Title of Exposure Draft: ASOP 30 – Profit Margins and Contingency Provisions in Property/Casualty Risk Transfer and Risk Retention

Comment Deadline: November 1, 2024

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

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I. Identification:

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

Question No.	Commentator Response
1.	No, the distinctions and relationships between contingency provision and risk margin are not clear. Clearer definitions are needed. A "provision" should be defined as something different from a future cost estimate, or at least a "provision" should be defined as an element of a future cost estimate and distinguished from other elements of a future cost estimate. Property/Casualty actuaries use these two terms for specific purposes, in particular for rate filings to state regulators, there is a history of how these terms are used and how they are generally applied in practice. However, for other applications, there can be considerable confusion when actuaries are communicating to other professionals who do not have regulatory backgrounds. This can also be an issue when communicating to someone who is new to a role in insurance regulation or for someone who has background in other types of insurance, such as life and health insurance, where such terms may not be used or may be used differently. **A contingency provision is an element of a future cost estimate which adjusts for persistent differences in such estimates, where cumulative actual costs exceed cumulative expected costs over time. This provision is not a measure of variability or uncertainty in the estimated costs.** It would be very helpful to practicing actuaries if this standard, or possibly some other document, would provide a simple explanation of the terms, perhaps with examples. Perhaps the Academy could provide suggestions and possibly consider developing a practice note or another educational document.
2.	No, the difference between modeled expected losses and actual expected losses is not clear. Alternative wording is recommended below. For PC actuaries, this terminology is not generally accepted in actuarial practice. This use of "modeled expected losses" and "actual expected losses" are too confusing. Those terms do not allow for effective communication between the actuary and their principal or with other intended users of the actuary's work. In particular, "actual expected" sounds contradictory without examples and explanation of such a term. This term really seems to be contradictory to the common use of "actual" versus "expected."

	"Actual expected losses" as used here is contradictory and confusing. Although it would be helpful if the term was defined in the standard, it would be much better to avoid mixing "actual" with "expected" losses. Perhaps the concept of "the actuary's estimate of the true underlying expectation of losses", "the actuary's selected expected losses", or "the actuary's expectation of losses based on historical data adjusted to future conditions." It would be very helpful to practicing actuaries if this standard, or possibly some other document, would provide a simple explanation of the terms, perhaps with examples. Perhaps the Academy could provide suggestions and possibly consider developing a practice note or another educational document.
3.	No, the level of disclosure should be expanded to disclose the intended purpose and use of the profit and contingency provisions. The disclosures should correspond to the intended purpose and use of such provisions. It is important to note that insurance ratemaking and insurance policy rating or pricing of different forms of risk transfer are not mentioned at all. The standard really needs to address the intended purpose and use of these terms where an actuary either estimates or uses these terms for a particular purpose. Furthermore, use of the actuary's estimates of these provisions should be limited to the intended purpose for which the actuary provides an estimate of the provision. For example, there may be no need for a profit margin or an underwriting profit margin for the intended purpose of a future cost estimate for risk retention. However, there may be need for a risk margin or risk load for the intended purpose of risk financing of retained risk.

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
Title of ASOP 30	Recommendation – retain much of the current title, specifically: **Profit and Contingency Provisions and the Cost of Capital for Property/Casualty Risk Transfer and Risk Retention**	All of these items in the title and scope of this standard should use the term "provisions," as the current standard does. It is unclear why the standard should be changed to "margins" which would include "loads" or "mark-up factors" or other elements which an actuary might include in an estimate for a particular use. The intended use of such provisions should not be assumed, but rather it should be explicit. For example, it should be clearly communicated if these elements are intended to be used as the base rates for the pricing of insurance policies which meet the regulatory filing requirements in one or many states. In some other cases, the intended purpose and use might be for estimating loss costs which include risk margins or risk loads for the risk that actual aggregate losses for a book of business could exceed the expected "mean" losses for a specified period of time, such as one year.

