**Utah Insurance Department received the following comments on the second exposure draft of the proposed guideline from one of the insurers domiciled in the state.**

Overall comments:

As stated previously, the purpose of the proposed guideline is to incorporate appropriate risks of complex assets. While we agree that complex assets are difficult to classify, the simplification to target high-yield assets would group together any asset whose assumed return is greater than an investment grade bond. For example, why would we assume that a stable real estate investment with a high yield has the same risk profile as a collateralized loan obligation asset.

Asset Adequacy Testing (Cash Flow Testing) is performed so that an actuary can determine whether or not the reserves and related actuarial items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on the assets, and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision, according to presently accepted ASOPs, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The proposed guideline in the 1st exposure draft produced results far away from a reasonable modeling of the assets held by the company and their associated investment earnings and in these (almost all) instances would render the proposed test useless towards the actuary forming an opinion in this regard and should be ignored as being irrelevant and perhaps far more than moderately adverse. The actuary would still be in the current position of using other tests to form their opinions, except having spent some valuable resources to conduct the proposed test.

The company has reviewed and modeled the effect of the 2nd exposure draft of the proposed regulation and found that it is not as severe as the first because the cap on investment returns only applies to reinvestment assets. However, the company still believes that a better sensitivity test for the riskiness of the assets held by the company would be to use the assets held by the company and test default costs that are higher than in the base assumptions, say 150% of those, which we already do.

The company would be agreeable with running this as a sensitivity test, as it seems to be a reasonable stress test of the reinvestment assumptions; however, the company opposes this procedure becoming the basis for all future testing.

Suggested Improvements:

There appears to be an error in 3. B. ii, regarding the Investment Grade Net Yield Benchmark. It should be Table H, Long-term spreads for existing assets, and Table F, Current spreads grading to Table H, Long-term spreads for reinvestment assets. The reason being that long-term spreads are much more relevant to the actual spreads at the asset purchase dates which may be far in the past, whereas current spreads are more relevant to what is available for immediate asset purchases, and long-term spreads being more relevant to asset purchases longer in the future. At most times tables F and H should be close, but when they differ the current spreads will only be reasonable for periods of time near the current time.

Also, the definition of “Complex Asset” is too broad brush. It should be refined. For example, “Complex Assets” are assets that are included in Schedule DB of the Blue Book or similarly complex assets.