed income securities (please see our response to question 34 for additional information). Further, the current "more likely than not" criterion is too vague. The criteria presumes that insurers know in advance which assets they will need to dispose of in the future, which is unreasonable and will result in different interpretations of which assets should be included or excluded. Accounting guidance requires insurers to regularly assess assets for impairment, which captures potential liquidity concerns for securities and credit downgrades, bankruptcy or other adverse financial conditions of the respective issuers. Should the IAIS maintain criteria for narrowing the scope of the AOCI adjustment – which we do not support – it should be consistent with local GAAP, STAT, or internal risk management practices.
MassMutual Financial Group	USA	Other	No	Yes	The general theme of the AOCI adjustment is to capture unrealized gains and losses which will not be realized. If it's more likely than not that the gain will be realized, it does not fit the criteria

					of the AOCI adjustment, hence our position that it is appropriate to segregate these types of unrealized gains/losses.

Q35.1

Q35.1 Section 4.2.5 Is this an appropriate way to segregate assets where unrealised gain/loss is more likely than not to be realised? If "no" what alternative would you propose and why?

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	We believe it is inappropriate to allow that the portion of the spread related to expected defaults is allowed to flow to the Balance Sheet. Other expected risks should also not be allowed to affect (through the adjustment to capital resources) the market valuation of Assets, as such risks would generally be reflected in the market price (and will not be captured by the Capital Requirements, which focus on unexpected risks).
BaFin	Germany	IAIS Member	No	No	Only where there is an explicit contractual or regulatory connection between assets and their corresponding long term liabilities (life products with participation features) one could identify such assets. In all other cases such a concept is error-prone.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	No	Please refer to the answer for Q33.

The Life Insurance Association of Japan	Japan	Other	No	No	・Please refer to the comment(s) on Question 33.
MetLife	United States	Other	No	No	We propose the following more appropriate ways to segregate assets where unrealised gain/loss is more likely than not to be realized for callable bonds, RMBS expected to be prepaid and below investment grade securities. Callable Bonds For callable bonds, there should be more specific criteria to determine the amount of AOCI to exclude. For example, we could treat gains as unlikely to be realized due to call when the following criteria are met: 1) the call price is less than the current market price and 2) the call date is within the next 3 years. The time frame is limited due to the market volatility over a time period of greater than 3 years. In addition, the amount of AOCI expected to be realized should be the difference in the call price and amortized cost basis. The difference between current market price and call price is not expected to be realized. RMBS expected to be prepaid Using similar criteria to callable bonds, the reduction to the AOCI adjustment on RMBS expected to be prepaid could be determined to be issuances with a weighted average life of less than 3 years and a market price greater than 100. The securities that are pre-payable are those structures that are backed by consumer loans where the borrower is given the ability to fully prepay without penalty to the borrower. These types of pre-payable loans are predominately with RMBS as well as ABS Student Loans/Consumer Loans/Auto Loans. Below Investment Grade Securities We do not believe any reduction to the AOCI adjustment is necessary for below investment grade securities. It is general practice to record impairments on such securities through the financial statements while the investments are still being held.

American Academy of Actuaries	United States of America	Other	No	Yes	
Prudential Financial, Inc.	United States of America	Other	No	No	The IAIS should allow for all asset classes to be included in the AOCI adjustment. Even if the intention is to dispose of assets, if this disposal takes place to support asset and liability duration matching the associated AOCI should be included in the AOCI adjustment. See our responses to questions 34 and 35 for additional information.
MassMutual Financial Group	USA	Other	No	Yes	

Q36

Q36 Section 4.2.5 Are there specific asset classes that should be included in the "more likely than not" category? If "yes", please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	The likelihood of sale of assets is likely not to depend exclusively on the class of the asset, but also to a large extent on the type of insurance liabilities which it is backing and the risks to which the IAIG is exposed. Therefore, consistency will be very difficult to achieve through the specification of strict rules about classes of assets to be included/excluded from the adjustment. As stated in previous questions, EIOPA would favour an adjustment which is introduced on the liability side.
BaFin	Germany	IAIS Member	No	No	
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	There specific asset classes that should be included in the "more likely than not" are debt securities guaranteed by the State
American Council of Life Insurers	United States	Other	No	Yes	We propose the following more appropriate ways to segregate certain assets where unrealised gain/loss is more likely than not to be realized: • Callable bonds: For callable bonds, there should be more specific criteria to determine the amount of AOCI to exclude. For example, we could treat gains as unlikely to be realized due to

					call when the following criteria are met: 1) the call price is less than the current market price and 2) the call date is within the next 3 years. The time frame is limited due to the market volatility over a time period of greater than 3 years. In addition, the amount of AOCI expected to be realized should be the difference in the call price and amortized cost basis. The difference between current market price and call price is not expected to be realized. • RMBS expected to be prepaid: Using similar criteria to callable bonds, the reduction to the AOCI adjustment on RMBS expected to be prepaid could be determined to be issuances with a weighted average life of less than 3 years and a market price greater than 100. The securities that are pre-payable are those structures that are backed by consumer loans where the borrower is given the ability to fully prepay without penalty to the borrower. These types of pre-payable loans are predominately with RMBS as well as ABS Student Loans/Consumer Loans/Auto Loans. • Below Investment Grade Securities: We do not believe any reduction to the AOCI adjustment is necessary for below investment grade securities. It is general practice to record impairments on such securities through the financial statements while the investments are still being held.
American Academy of Actuaries	United States of America	Other	No	No	No. The ICS should not create a new definition for a GAAP AOCI adjustment. AOCI should be fully excluded, and the ICS should recognize impairments and similar constructs as providing the basis for realizing gains/losses.
Prudential Financial, Inc.	United States of America	Other	No	No	Prudential believes all asset classes backing long-term insurance liabilities should be eligible for inclusion in the AOCI adjustment. See our response to question 34 for additional information
MassMutual Financial Group	USA	Other	No	Yes	Yes, we think the asset types as currently identified are appropriate, meaning callable bonds and RMBS that are likely to be repaid.

Q37

Q37	Section 4.2.5	Is a default risk adjustment appropriate? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	As stated in our response to Q35.1, we believe that such adjustment is appropriate. The adjustment should not only take account of default risk but also of the risk that the insurer incurs losses when assets are downgraded and need to be replaced, for example to ensure the asset-liability matching or to maintain the general credit quality of the allocated assets.
BaFin	Germany	IAIS Member	No	No	For long term life assets the default risk criterion could have several short-term developments over time, it could be highly volatile.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	
CLHIA	Canada	Other	No	Yes	Any decisions should align with those made for the MOCE.
Allianz	Germany	Other	No	Yes	A default risk adjustment is required in order to achieve comparability of outcomes with the MAV approach, where the yield curve adjustment is set in order not to eliminate default risk.
International Actuarial Association	International	Other	No	Yes	The answer may vary by jurisdiction and by what decisions are reached on the MOCE. For example, per the 2016 Field Testing technical specifications, "…for the C-GAAP Plus, the CALM base scenario liability (without margins) plus the margin for asset default (C1) should