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1.2 Scope – Risk Retention vs. Risk Transfer	Added Language Recommended **This standard does not apply if the actuary determines that the purpose and use of actuarial services excludes the need for any of the provisions covered by the standard. For example, when performing actuarial services for the expected (mean) value of future cost estimates for property/casualty risk retention.** Alternatively, adjust the wording as follows: **The standard permits, but does not require, its application to the performance of actuarial services where such services do not include profit and contingency provisions or the cost of capital.**	Having a broad scope is good, but there can be significant differences in the applicability and use of these provisions to risk retention versus risk transfer depending on the intended purpose and use of the actuary's estimates. This dependency is very important with respect to the scope of the standard. The current standard applies primarily to insurance ratemaking, but it is rarely relevant to risk retention. The background to the Exposure Draft contains some vague explanations of how this standard might be applied to risk retention transactions. In particular for funding studies targeted at a percentile of a loss distribution. Some risk retention transactions have a similar structure compared to risk transfer transactions. However, there is no explanation or examples given as to how profit and contingency provisions (or margins) would be applicable to risk retention transactions. This leads to confusions between risk margins and contingency provisions. The standard should be modified to permit, but not require, its application to future costs estimates where profit and contingency provisions covered by the standard are absent, such as for many risk retention transactions. Risk retention transactions may appropriately include a risk provision (risk margin or risk load) but rarely include a profit provision, contingency provision or cost of capital provision. However, the standard should permit, but not require, such margins or provisions to be excluded for risk retention transactions without a deviation from the standard. Also, the scope of the standard should clearly be consistent with the intended purpose and the intended use of such provisions.
2.1 Capital	Edited Version Recommended **The amount of liquid assets or funds dedicated to satisfying the payment obligations from a defined set of liabilities arising from risk transfer or risk retention. In the case of risk transfer, capital may also be referred to as capital and surplus, or as policyholder's surplus.**	The ED refers to the "payment of obligations" in excess of the funds backing the liabilities." However, few insurers actually hold segregated capital funds to back shortfalls in the estimated liabilities. Also, the term "capital" can have different meanings for an insurer versus a company in another industry or organization, such as a governmental entity. The key attributes which are missing from the current proposed definitions, namely, (1) assets which are liquid and (2) which are dedicated to satisfying the liabilities.

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2.2 Contingency Provision	Edited Version Recommended **An element of a future cost estimate which adjusts for persistent differences in such estimates, where cumulative actual costs exceed cumulative expected costs over time. This provision is not a measure of variability or uncertainty in the estimated costs.**	Review our rationale The term, "actual" expected losses, is poor terminology because actuaries tend to think of "actual" losses being the real experience as it emerges. The adjective “actual” indicates after something is known. “Expected” connotes before something is known. The edit should strike “expected” and simply state “actual losses” We recommend using different nomenclature and more explicit and unambiguous wording to the definitions. Using the term “modeled” in a definition is problematic. A reader would naturally look for a definition of “modeled” and “expected” as those terms have specific technical meanings, and the reader should be able to find unambiguous meanings for those terms. Explaining a contingency provision as a component of expected losses is very confusing and seems illogical. The essence of the contingency provision is that there are limitations or deficiencies in the estimation process “which cannot be eliminated by changes in the other components …” Thus, over an extended time period, actual losses (or other net cash outflows) are more likely than not to exceed the estimated losses (or other net cash outflows) produced by the expected (mean) value loss models. This provision is intended to compensate for such deficiencies, but is not intended to produce a net profit across a large number of transactions or an extended period of time. Reference to “ratemaking process” is problematic, as the term is used by actuaries for specific regulatory “rate” filings for insurers. It would be better to refer to the process of "future cost estimation." If a profit margin is built into fees charged for handling claims, that profit should be separated out from the claims handling expense and included as part of the profit margin. Some examples for the reason for the inclusion of a risk margin would be extremely helpful. Also, we believe it would be much better to include examples of a contingency provision here as opposed to section 3.2, or include a least a reference to such examples.

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2.x Risk Transfer/ Retention Cash Flows	A new section 2.x, is recommended as follows: **Flow of funds from premiums, contributions and miscellaneous (non-investment) income from risk transfer or risk retention operations, and payments for losses, expenses, and policyholder dividends.** **Associated income taxes are recognized when the analysis is on a post-tax basis.**	Replaces, rather than eliminating, the current ASOP 30 section on Insurance Cash Flows from the current standard without reference to insurance.
2.XX Cash Flow Risk	A new section 2.xx, is recommended as follows: **The extent to which the amount or timing of actual cash flows is likely to differ from future cash flows.**	Replaces, rather than eliminating, the current ASOP 30 section on Insurance Risk from the current standard without reference to insurance.
2.XXX Investment Income from Risk Transfer/ Retention Operations	A new section 2.xxx, is recommended as follows: **Investment Income from Risk Transfer/ Retention Operations—The income associated with the investment of cash flows from risk transfer or risk retention operations.**	Replaces, rather than eliminating, the current ASOP 30 section on Investment Income from Insurance Operations.
3.x **Contingency Provision and Risk Margin**	A new section 3.x, is recommended as follows: **The actuary should refer to the application of ASOP 53 and ASOP 29 with respect to the costs and provisions included in the Future Cost Estimates and the provisions within the scope of this standard. The actuary should consider how each ASOP applies to the scope of the actuary's services within the scope of this standard.** **The actuary should consider how the different provisions for profit, contingencies and the cost of capital can be used to satisfy the intended purpose and use of the actuary's future cost estimate. The actuary should take into account the potential for overlapping considerations among different provisions, margins or loads. The actuary may use a contingency provision without a risk margin for risk transfer, but may use a risk margin without a contingency provision for risk retention.** **The actuary should take into account that the future cost estimates can be derived from different combinations of components for the profit and contingency provisions. For example, the intended purpose and use of the actuary's future cost estimate for self-insurance may indicate the need for a risk margin, but may not indicate the need for provisions for cost of**	Review our rationale The reference to "losses" seems to conflict with the scope of ASOP 29 and ASOP 53. ASOP 53 addresses "Future Cost Estimates", but does not define the term. However, section 3.1 of ASOP 53 states: "The actuary should determine the elements that are appropriate to include in the future cost estimate. Such elements should relate to the applicable coverage and include loss and loss adjustment expenses, operational and administrative expenses, the cost of reinsurance, and the cost of capital." Therefore, the actuary may include costs other than losses, loss adjustment expenses and other expense provisions, which are addressed in ASOP 29. Note the provisions for profit margin, contingencies and risk margin are not addressed in ASOP 53, except for the cost of capital. In addition, ASOP 53, section 3.2 Intended Measure mentions "the mean plus risk margin" as an example of an intended measure. ASOP 29 defines "Expense Provisions" in its section 2.3 indirectly as: "Future cost estimates related to the risk transfer or risk retention other than the following: losses, loss adjustment expenses that are combined with losses in

	capital, underwriting profit margin, investment income, income taxes, or contingency. **The actuary should consider how the components of the provisions will be used to determine the actuary's future cost estimates, the period of time for when the actuary's estimates will be used, and the future need to update the actuary's future cost estimates.**	the determination of the provision for losses, the provisions for profit and contingencies, the cost of capital, investment expenses, and federal and foreign income taxes." Consequently, the contingency provision is not limited to differences in expected losses, but rather differences in future cost estimates. Note that, per ASOP 53, future cost estimates may include profit, contingencies and the cost of capital. Furthermore, the intended measure for future cost estimates may be based on a percentile of the loss distribution, which is really no different than including a risk margin. The term "actual expected losses" is confusing and ambiguous. The reference to "modeled" is not as clear as "derived from the actuary's model(s)." Such models should be based on an intended measure and therefore there may be a persistency of outcomes over time which are higher than the future cost estimates (based on the stated intended measure). The term "ratemaking process" encompasses a range of processes impacting the work of actuaries and regulators. The reference to that process ignores the wide variation in such processes that may impact future cost estimates. The term "expected" really needs to be defined or explained in terms that have a common, consistent meaning, for actuaries and their principals and other intended users who rely on the actuary's work. For example, the intended measure for "expected" for this purpose might be characterized as reasonably predictable, rather than some statistical measure. If the intended measure is the expected (mean) value, then that should be incorporated into a section on intended measure. The expected difference used in the definition of a contingency provision seems to be intended to exclude any expected profit associated with a risk transfer or risk retention, which results from the cash inflows and cash outflows. However, the term "profit and contingency provisions" is better suited and accepted by users of actuarial services. Moreover, it should be made clear that the cost of capital is a sub-component of the profit provision, and not a separate provision. "Provisions" should simply refer to estimates made in anticipation of positive net cashflows from such provisions. "Margins" should be limited to describing