					be used as the basis to adjust life insurance liabilities under GAAP Plus. The C1 margin should be added to the CALM base scenario liability (without margins) to reflect the fact that when higher yielding assets are used to support liabilities, at least part of the extra yield is to compensate for losses in asset values including defaults, and will not ultimately be realised…" The CALM base scenario liability includes expected asset default assumptions; hence the extra yields from riskier assets have been adjusted. If the CC MOCE is added on top of GAAP Plus liability, default adjustment is not required for C-GAAP Plus.
MetLife	United States	Other	No	No	We do not believe a default risk adjustment is warranted. In December 2015, at the request of the IAIS, we made an estimate of a potential default risk adjustment using the method described above by reference to the credit rating at purchase as compared to the current rating. The change in rating was used to determine the portion of the credit spread related to default risk. The results of our analysis were that there was an immaterial amount of potential default risk and no such adjustment was warranted. An additional method of determining default risk in the investment portfolio is to use historical impairment and historical credit losses. Using a 3-year average for impairments and credit losses, impairments and credit losses were immaterial under this method.
American Academy of Actuaries	United States of America	Other	No	No	This double-counts default risk already captured in the valuation (expected defaults deduction) and credit risk.
Prudential Financial, Inc.	United States of America	Other	No	No	Prudential believes all asset classes backing long-term insurance liabilities should be eligible for inclusion in the AOCI adjustment. See our response to question 34 for additional information. Further – as mentioned in our response to question 27 – default risk, beyond expected defaults embedded in the valuation basis, is best addressed though the proper calibration of credit risk factors

CNA	USA	Other	No	No	Introducing a default risk adjustment would effectively double-count the capital requirement associated with default potential (e.g. capital factors that vary by rating already do this).
MassMutual Financial Group	USA	Other	No	No	Based on the limited text on this item, it appears that the decline in value of a bond migrating from AAA to AA would be out of scope for the AOCI adjustment. The AA rating still represents high credit quality, and likely does not change the firm´s intent to hold the issue to maturity. Therefore, we believe it would be appropriate for such realized gains/losses to be in scope for the AOCI adjustment. More broadly, we are strong advocates of the AOCI adjustment, but also would like to encourage an ultimate approach that is operationally reasonable, opposed to very time consuming. Ideally, the work would not need to be done at the CUSIP level.

Q38

Q38 Section 4.2.5 A possible method for calculating the default risk adjustment is to reference the credit rating at purchase (or previous write down) as compared to the current rating. The change in rating can be used to determine the portion of the credit spread related to default risk. Is this an appropriate method to estimate the unrealised loss related to default risk? Please explain. If “no”, please suggest an alternative method that could be used to calculate the default risk spread.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	No	Please refer to our response to Q37.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	The change in rating can be used to determine the portion of the credit spread related to default risk. All the information about financial situation should be taken into account ex. liquidity and other non-credit default factors.
National Association of Insurance Commissioners	USA	IAIS Member	No	No	The default risk adjustment should be based on a long term default rate which is less volatile than market factors as proposed.
International Actuarial Association	International	Other	No	Yes	This seems workable at a basic level, but the definition could be improved. Some unreliability might stem from how various credit spreads widen between ratings. The definition should preferably address which spread should be used to estimate the impact - current spreads or an average or conservative average of historical spreads between ratings? Another alternative is to use an historical average of expected defaults and then, depending on how and if the MOCE relates to reserves and capital, some degree of conservatism could be

					included (as in one or two standard deviations above the historical average) in the default risk adjustment.
MetLife	United States	Other	No	No	Please see our response to Q. 37 above.
American Academy of Actuaries	United States of America	Other	No	No	This is overly complex and unnecessary in the framework. Economic default risk is captured in the valuation through expected defaults and credit risk capital requirements.
Prudential Financial, Inc.	United States of America	Other	No	No	As mentioned in our response to question 37, we do not believe incorporating a default risk adjustment for the AOCI adjustment is appropriate. GAAP already accounts for this through impairments. Theoretically, however, to assess the appropriateness of the method described above, further clarification on how changes in an asset's rating would be used to delineate credit spread from default risk would be required. For example, would the number of notches be formulaically applied to a certain percentage of default risk
MassMutual Financial Group	USA	Other	No	No	Based on the limited text on this item, it appears that the decline in value of a bond migrating from AAA to AA would be out of scope for the AOCI adjustment. The AA rating still represents high credit quality, and likely does not change the firm´s intent to hold the issue to maturity. Therefore, we believe it would be appropriate for such realized gains/losses to be in scope for the AOCI adjustment. More broadly, we are strong advocates of the AOCI adjustment, but also would like to encourage an ultimate approach that is operationally reasonable, opposed to very time consuming. Ideally, the work would not need to be done at the CUSIP level.

Q39

Q39 Section 4.2.5 It has been suggested by some Volunteer IAIGs that the default risk spread could be highly volatile in certain periods of stress. Are there methods to evaluate this volatility over historically relevant periods, and is appropriate data available to do so? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The long term trends in default risk may be used as a baseline as this would be less volatile, especially during periods of stress.
AIA Group	Hong Kong	Other	No	Yes	We think historical studies show that default risk is not particularly volatile. This contrasts with total spreads which can be extremely volatile.
International Actuarial Association	International	Other	No	Yes	One can evaluate volatility over historical periods to “lock down” the volatility to a longer term mean, There is no “right” answer as to the appropriate period, but, as suggested in our response to Q38, there is data to support this for the vast majority of insurer held fixed income instruments.
American Council of Life Insurers	United States	Other	No	No	ACLI does not believe the default risk spread would be volatile. [Note: please disregard our "no" for tabulation purposes. ACLI had to enter "yes" or "no" to provide this feedback, but we do not believe the default risk spread will be volatile in periods of stress, therefore we would have left "yes" or "no" unmarked if it was possible to do that and still provide an explanation]

MetLife	United States	Other	No	No	We do not believe the default risk spread would be volatile.
American Academy of Actuaries	United States of America	Other	No	Yes	Default spread risk will be highly volatile and largely a source of non-economic volatility. Further study of historical data should be conducted by the IAIS.
Prudential Financial, Inc.	United States of America	Other	No	Yes	There are ways to measure historical default risk and its volatility, however we do not consider such metrics relevant for the management of credit risk or in the context of how the IAIS has defined the default risk adjustment for the purposes of an AOCI adjustment.
MassMutual Financial Group	USA	Other	No	Yes	If there is desire to avoid volatility, longer term trends in default risk could be used. If the current rating of an issue is available, it is likely such data is also available back to the issue date. The direction of these questions in general is somewhat questionable – the concept of the AOCI adjustment is aimed at eliminating unjustified volatility – but when the default risk adjustment is added to the equation, the volatility essentially comes back to some degree – now this question is seeking a way to eliminate the volatility once again. If the ultimate objective is to remove volatility which will not be realized, then it may make more sense to exclude the concept of the default risk piece all together.