		net cash inflows which are intended to offset net cash outflows outcomes related to unknown or uncertain cash flows. Margins may also be considered as the minimum compensation required by the party accepting the uncertain cash flows associated with the risk transfer or risk retention.
2.5 Profit ~~Margin~~ **Provision**	Edits Recommended to replace profit margin with profit provision in the standard. **Profit Provision** - **A provision in the future cost estimate to provide for profit for bearing the risk of uncertain future costs. This risk arises from the potential differences between the actual versus the estimated cash inflows and cash outflows associated with the future cost estimate for the risk transfer or risk retention.** **The profit provision reflects the following components, if applicable, associated with the risk transfer or a funded risk retention plan: underwriting profit provision, plus risk margins, plus the cost of capital, less estimated investment income generated from the net cashflows associated, less the estimated investment income generated from risk transfer or risk retention cash flows, less the estimated income taxes attributable to the underwriting and investment income. The profit provision is also known as the total return or the total profit provision.** **The contingency provision is not included in the profit provision.**	"Margins" are not cost estimates based on true expected (mean) values. They are amounts related to uncertain outcomes which produce values in excess of the future cost estimate. Distinguishing between "margins" and "provisions" can be important. The standard could define these terms directly or just use "provision" as the preferred term. This would make the wording of the standard more straightforward. Some profit provision may be built into fees charged for services associated with the risk transfer or risk retention such as handling claims. Such a profit provision would be embedded in the claims handling expense, but should be included in the profit provision rather than in the expenses.
3.1 Overview	Edited Version Recommended **Profit provisions, contingency provisions, and the cost of capital are used by actuaries when developing or reviewing future cost estimates for property/casualty risk transfer or risk retention. The profit provision includes the provision for the cost of capital. A contingency provision is not a component of the profit provision.** **The actuary should consider the appropriate costs, profit provisions (including the cost of capital) and margins in determining the future cost estimate. The actuary should select the components, and appropriate measures for each component, consistent with the intended purpose and the type of transaction, risk transfer or risk retention.**	The ED language does not provide any guidance around determining the cost of capital. This standard includes this component (cost of capital) which could be used by the actuary as a component of an appropriate profit provision. However, the proposed draft standard does not provide meaningful guidance that is relevant to the considerations for estimating the cost of capital. The wording of this section attempts to make everything associated with risk transfer and risk retention a "cost." This oversimplifies the realities of insurance pricing and the measurement of insurance and risk retention obligations. In the case of risk transfer, the party accepting the transferred risk expects to be compensated for not only for the costs that are reasonably predictable, i. e.,