Q40

Q40 Section 4.2.5 Do the GAAP Plus principles and guidelines constitute a sufficient basis for the specification of an ICS Valuation Approach that fulfils the ICS Principles as defined by the IAIS? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	No	As it currently stands GAAP Plus does not constitute a sufficient basis for the specification of an ICS Valuation Approach that fulfils the ICS Principles as it is not an economic consistent valuation approach. Accounting mismatches appear to be minimized to an extent where liabilities are no longer being valued at fair value and interest rate risk may be materially misstated. Principles and guidelines do not seem sufficiently specified, and may lead to material inconsistencies/differences in results between GAAP versions. Solutions are proposed to valuation issues similar to those faced in MAV but seemly and arguably under much looser conditions and without a clearly articulated and robust theoretical and economic framework underpinning it.
EIOPA	EIOPA	IAIS Member	No	No	The current GAAP+ principles and guidelines put excessive emphasis on reliance on existent jurisdictional regulations and practices, disregarding the objectives of consistency and comparability which in our view are crucial for achieving a functioning global standard. This allows for the specification of divergent jurisdictional approaches

					which will likely produce significantly different valuations of Assets and Liabilities (and consequently, different solvency positions).
BaFin	Germany	IAIS Member	No	No	In ICS 1.0 there should be consistent valuation principles for assets and liabilities and a globally comparable risk-based measure of the capital adequacy based on a total balance sheet approach. GAAP Plus principles and guidelines seem to depart from a consistent valuation approach, which is globally comparable and questions the total balance sheet approach because of the different starting points for different jurisdictions.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	The GAAP Plus principles and guidelines could be the first step to achieve a main goal of objective set on this Standards.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	The GAAP Plus methodology constitutes a sufficient basis under ICS Principles. With respect to ICS Principles 1 and 5 on comparability, we expect that analysis of field testing would lead to more specific refinements of the GAAP Plus valuation approach that would result in a more comparable valuation outcome across jurisdictions. Furthermore, with respect to ICS Principles 7 to 10, GAAP Plus is also more credible because the valuation approach aims to discard spurious volatility and is closely supported by audited financial statements in a more transparent manner with the objective of striking the balance between simplicity, risk sensitivity and providing objectivity in calibration. This promotes sound risk management practice, policyholder protection and contributes to financial stability in line with ICS principles.
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	No	The current proposals for GAAP-Plus do not provide a consistent valuation basis across different jurisdictions for Non-Life insurers. More

					work needs to be done to allow the GAAP-Plus approach to lead to comparable outcomes. (see Q41 for details)
AMICE, Association of Mutuals and CooperativesinEurope/ICMIF,International Cooperative and Mutual Insurance Federation.	Europe	Other	No	No	
Allianz	Germany	Other	No	No	It is not clear how these adjustments result in comparable outcomes with the MAV approach.
AIA Group	Hong Kong	Other	No	No	We believe that it is unlikely that GAAP Plus as currently defined provides a comparable basis. More research would be needed to ensure comparability of outcomes within the GAAP Plus approach in different jurisdictions.
International Actuarial Association	International	Other	No	Yes	What is needed is guidance for which ICS principles carry more weight than the other principles. When practical simplifications and options are being considered at the next level down within the GAAP Plus framework, there will likely be some compromise needed with one or more of the stated principle For example, while Principle 5 says to achieve “comparability across jurisdictions”, Principle 6 wants an “explicit recognition of appropriate and effective risk mitigation techniques”. Requiring the same calculation in order to meet Principle 5 may mean that country or product specific differences that require different risk mitigation techniques are not appropriately calculated.
General Insurance Association of Japan	Japan	Other	No	No	We think that the GAAP Plus principles and guidelines do not fulfil the following ICS Principles: Principle 1: Consistent valuation principles for assets and liabilities

					Principle 5: Comparability of outcomes across jurisdictions We think that adjustments based on GAAP may sometimes fail to evaluate assets and liabilities in a consistent way, and may also fail to achieve comparability between jurisdictions.
Great Eastern Holdings Ltd	Singapore	Other	No	No	Valuation principles for assets and liabilities are not consistent across IAIGs. Hence, results might not be comparable across IAIGs.
National Association of Mutual Insurance Companies	United States	Other	No	Yes	NAMIC agrees that the goal in the development of a GAAP+ approach is to achieve the objectives of the ICS while eliminating some of the characteristics of the MAV related to volatility and transparency. Both the U.S. GAAP+ and the U.S. SAP+ principles and guidelines included in current field testing constitute sufficient bases for the ICS Valuation. SAP+ will include an aggregation approach instead of a consolidation approach because that is all that is available under SAP+. Since aggregation is also allowed under this ICS consultation draft for non-insurance/non-financial entities it seems the principle about consolidation is flexible. The IAIS should be flexible for SAP+ filers as well. NAMIC also recommends that the IAIS revise the principles to officially note that either consolidated or aggregated approaches will be suitable for IAIGs. In this consultation, SAP+ valuation is to be used by U.S. mutual insurers that do not use GAAP for financial reporting. Since the U.S. SAP+ is a regulatory accounting methodology it should be the primary source of valuation used in a regulatory standard setting context applicable to insurers (like the IAIS ICPs and ComFrame) around the world. Even if regulatory accounting valuation systems are not accepted globally, they should be accepted in the U.S. as the single consistent valuation system applicable to all companies. At a minimum, as set forth in this consultation, SAP+ should be allowed for reporting by U.S. mutual insurers reporting under the ICS. The U.S. GAAP+/SAP+ approach will be a “reconciliation” that will identify differences between two measures, and the drivers of these

					differences, but it will not result in an identical match between the valuations under the two approaches. This is not to say that the GAAP plus adjustment approach will not comply with the ICS principles, but may reach comparable outcomes through a different valuation approach.
RAA	United States and many other jurisdicitons	Other	No	Yes	The GAAP plus principles provide an important and reasonable alternative to a single global valuation standard applied to all insurers. It is sufficient for the ICS Valuation approach and has the advantage of being based on audited financial statements. For public US GAAP reporting entities, it has the added advantage of being fully supported by related internal control procedures required by the Sarbanes-Oxley Act. For the non-life industry, the GAAP Plus approach closely matches the manner in which those insurance groups manage their capital levels for internal, rating agency and regulatory purposes.
American Academy of Actuaries	United States of America	Other	No	Yes	Based on the U.S. GAAP with adjustments framework, we believe that the ICS Valuation approach sufficiently defines an appropriate valuation basis for purposes of the ICS and aligns with the ICS principles, including appropriately reflecting the long-term nature of insurance and avoiding temporary volatility. Furthermore, if an appropriately symmetrical valuation of assets and liabilities within GAAP Plus and MAV is utilized, the two valuation bases will produce comparable outcomes.
American Insurance Association	United States of America	Other	No	No	This type of question does not lend itself easily to a YES or NO response. Given the complexity of developing an effective global capital standard, it is inappropriate to structure consultation process based on YES/NO replies. The intended benefit of a GAAP Plus approach is to utilize existing and accepted consolidated accounting standards for building a capital

					standard. However, the current ICS structure requires numerous prescribed adjustments to the various GAAP regimes around the world, nearly assuring the failure of a GAAP Plus methodology. And that is a shame. If IAIS had not been fixated on the MAV approach from the start, other alternative approaches could have been considered – approaches that might have been useful, viable, and acceptable. One such approach, which AIA supports on behalf of its U.S.-based member companies, is the “aggregation-calibration” approach, which would permit the aggregation of the capital requirements and capital resources of all the insurance activities within a group. The Federal Reserve in the U.S is currently studying such an approach as part of its rulemaking process, which it calls the Building Blocks Approach (BBA). The aggregation and calibration approach provides for transparency of capital adequacy across legal entities, product lines, and jurisdictions. The aggregation and calibration of legal entity standards provides insight into risks by legal entity and jurisdiction, and provides a “ground up” perspective into jurisdictional differences in risks and capital standards that better informs the group perspective. As a result, this approach promotes heightened coordination among different financial services regulators, strengthens both the insurance regulatory objective of policyholder protection and the broader objective of promoting financial stability. Additionally, it provides a vertical window to the group’s legal entity capital, thus permitting a better assessment of the horizontal need for and ability to maintain capital fungibility. An important benefit of the transparency and jurisdictional perspective provided by the aggregation-calibration approach can be seen through the consideration of subordinated debt as a capital resource. While the ICS approach to consolidation does not properly reflect the treatment of subordinated debt in insurance groups that are regulated by jurisdictions with highly enforced structural subordination, the aggregation-calibration approach does account for this factor. The aggregation-calibration

					approach also properly reflects subordinated debt for insurance groups that are regulated by jurisdictions that do not highly enforce structural subordination. Thus, under an aggregation-calibration approach, U.S. subordinated debt instruments, such as surplus notes, hybrid debt, and senior notes, would be considered qualifying capital resources. In the U.S., this debt is contractually and structurally subordinated to policyholder obligations, which must be paid before bondholders receive payments. Proceeds from holding company debt are typically contributed to its operating insurance subsidiaries and cannot be returned to the holding company without notice to, and often, prior approval of the insurer's regulators. Those conditions are strictly enforced by regulators in the U.S. In addition, because debt is an efficient way to raise capital and given the bias in favor of the policyholder, debt issuance is a common source of capital in the U.S. This is true for both stock and mutual companies (although, for mutual insurers, debt may be the only major source of capital other than retained earnings). Second, the aggregation and calibration approach also provides a complementary platform on which to couple the development of a quantitative tool with other tools for capital adequacy assessment, including existing insurance industry metrics, terminology and concepts; capital and leverage measurements established by insurance regulatory authorities; financial surveillance; and risk management tools such as ORSA. These tools have been developed expressly for the insurance industry and reflect the appropriate manner in which U.S.-based insurers should be evaluated, including consideration of subordinated debt as a source of capital.
Prudential Financial, Inc.	United States of America	Other	No	Yes	Prudential prefers the GAAP Plus approach and believes it fulfils the ICS Principles. As noted in prior responses we believe further enhancements can be made to the AOCI adjustment that would result in more symmetric valuation of assets and liabilities.

MassMutual Financial Group	USA	Other	No	Yes	We believe GAAP Plus will provide comparable outcomes across jurisdictions, particularly as field testing continues and refinements are made.
Property Casualty Insurers Association of America (PCI)	USA	Other	No	Yes	Yes. GAAP Plus is consistent with the ICS Principles in general. In particular it promotes Principle 7 (promoting prudentially sound behavior while minimizing inappropriate pro-cyclical behavior) by reducing non-economic accounting volatility and allowing for use of audited financial statements.

Q41

Q41 Section 4.2.5 Are there any internal inconsistencies in the GAAP Plus jurisdictional examples as outlined in the 2016 Field Testing Technical Specifications, or any area which is not aligned with the stated GAAP Plus principles and guidelines? If “yes”, please explain what you would propose to amend in the examples.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	
EIOPA	EIOPA	IAIS Member	No	No	The GAAP+ jurisdictional examples are significantly divergent among themselves, in crucial areas such as the valuation of insurance liabilities and, to some extent, assets (as market prices are proposed to be reverted to cost valuation through adjustments, in some of the examples). However, we believe that none of them is inconsistent with the stated GAAP+ principles and guidelines (see also our response to Q40).
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	No	
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	European IFRS filers are instructed to use Solvency II as their GAAP-Plus valuation basis for the preparatory phase, while new IFRS insurance contracts standards are being developed. The Solvency II basis differs significantly from the US GAAP valuation basis, particularly around the valuation of insurance liabilities. Solvency II recognises profit in unearned premiums and discounting of reserves, while US GAAP uses the full unearned premium reserve and undiscounted reserves.

					Substantial further work will need to be done to narrow these differences for GAAP-Plus to be consistent and comparable across jurisdictions and to avoid unintentional distortions of the results of the ICS.
Insurance Europe	Europe	Other	No	Yes	The starkest differences arise between the US GAAP and European Solvency II bases, which are each considered to be GAAP+ but clearly reflect different bases of presentation with one being a historic accounting financial statement basis and the other being a market consistent regulatory basis.
AIA Group	Hong Kong	Other	No	Yes	US GAAP, Canadian GAAP and Solvency II all qualify as GAAP Plus in various jurisdictions. Comparability of these approaches would need to be demonstrated.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
RAA	United States and many other jurisdicitons	Other	No	No	The jurisdictional adjustments proposed in the Consultation appear to address much of the diversity of various global GAAP approaches including the major differences between US GAAP and Solvency II (considered GAAP for ICS purposes). These differences arise since Solvency II is intended to be market consistent whereas U.S. and other jurisdictional GAAPs are not. We expect that further field testing will be necessary to refine these adjustments.
American Academy of Actuaries	United States of America	Other	No	No	No. GAAP Plus is conceptually sound, and the principles of GAAP Plus can be used to generate a sound valuation basis under various jurisdictional GAAP constructs. Furthermore, comparability of outcomes between GAAP Plus and MAV can be achieved through appropriate design of each framework, in particular ensuring symmetrical treatment of assets and liabilities within each. We recognize that the IAIS is moving in this

					direction, through the AOCI adjustment in GAAP Plus and the development of a more representative discount rate in MAV.
Prudential Financial, Inc.	United States of America	Other	No	Yes	The AOCI adjustment for GAAP Plus should be reflected in the base balance sheet. Not including the adjustment in the base balance sheet prevents proper alignment between available and required capital. Currently GAAP Plus only incorporates the long-term, hold-to-maturity nature of life insurance assets and liabilities for the determination of available capital and interest rate risk through inclusion of the AOCI adjustment. The AOCI adjustment should also be applied to other market stresses to align required and available capital. This would best be accomplished by applying the AOCI adjustment to the base balance sheet.
MassMutual Financial Group	USA	Other	No	No	

Q42

Q42 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing assets. Should all assets be valued under the same approach (whether that be fair value or a mix of cost and fair value) for all jurisdictions? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	We believe a consistent valuation approach should be used for assets across all GAAP+ examples. Market values should constitute the foundation for the valuation of assets, in line with the risk based nature of the ICS.
BaFin	Germany	IAIS Member	No	Yes	In order to have a comparable starting point the valuation principles should be aligned whether that should be fair value or a mix of cost and fair value. In doing so, the decision should be dependent on the supervisors` perspective. In general, market information (based on market values) is essential for supervisors` work.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	All assets should be valued under the same approach for all jurisdictions. Apply the same principles of valuation ensures comparability of the achieved results. The most preferred by European insurer methods will be fair value measurement, which is consistent with the principles of valuation for the purposes of Solvency II
National Association of Insurance Commissioners	USA	IAIS Member	No	No	While comparability of outcomes for the ICS is key, this does not require the same approach for valuation of assets to be used in all jurisdictions.

ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	No	Certain valuation methodologies may differ depending on local jurisdictional GAAP rules. However in order to achieve the goal of globally consistent and comparable outcomes, more work should be done to reduce the most significant differences in the valuation approaches for both assets and liabilities across jurisdictions.
Canadian Institute of Actuaries	Canada	Other	No	Yes	
CLHIA	Canada	Other	No	Yes	
Allianz	Germany	Other	No	Yes	
AIA Group	Hong Kong	Other	No	Yes	We think all assets should be valued at fair value, and liability discount rates should be set based on the market yields of the assets. This is the simplest approach and most consistent approach to construct the ICS balance sheet.
International Actuarial Association	International	Other	No	Yes	As we discussed in Q33, under GAAP+ the liabilities are discounted at the rate used in GAAP loss recognition. Therefore, if there are some differences in asset valuation between jurisdictions, there would be a similar difference for the GAAP+ liabilities in each country. Therefore the preference would be to allow assets to be valued in a manner consistent with their reporting basis.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	Valuation under the same approach for all jurisdictions would allow for fair and equitable comparison and measurement solvency position.
Aegon NV	The Netherlands	Other	No	No	Under GAAP Plus, Aegon does not believe that a priority should be valuing assets using the same approach for all jurisdictions. We believe that the GAAP Plus priorities should be (a) suitability of the accounting for the long-term life insurance business model, (b) linking to GAAP statements as closely as possible, and (c) eliminating accounting

					mismatches. We consider jurisdiction-to-jurisdiction consistency to be a lower priority, although we believe that insurers should be permitted to apply different versions of GAAP for business originating in different jurisdictions.
RAA	United States and many other jurisdicitons	Other	No	No	Comparable supervisory outcomes can be achieved without explicit valuation rules being applied to all jurisdictions.
American Academy of Actuaries	United States of America	Other	No	No	All jurisdictions do not have to utilize identical valuations of assets and liabilities. The key feature is symmetrical treatment of assets and liabilities within each framework. This treatment avoids undue volatility and provides for higher comparability of the ICS as a whole across frameworks.
American Insurance Association	United States of America	Other	No	No	No. The ICS should not prescribe specific rules for specific assets within specific jurisdictions. Rather, it should provide over-riding principles that will provide guidance to IAIGs. Since AIA believes the primary purpose of an ICS should be the evaluation of capital adequacy to provide policyholder protection, the balance sheet should reflect assets that are capable of absorbing loss. The principle underlying loss absorption, in AIA’s opinion, is that the IAIG should possess sufficient assets in a form that can be readily accessed to satisfy insurance obligations as those obligations come due.
Prudential Financial, Inc.	United States of America	Other	No	Yes	The valuation of the assets should be symmetrical with the valuation of the liabilities. For most life insurance liabilities this would equate to carrying the assets at cost through the use of the AOCI adjustment.
MassMutual Financial Group	USA	Other	No	No	We believe the inherent theme of GAAP Plus is to maintain many of the characteristics of GAAP accounting within the respective jurisdictions. That being said, there needs to be awareness of differences by the IAIS in order to gauge comparability of results across firms.

Q43

Q43 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing liabilities. Should all liabilities be valued under the same approach whether that be closer to book value or market value for all jurisdictions? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No	Yes	Currently we identify very significant divergences in the approach used to value insurance liabilities among the different GAAP+ jurisdictional examples, which create a degree of inconsistency and lack of comparability beyond what is acceptable for a global capital standard (given the leverage effect of such differences in terms of the amount of capital resources available to meet capital requirements, as well as in the quantification of capital requirements). A common valuation methodology should be specified, closer to a market valuation in order to ensure alignment with the asset valuation and enable a proper assessment of the risks to which the IAIG is exposed. Appropriate adjustments to a pure market value should be considered, in order to mitigate excessive volatility in the capital resources of the IAIG.
BaFin	Germany	IAIS Member	No	Yes	
National Association of Insurance Commissioners	USA	IAIS Member	No	No	While comparability of outcomes for the ICS is key, this does not require the same approach for valuation of liabilities to be used in all jurisdictions.

ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	No	Certain valuation methodologies may differ depending on local jurisdictional GAAP rules. However in order to achieve the goal of globally consistent and comparable outcomes, more work should be done to reduce the most significant differences in the valuation approaches for both assets and liabilities across jurisdictions.
Allianz	Germany	Other	No	Yes	
AIA Group	Hong Kong	Other	No	Yes	See our response to Q42
International Actuarial Association	International	Other	No	Yes	The field testing may be the best place to uncover this. If, as is currently stated, the ICS is meant to be a directional, approximate indicator then the divergences in valuation may not be material to the end users of the ICS. If the ICS ends up being a regulatory trigger for actions taken by regulators to direct the company, then this issue will need further scrutiny. In general, as we stated in the answer to C33 and Q42 , if the consistent relationship between asset earnings and discount rates are maintained then either approach will give comparable results. However, the one important exception here may before the discounting (or non-discounting) of non-life claim reserves. We do recommend that the same approach be used here for all jurisdictions. In addition, the choice to discount or not discount impacts the MOCE and capital determinations.
The Life Insurance Association of Japan	Japan	Other	No	No	・The current Field Testing was conducted assuming a financial environment at a certain point in time. For example, based on the analysis of the sensitivity to the change in parameters and the stress testing assuming a financial crisis, the results from the changes in the financial market environment need to be analysed carefully for each of the MAV and GAAP Plus approaches. ・We would like the IAIS to develop a strategy for the convergence between these approaches based on the analysis .

Great Eastern Holdings Ltd	Singapore	Other	No	Yes	Refer to response to Q42.
Aegon NV	The Netherlands	Other	No	No	Under GAAP Plus, Aegon does not believe that a priority should be valuing liabilities using the same approach for all jurisdictions. We believe that the GAAP Plus priorities should be (a) suitability of the accounting for the long-term life insurance business model, (b) linking to GAAP statements as closely as possible, and (c) eliminating accounting mismatches. We consider jurisdiction-to-jurisdiction consistency to be a lower priority, although we believe that insurers should be permitted to apply different versions of GAAP for business originating in different jurisdictions.
National Association of Mutual Insurance Companies	United States	Other	No	No	NAMIC believes that with appropriate adjustments a varied jurisdictional approach can be successful and will provide the flexibility necessary for a global standard. However, if consistency is ultimately sought the following adjustments for non-life liability valuations should be considered: 1) Reserves should be net of reinsurance; 2) Non-life reserves should not be discounted, except where currently allowed in GAAP, and no MOCE should be applied; 3) If either of mandates in item 2 are not followed, and MOCE is applied, any margin embedded in current estimated reserves (implicit or explicit) should be included as a capital credit added to qualifying capital, not required capital; 3) Cat risk premium loads should be subtracted from net written premium, as cat risk will be assessed; and 4) Reinsurance recoverables should be adjusted by any collateral posted by the reinsurer addressing obligations.
RAA	United States and many other jurisdicitons	Other	No	No	Comparable supervisory outcomes can be achieved without explicit valuation rules being applied to all jurisdictions.
American Academy of Actuaries	United States of America	Other	No	No	All jurisdictions do not have to utilize identical valuations of assets and liabilities. The key feature is symmetrical treatment of assets and liabilities within each framework. This