		"expected", but also for the uncertainties associated with the outcomes.
3.XX Intended Purpose and Use	A new section 3.x, is recommended as follows: **The actuary should consider and take into account the actuary's understanding of the purpose and potential uses of the profit and contingency provisions, or the components of those provisions, including the cost of capital or risk margins, if applicable.**	The intended purpose and use of the items included in the scope of this standard are critical to the actuary's determination of these items. Section 4 should also have a new section or subsection which includes a description of the intended purpose and use of the provisions or their components.
3.XXX Basis for Cost of Capital	Edited Version Recommended - Inserting much of the current guidance from ASOP 30. **In estimating the cost of capital, the actuary should consider the relationship between risk and return. The intended measure used for estimating the cost of capital should reflect the risks involved in the risk transfer or risk retention under consideration. These risks may include coverage, investment, inflation, and regulatory risks, as well as diversification, debt structure, leverage, reinsurance, market structure, and other appropriate aspects of the social, economic, and legal environments that could have a significant impact on the future cost estimate.** **Thus, the cost of capital is likely to vary from one situation to another. The actuary should recognize when capital is needed to support risk transfer or risk retention, there is an opportunity cost regardless of the source of capital or the structure of the entity bearing and funding the risks transferred or retained.**	The current section 3.2 is quite valuable guidance for actuaries and should be largely retained.
3.2 Contingency Provision	Edited Version Recommended **The actuary should assess whether a material difference exists between the future cost estimates derived from the actuary's model(s) and the actuary's selected future cost estimates based on judgment and experience. If it is not practical to eliminate that difference by changes in other components of the future cost estimate process, the actuary should consider including a contingency provision in the future cost estimate. The actuary should also consider the intended purpose and use of the actuary's services and the intended measure(s) used to estimate the contingency provision.**	This is basically a repeat of the definition. The "should include" wording is not accurate - the actuary "should consider" or "should take into account" would be more appropriate. The recommended practices for contingency provision are extremely light and should be expanded similarly to the way the recommended practices for profit margin are expanded upon. The Exposure Draft does not provide sufficient recommendations around development and selection of contingency provision. This section as written seems unreasonably paltry and lacking in guidance, especially when compared against the guidance provided for profit margin. This section should include a subsection containing guidance around the development of the contingency

	~~For example, in the event the modeled expected losses do not adequately capture the tail of the loss distribution, a contingency provision may be appropriate.~~	provision, and topics similar to what is included for profit provisions.
3.3 Profit **Provision**	Edited Version Recommended **The section title should be changed to Profit Provision.** **The actuary should include an appropriate profit provision in the future cost estimate associated with risk transfer. For risk retention, the actuary should consider whether it is appropriate, or not, to include a profit provision consistent with the intended purpose and use of the actuary's services** Consistent with the edit recommendations, it is recommended that term margin be replaced with **provision** in sections 3.3.1, 3.3.2, 3.3.3 3.3.4, 3.3.5, 3.3.6, and 3.3.7.	Distinguishing between "margins" and "provisions" can be important. The standard could define these terms directly or just use "provision" as the preferred term. This would make the wording of the standard more straightforward. "Margins" are not cost estimates based on true expected (mean) values. They are amounts related to uncertain outcomes which produce values in excess of the future cost estimate. The term "margin" connotes more of a safety factor or a factor related to a desired return on the investment of resources dedicated to risk transfer or risk retention. The current standard refers to profit and contingency provisions, as well as to underwriting profit provision. This use of terminology should largely be retained. There is no explanation as to why the exposure draft has changed profit and contingency provisions and underwriting profit provision and re-labeled these provisions as margins. The concept of a profit provision as a component of the future cost estimate seems to reflect a "cost" to the entity bearing risk. This cost should reflect the tradeoff between more predictable cash flows versus more unstable "risky" cash flows. Some profit provision may be built into fees charged for services associated with the risk transfer or risk retention such as handling claims. Such a profit provision would be embedded in the claims handling expense, but should be included in the profit provision rather than in the expenses.
3.3.1 (d)	Edited Version Recommended **d. the amount of capital supporting the transaction, whether available, allocated, or notional;**	Provides additional clarification.
3.3.2 **Profit Provision Components**	Edits Recommended to refer to provisions instead of margins, and to remove reference to "any" for the components **Profit Provision Components—The actuary should select the components of the profit provision such that the profit provision is**	Reference to intended use of the total profit margin is a very important consideration that should be consistently used throughout this standard. Intended use should be its own section. This wording used in this section implies that the "profit margin" should be included in the future cost

	appropriate for the intended use. When doing so, the actuary should identify and evaluate the components of the profit provision included in the future cost estimate, including explicit or implicit risk margins, ~~the~~ underwriting profit provision, expected investment income and expected income taxes.	estimate, but there is no reasoning given as to why profit is a cost. Also, the profit margin is described as being inclusive of all other provisions. This is not clear whether the contingency provision is to be included on the profit provision or as a separate provision. The exposure draft uses "any" for several of the components of the profit provision. This could be onerous for the actuary and removing "any" would allow the actuary to use judgment in deciding the materiality of each component needed for the profit provision. While usage of these components is suggested to the actuary, their inclusions are not a requirement. Note too how the required disclosures in 4.1 are worded.
3.3.3 Benchmarking the Cost of Capital	Edited Version Recommended **When the actuary uses cost of capital to develop the profit margin, and when the actuary has the background and experience relevant to benchmarking capital costs against other entities or industries, the actuary make necessary adjustments so that the costs of capital developed under different sources and uses of capital and different accounting rules can be properly compared.**	The drafted language implies that the actuary will have the education and practical experience to make such adjustments between industries. This is asking for actuarial adjustments for which it seems there is very little, if any, practical knowledge among actuaries. Doesn't the cost of capital for various entities or industries vary by things other than just their different accounting rules? Things such as leverage, financial situation, track record, sector, etc.
3.3.7 Use of Basis	Edited Version Recommended **The actuary should use an appropriate basis to present the profit provision or its components which is consistent with the intended purpose and use of the profit provision. For example, a percentage of capital, a percentage of assets, or a percentage of premium.**	Revisions direct the actuary to tie the basis to the intended purpose and use of the profit provision.
3.4 Reliance on Another Party (c)	Edited Version Recommended **c. for assumptions and methods prescribed by another party, the actuary should review such assumptions or methods to the extent practicable and appropriate for reasonableness and consistency with the intended purpose and use of the profit and contingency provision.**	"to the extent practicable and appropriate within the scope of the actuary's assignment" is stated in section 1.2 Scope and does not need to be repeated in this section. Consistency with the stated intended purpose should be a key requirement for this standard.

3.4 Reliance on Another Party (d)	Edited Version Recommended **for assumptions and methods not prescribed by another party, or for any other item not addressed above, the actuary should review the item for reasonableness and consistency with the intended purpose and use of the profit and contingency provision. In addition, the actuary should be reasonably satisfied that the reliance is appropriate, taking into account the following, as applicable:**	"to the extent practicable and appropriate within the scope of the actuary's assignment" is stated in section 1.2 Scope and does not need to be repeated in this section.
3.4 Reliance on Another Party (d)	Recommendation: Eliminate this section and refer to these items and the issues provided in this comment to the task force working on ASOP No.1. The ASB has recently considered a proposal to review and update ASOP No. 1 and this topic of reliance on another party was recommended to be addressed in ASOP No. 1 rather than having various standards addressing this common issue independently. The section to be eliminated is as follow: "In addition, the actuary should be reasonably satisfied that the reliance is appropriate, taking into account the following, as applicable: 1. when the other party is an actuary, whether the actuary knows that the other party is appropriately qualified and has followed applicable ASOPs; 2. whether the actuary knows that the other party has expertise in the applicable field; 3. whether the actuary knows the other party's stated purpose for the item and the extent to which it is consistent with the actuary's intended purpose; and 4. whether the actuary knows of differences of opinion within the other party's field of expertise that are material to the actuary's use of the item."	None of these requirements exist in the current ASOP 30. It could be quite onerous and impractical for the actuary to meet a standard to "be reasonably satisfied" when the actuary is not charged with assessing whether another actuary is qualified, whether another party has expertise, what the other party's stated purpose is, or whether there are differences of opinions in another's party's field of expertise. Consequently, it is unclear whether the actuary is required to take certain steps to determine or gather such the knowledge. The wording of the standard refer to "whether the actuary knows," but does not state that the actuary should know or attempt to find out. However, if the actuary does not know or has very limited knowledge, it would be quite difficult for the actuary to be reasonably satisfied that the reliance is appropriate. This structure could be untenable for the actuary, and may cause the actuary to deviate from the standard. Section 1.2 Scope states that "the actuary should follow the guidance in this standard to the extent practicable and appropriate within the scope of the actuary's assignment." Consequently, when these requirements make little sense in practical terms, actuaries may believe that the knowledge required under these 4 items are simply impractical and not within the scope of their assignment.