					treatment avoids undue volatility and provides for higher comparability of the ICS as a whole across frameworks.
American Insurance Association	United States of America	Other	No	No	No. Ultimately, the insurance liabilities on the balance sheet should reflect the amount the insurer is obligated to pay claimants. For non-life insurance liabilities, we agree with the field-testing recommendations that liabilities can be reported on a discounted or undiscounted basis, based upon local jurisdictional requirements. However, there should always be parallel treatment between asset valuation and liability valuation.
Prudential Financial, Inc.	United States of America	Other	No	No	Consistent with our response to question 42, valuation of assets and liabilities should be symmetrical. Where assets and liabilities are managed on a Book Value basis, a Book Value approach is appropriate. Where assets and liabilities are managed on a Fair Value basis, a Fair Value approach is appropriate.
Liberty Mutual Insurance Group	USA	Other	No	Yes	The following adjustments should be considered when valuing liabilities: (1) Reserves should be net of reinsurance. (2) There should be a margin adjustment, by which we mean any margin embedded in current estimated reserves (implicit or explicit) should be included as a capital credit and, if this adjustment is used, it should be part of qualifying capital, not required capital. (3) There should be an adjustment to net written premium to account for cat risk loads, as cat risk will be assessed through a separate measure. (4) There should be an adjustment to reinsurance recoverables to incorporate credit from collateral.
MassMutual Financial Group	USA	Other	No	No	We believe the inherent theme of GAAP Plus is to maintain many of the characteristics of GAAP accounting within the respective jurisdictions. That being said, there needs to be awareness of differences by the IAIS in order to gauge comparability of results across firms.

Property Casualty Insurers Association of America (PCI)	USA	Other	No	No	No. Valuing all liabilities under the same approach is not necessary. PCI does not oppose proceeding with both the MAV and GAAP Plus valuation approaches as long as the GAAP Plus approach is maintained. The ICS should focus on comparability of outcomes, not on uniformity of valuation approaches which will be very difficult to achieve and will be actively harmful if the wrong uniform approach is chosen.

Q44

Q44 Section 4.2.5 Are there any refinements that could be made to lead to a more comparable valuation outcome for insurance liabilities between jurisdictions? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
BaFin	Germany	IAIS Member	No	Yes	Align the market or book value perspective. Find a solution that leads to a single IAIS discount rate curve.
National Association of Insurance Commissioners	USA	IAIS Member	No	Yes	We expect that analysis of current field testing would lead to more specific refinements that could result in a more comparable valuation outcome for insurance liabilities between jurisdictions.
ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	For Non-Life insurance liabilities, GAAP-Plus should be consistent across all jurisdictions in relation to: -Pre-claims provisions: whether to hold provision for losses and expenses relating to unearned exposures (e.g. Solvency II / Bermuda) or hold full amount of unearned premiums (e.g. US GAAP) -Claims provisions: discounted or undiscounted We note that the use of a P-MOCE can bring all jurisdictional GAAP valuations to a consistent book value. However the resulting basis is inconsistent with the aims of the ICS, since the levels of prudence within insurance liabilities will be inconsistent over time depending on levels of profitability in new business that will vary through the underwriting cycle.

AIA Group	Hong Kong	Other	No	Yes	See our response to Q42
International Actuarial Association	International	Other	No	No	
General Insurance Association of Japan	Japan	Other	No	Yes	GAAPs which are suitable for GAAP Plus (i.e., GAAPs that fulfil ICS Principles and are able to approximate MAV outcomes), should be newly identified and GAAP Plus should be developed only for those GAAPs.
Great Eastern Holdings Ltd	Singapore	Other	No	Yes	There would be a need to prescribe a standardised basis to value insurance liabilities.
American International Group (AIG)	U.S.	Other	No	Yes	AIG believes that the IAIS should develop and test an own assets approach, building on certain key elements of the current Option 2/Ref 3 and GAAP+ approaches. We believe the IAIS efforts should focus on the development of a single, viable valuation standard, rather than on seeking to achieve a comparable relative calibration of the MAV and GAAP+, which individually are sub-optimal approaches.
RAA	United States and many other jurisdicitons	Other	No	Yes	Possibly. Refinements may be identified following an evaluation of further field testing results. Adjustments or refinements should be limited to areas that would have a material impact on the comparability of reported quantitative financial information. Strict financial statement comparability is not necessary to achieve the IAIS objective of comparable supervisory outcomes.
American Academy of Actuaries	United States of America	Other	No	Yes	We note that between MAV and GAAP Plus (U.S.) there is different treatment of overhead expenses, which may be a key driver of differences in insurance liability valuation among certain firms. However, comparability should be evaluated in terms of the ICS capital metric and its sensitivity, not on a certain aspect viewed in isolation. For instance, liability valuation or asset valuation may differ across regimes, but the symmetrical treatment of

					assets and liabilities within the different approaches will drive the ICS outcomes and the comparability of outcome across firms/jurisdictions.
Prudential Financial, Inc.	United States of America	Other	No	Yes	We note that between MAV and GAAP Plus (U.S.) there is different treatment of overhead expenses, which may be a key driver of difference for certain firms. We believe that comparability should be evaluated in terms of the ICS capital metric and its sensitivity, not on a certain aspect of it viewed in isolation. For instance, liability valuation or asset valuation may differ across regimes, but the symmetric treatment of assets and liabilities within the different approaches will drive the ICS outcomes and the comparability of outcome across firms/jurisdictions.
MassMutual Financial Group	USA	Other	No	Yes	We would encourage the IAIS to first evaluate the materiality of the differences across jurisdictions, to ensure any refinements are justified. Furthermore, to the extent there are differences between two jurisdictional approaches, it is unknown how it will be determined which of the two differing approaches will be refined to achieve consistency. Or more bluntly, which approach is 'right' and which approach needs to be changed. Presumably, material differences will lie in the valuation of investment assets, and insurance liabilities. Operationally, macro changes in valuation should not likely yield a material burden.

Q45

Q45 Section 4.2.5 A method for aggregating financial data for U.S. Statutory only filers has been developed for GAAP Plus (see section 7.3.2 of the 2016 Field Testing Technical Specifications). Does this method capture all material elements such that the resulting aggregated financial statements would be materially equivalent to U.S. GAAP consolidated statements? If “no”, please provide details of other elements or adjustments that could address any material differences.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	Yes	
AIA Group	Hong Kong	Other	No	No	If the IAIS is to be based on a consolidated standard, then aggregation has no place except in order to recognize equivalent systems, similar to Solvency II.
National Association of Mutual Insurance Companies	United States	Other	No	Yes	
American Academy of Actuaries	United States of America	Other	No	No	For some groups a “yes” answer might be appropriate but not for all. We note that there is no need to restate assets to market value and then apply an AOCI adjustment in the Statutory Accounting Principles with Adjustments approach. Assets are already on a book yield basis and appropriately symmetric to liabilities. There are some differences between the way certain liabilities are treated between U.S. SAP and U.S. GAAP that can be material for some groups and are not considered in the ICS document. One such example is structured settlements purchased to settle a claim, which in some accounting bases result in closed claims and contingent liabilities, but in other accounting bases are treated like a reinsurance

					transaction with the claim being treated as open. These amounts can be material for some IAIGs.
Prudential Financial, Inc.	United States of America	Other	No	Yes	We note that there is no need to restate assets to market value and then apply an AOCI adjustment in the SAP with Adjustments approach. Assets are already on a book yield basis and appropriately symmetric to liabilities.
MassMutual Financial Group	USA	Other	No	Yes	