4.1 Required Disclosures in an Actuarial Report (a), (d), (e), (g)	Remove the term "any" without a qualifier, such as in "any material." Edited Version Recommended When issuing an actuarial report, the actuary should refer to ASOP Nos. 7, 20, 23, 41, 53, and 56. In addition, the actuary should disclose the following in such actuarial reports: a. a description of and the rationale for any **material** contingency provision (section 3.2); b. the intended use of the future cost estimate (section 3.3.1); c. the methodology and assumptions used in determining the profit margin (section 3.3, 3.3.1, 3.3.2, and 3.3.4); d. any **material** investment income assumptions reflected in the profit margin (section 3.3.5); e. any **material** income tax assumptions reflected in the profit margin (section 3.3.6); f. the basis or bases for the profit margin or its components (section 3.3.7); and g. any material reliance on information provided by another party (section 3.4).	Section 4.2 Additional Disclosures in an Actuarial Report refers to any material assumption (4.2.a and 4.2.b) The use of "any" without an appropriate qualifier in an ASOP is problematic and should be avoided.
4.X Disclosure of Intended Purpose and Use	A new section 4.x, is recommended as follows: **The actuary should disclose the intended purpose and intended potential uses of the profit and contingency provisions, or the components of those provisions, including the cost of capital or risk margins, if applicable. The disclosure should describe the purpose and use in sufficient detail corresponding to the intended measure(s) or method(s) used to estimate the provisions and their components.**	The intended purpose and use of the items included in the scope of this standard are critical to the actuary's determination of these items. A new section 3.X would require the actuary to take the intended purpose and use into account. Consequently, a new section 4.X should also be added which requires disclosure of the intended purpose and use of the provisions or their components.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

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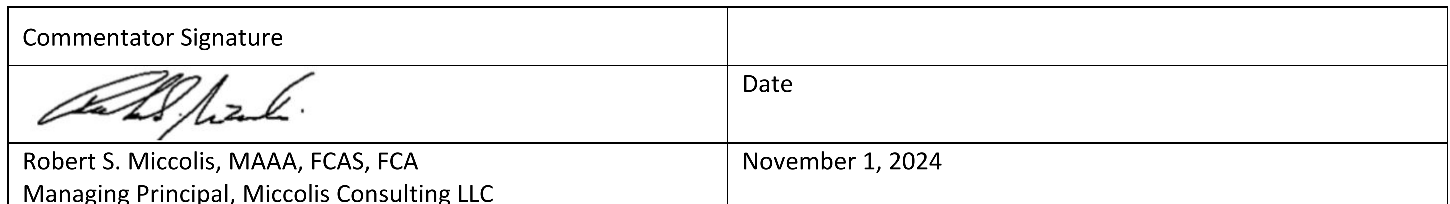
Revert to the prior term “profit provision” in the title as well as throughout the ASOP.	The term “profit margin” in everyday vernacular typically refers to the after-the-fact profit that remains after a financial transaction or event takes place. However, in the exposure draft, the component referred to is really a provision added to, or included, in the future cost estimate.
Provide more guidance as to how the actuary should determine the appropriate cost of capital to be used.	There is very little helpful guidance provided around determining the appropriate cost of capital to be considered when selecting the profit provision. The current ASOP 30 is helpful, but the wording tends to be limited to risk transfer an not risk retention.
Provide a better indication as to which components apply to risk transfer transactions and which apply to risk retention transactions.	Profit provisions and cost of capital are seldom considerations in risk retention transactions. The exposure draft indicates in places that the actuary should include these components, but that should not apply unless the intended purpose and use is applicable to the future cost estimate associated with risk retention.
Expand the references to the actuarial report to other forms of actuarial communications which may not be in the form of a report. The actuary should disclose the items mentioned in the disclosure section using other forms of communication.	The disclosure section only refers to the content of the actuary’s report, when the actuary is issuing a report. An actuary may be working on a team or in an environment where the actuary’s services can be documented in spreadsheets or computer code, rather than via a written report. The wording of the standard avoids requiring the actuary to issue a written report but does not require any documentation. This is inadequate and could be rectified by requiring documentation but allowing that documentation to be in other forms of communication other than a report.

V. Signature:



Commentator Signature	
[signature]	Date
Robert S. Miccolis, MAAA, FCAS, FCA Managing Principal, Miccolis Consulting LLC	November 1, 2024