Q46

Q46 Section 4.2.5 Is there a way to evaluate the impacts of these proposed accounting standards on the ICS, and more specifically on GAAP Plus, in the absence of current data and prior to the implementation of the rules? Please explain.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
EIOPA	EIOPA	IAIS Member	No		Until accounting standards are finalized, it may be overly burdensome to require IAIGs to perform simulations based on preliminary versions. In addition, conclusions drawn on the basis of such calculations would not be conclusive, given even slight changes to the final version of the standards could have a very material impact in the results. A related issue, which should be considered by the IAIS, is the ongoing maintenance effort which will be required in case a GAAP+ approach is adopted. As jurisdictional accounting standards are likely to continue evolving over time, the specification of GAAP+ adjustments would need to be continuously monitored and revisited, to ensure the ICS principles of comparability and convergence are fulfilled in an on-going basis.
AIA Group	Hong Kong	Other	No	No	Not to our knowledge
General Insurance Association of Japan	Japan	Other	No	Yes	Where GAAPs suitable for GAAP Plus (i.e., GAAPs that fulfil ICS Principles and are able to approximate MAV outcomes) are identified and GAAP Plus will be developed only for those GAAPs, we think that suitability for GAAP Plus can be decided prior to implementation.
RAA	United States and many other jurisdicitons	Other	No	No	Until the final standard on insurance contracts are issued by the IASB, it will be impossible to evaluate their impact on the ICS proposal.

American Academy of Actuaries	United States of America	Other	No	No	It would be premature to test approaches based on the accounting standards still under development. Close monitoring is recommended, with field testing at an appropriate time when accounting standards are clear and confirmed.
Prudential Financial, Inc.	United States of America	Other	No	Yes	We believe that it would be premature to test approaches based on the accounting standards still under development. Close monitoring is recommended, with field testing at an appropriate time when accounting standards are clear and confirmed.
MassMutual Financial Group	USA	Other	No	No	Until the standards are finalized and implemented, it will be difficult if not impossible to evaluate the impacts.
Northwestern Mutual Life	USA	Other	No	Yes	Yes. As we have stated in prior submissions to the IAIS, we support the development of the GAAP Plus approach. To that end, we will share our views on evaluating the impacts of proposed changes on general purpose and regulatory reporting. For larger scale changes involving existing or new pronouncements like those referenced in your question, modeling the impacts on the ICS for predominant product lines of insurance over time and through economic cycles is the most reliable way of estimating effects on ICS results and determining the nature of any GAAP Plus adjustments needed to preserve the ability of the ICS to support the regulatory objective. This would require an investment in modeling by the IAIS. By way of example, we used such a model for participating whole life insurance to create the proposal we reference in our response to question 32 (the details of which you already have).

Q47

Q47 Section 4.2.6 Are there any further comments on GAAP Plus that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Role	Confidential	Answer	Answer Comments
Bermuda Monetary Authority (BMA)	Bermuda	IAIS Member	No	Yes	The BMA supports the development of a single economic valuation framework as the basis for an effective global insurance capital standard. We are sceptical about the current development of two non-convergent valuation frameworks, one of them arguably not being an economic consistent framework (GAAP Plus). Notwithstanding its limitations and open issues, we are of the opinion that MAV should form the basis for the ICS. We recommend pragmatic and sensible compromises to be reached on the MAV approach in order to make it a globally accepted and implementable valuation approach.
KNF - Polish Financial Supervision Authority	Poland	IAIS Member	No	No	
Ageas	Belgium	Other	No	Yes	To ensure a level playing field all IAIGs should apply MAV and value all balance sheet items at fair value or a current value that approaches fair value (for insurance liabilities as example). The Solvency II balance sheet (applied by European insurance companies) does meet this requirement. We do not have knowledge about other valuation regimes and cannot give input on the correctness and completeness of the GAAP plus adjustments.

ABIR Association of Bermuda Insurers & Reinsurers	BERMUDA	Other	No	Yes	The current construct of GAAP+ applies local GAAP bases which diverge significantly without sufficient adjustments and so do not achieve the primary supervisory aims of consistency and comparability. In addition, the calibration of the capital requirements will need to consider the nature of the valuation basis selected. For example, the decision of whether to use discounted or undiscounted reserves will affect the exposure measure for Reserve Risk.
Insurance Europe	Europe	Other	No	Yes	Insurance Europe believes that the IAIS should take the necessary time and invest the necessary efforts to ensure that: • The valuation approach(es) appropriately reflect insurers' business model, and in particular the link between assets and liabilities. An "asset earned rate" valuation method, reflecting the link between assets and liabilities specific to every company, would often be the most appropriate valuation method, able to best address balance sheet volatility. In fact, the AOCI adjustment for GAAP plus allows for a full recognition of illiquidity premium of assets backing liabilities, so a similar principle should be envisaged in the MAV approach. • The valuation approaches should be based on consistent principles and lead to substantially the same outcomes. Once the valuation approaches are finalised, a company should be given the choice of which approach to choose and a supervisor should be agnostic to the choice.
Institut des Actuaires	France	Other	No	Yes	Inconsistency of having two valuation bases given the objectives of the ICS. The French Institute has not answered questions on the GAAP Plus valuation approach as French companies will almost certainly use their Solvency II economic balance sheets as a basis. The GAAP approach is therefore not considered a likely option for French insurers.

GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Other	No	Yes	Continuing developing the GAAP with adjustments approach is only justified if results lead to comparable results with the MAV approach. Since we have reasonable doubt that comparable results can be achieved even within the GAAP with adjustments approach between different local GAAP starting points, we do not believe this will be the case for MAV at all. Therefore, we do not support the GAAP with adjustments approach.
Global Federation of Insurance Associations	Global	Other	No	Yes	The GAAP+ principles and guidelines constitute a sufficient basis for the specifications of an ICS valuation approach that fulfils the ICS Principles as defined by the IAIS. Based on information from those in GAAP jurisdictions, we would not suggest any further reconciliations. Nevertheless, it should be clarified in the ICS that discounting should not be required for firms domiciled in jurisdictions where the jurisdictional GAAP does not require discounting. Such discounting will produce unnecessary costs that will not be balanced by any benefits. This is an important clarification to be added in this section of the consultation draft.
AIA Group	Hong Kong	Other	No	Yes	We believe that the best features of MAV and (the US version of) GAAP Plus should be combined by discounting liabilities based on discount rates that: • Use the IAIG's own assets at durations where asset cash flows exist (as in GAAP Plus) • Reduce those rates by charges specified by the IAIS for expected credit risk and not permit spreads in excess of investment grade spreads • Grade to a long term forward rate at durations where there is no deep and liquid market (as in MAV)
International Actuarial Association	International	Other	No	No	
Dai-ichi Life Holdings, Inc.	Japan	Other	No	Yes	・Please refer to the answer for Q32.

General Insurance Association of Japan	Japan	Other	No	Yes	If calculation of GAAP Plus continues to be required for all accounting standards for Field Testing and confidential reporting, substitution by MAV should be allowed for calculations of GAAP Plus capital requirements and CC-MOCE. Calculations for both valuations based on the Technical Specifications is a significant workload and less relevant considering the objective of narrowing the differences of the valuation methods towards the development of ICS 2.0.
The Life Insurance Association of Japan	Japan	Other	No	Yes	・We support the continued consideration of the GAAP Plus approach. ・The current Field Testing was conducted assuming a financial environment at a certain point in time. For example, based on the analysis of sensitivity to the change in parameters and the stress testing assuming a financial crisis, the results from the changes in the financial market environment need to be analysed carefully for each of MAV and GAAP Plus approaches. ・We would like the IAIS to develop a strategy for the convergence between these approaches based on the analysis. ・If the ICS is to be used as a trigger for supervisory interventions, it needs to have robustness including credibility and verifiability. Considering this, we believe it would be useful to take an approach that is based on and consistent with the existing accounting standards and regulations in each jurisdiction.
Great Eastern Holdings Ltd	Singapore	Other	No	No	
Aegon NV	The Netherlands	Other	No	Yes	Aegon believes that GAAP+ is a promising approach for the ICS as it attempts not to introduce a new valuation standard in addition to the already required accounting one. It also seems, based on information available, more likely to be suitable for the insurance business than the MAV method and may be less susceptible to the pitfalls of the latter which attempts to find general solutions for all valuation aspects. Finally, should the IAIS adopt an ICS that includes multiple valuation alternatives, we believe that it is imperative that insurers be permitted to choose the alternative that best suits their business model in order to promote a level playing field.

Association of British Insurers	United Kingdom	Other	No	Yes	The current construct of GAAP Plus does not lead to a consistent basis of measurement, and as such, does not achieve the aim of comparability. We acknowledge that the starting points for convergence are very different in presentation, and for this reason, support the maintenance of both approaches during the initial stages of the ICS.
MetLife	United States	Other	No	Yes	In determining the amount of AOCI that is included in the GAAP Plus AOCI Adjustment there is a requirement to exclude those assets that are backing non-life insurance liabilities. We believe that any reference to product type should be removed and the determination of whether an AOCI amount should be included or not should be based entirely on whether it is more likely than not that the unrealized gain/loss would be realized. Assets are purchased so that the overall entity's asset portfolio matches the overall entities cashflow needs. By introducing a generalization based on product type you are incorporating unrealized gains/losses which are not likely to be realized. A methodology that relied solely on the likelihood of the realization of an unrealized gain/loss would provide a more accurate view of what is expected to be realized.
National Association of Mutual Insurance Companies	United States	Other	No	Yes	There is a minimal discussion of the question raised by stakeholder regarding the discounting of non-life liabilities in this section. It should be clarified that discounting is not valuable or material for most non-life reserves, and that it will produce unnecessary costs that will not be balanced by any benefits. For this reason and the reasons discussed below, the MAV and the GAAP+/SAP+ valuation systems should specifically eliminate discounting for non-life reserves, except where currently allowed in GAAP, as proposed by several stakeholders. The current business model for short-duration property/casualty insurers is inconsistent with a discounting requirement. Insurers are not able to settle claims with policyholders on a present value basis, therefore the discounting of reserves would result in an inflation of equity that will indicate more dividend capacity than actually exists. Overall, application of discounting required by the consultation draft is fraught with uncertainties, assumptions and formidable challenges that will significantly increase direct costs to insurers to implement and maintain.

					In the U.S. the costs will increase from a solvency perspective as well. Property/casualty insurers and regulators have always managed claim reserves on a more conservative, nominal, undiscounted basis using management's best estimate approach. Reserves are an important feature that protect the policyholders and assure that the money needed to pay claims is available. Insurers holding inadequate reserves often struggle to meet their claim obligations when they are due. A.M. Best reports that inadequate reserving is the number one reason for insurer insolvencies. On the other hand, under a GAAP+/SAP+ approach invested assets are generally held at market value and represent the most significant asset segment on the non-life balance sheet. The largest portion of invested assets are fixed maturities, equities and equity method investments. Fixed equities held by a non-life insurance company are typically designated as "available-for-sale" and thus held at market value. Equities and equity method investments are also both held at a market value. The treatment of these assets is consistent with a conservative approach to valuation. NAMIC members care about conservatism because insurance insolvencies affect all companies in the U.S. All insurers doing business in every state are assessed for the costs of the policyholder claims filed against insolvent insurance companies through the guaranty fund system. So all solvent companies have a stake in appropriate company reserving practices for their competitors. Trends toward a present value measurement will not produce more adequate reserves. Instead these trends may lead to less reserve discipline. Appropriate discount rate setting is not a precise science and minor errors in assigning the appropriate rate can have disastrous results in this industry. This is an important clarification to be added in this section of the consultation draft.
RAA	United States and many other jurisdicitons	Other	No	Yes	The GAAP Plus valuation approach constitutes a sufficient basis for an ICS that meets the objective of comparable supervisory outcomes. GAAP Plus principles provide an important and reasonable alternative to a single global valuation standard applied to all insurers. It is sufficient for the ICS Valuation approach and has the advantage of being based on audited financial statements. We support the

					maintenance of both the MAV and GAAP Plus measurement bases as options for final ICS implementation.
Liberty Mutual Insurance Group	USA	Other	No	Yes	GAAP Plus is the better approach compared to MAV. GAAP Plus is, potentially, a more feasible and less costly approach than the introduction of a MAV approach in jurisdictions where it is not used now and, thus, GAAP Plus promotes ICS Principle 8. For non-life insurers, U.S. GAAP could properly evaluate capital without a significant amount of adjustments. Invested assets are the most significant asset on a non-life insurer's balance sheet and the majority of these investments are classified as fixed maturities. Fixed maturities held by a non-life insurance company are typically designated as "available-for-sale" and thus held at market value. On the liability side, loss reserves are the most significant line item, and for U.S. GAAP are principally held at a nominal level (not at economic value). As such, the most significant potential adjustment would be to incorporate a credit within qualifying capital resources for the present value of loss reserves. This is consistent with the approach used by rating agencies and an important component to assessing a company's capital. The major difference between GAAP valuation of reserves and a market consistent valuation is the discounting of liabilities under GAAP.
MassMutual Financial Group	USA	Other	No	No	
Northwestern Mutual Life	USA	Other	No	Yes	Yes. The amount of credit spread that is disallowed or otherwise adjusted in setting the discount rate used for determining the present value of liability cash flows should be consistent for GAAP Plus and the MAV approach in order to make a more meaningful comparison between the two approaches. Currently the

					description of GAAP Plus does not mention any disallowance of credit spreads when determining the discount rate. The GAAP Plus discount rate is described as being based on the amount of investment income recognized under GAAP when performing loss recognition testing. Since there are no margins in loss recognition testing, this discount rate reflects the full amount of investment return expected to be recognized on the GAAP income statement. This contrasts with the MAV approach, where the discount rate is lower than the full expected investment return on the assets because part of the expected spread over the risk-free rate is disallowed. For example, under MAV method 2 only 40% of the spread is allowed and the remainder is disallowed. Under GAAP Plus, the discount rate should reflect a comparable disallowance of credit spreads. The amount of credit spread that is disallowed/adjusted under both methods is subject to debate (see our answer to question 32). The point here is that the same credit spread disallowance/adjustment should be used in both GAAP Plus and MAV.
Property Casualty Insurers Association of America (PCI)	USA	Other	No	Yes	GAAP Plus should continue to allow non-life claims liabilities to be valued on a non-discounted basis if the GAAP of the IAIG's home jurisdictions requires this method (as in the U.S.). Deterministic (non-stochastic), undiscounted reserve calculation methods have a proven track record superior to any other method, as well as being more transparent (since they reflect the unadjusted amount management expects to pay).

End of Section 4.2