



AMERICAN ACADEMY *of* ACTUARIES

June 17, 1998

Ms. Jane Kipper
NAIC
120 West 12th Street
Kansas City, Missouri 64105

Re: Statement of Statutory Accounting Principle #69
Financial Guaranty Insurance

Dear Ms. Kipper:

The American Academy of Actuaries Committee on Property and Liability Financial Reporting (COPLFR) would like to provide comment on SSAP #69. COPLFR notes an apparent inconsistency between SSAP #69 and SSAP #65 relating to the discounting of reserves. In particular, SSAP #65, "Property and Casualty Contracts" indicates that when establishing discounted loss reserve liabilities using a non-tabular method, in no event shall the rate used exceed the lesser of

- a) If the company's statutory invested assets are at least equal to the total of all policyholder reserves, the company's net rate on statutory invested assets, less 1.5%, otherwise, the company's average net portfolio yield rate less 1.5%; or
- b) The current yield to maturity on a United States Treasury debt instrument with maturities consistent with the expected payout of the liabilities.

However, SSAP #69 indicates that the discount rate for Financial Guaranty loss reserves be equal to the average rate of return on admitted assets.

COPLFR was unclear as to the rationale for having different discounting standards in SSAP #65 and SSAP #69 (unless perhaps the justification lies in the fact that SSAP #69 also provides for a contingency reserve for Financial Guaranty insurance). In addition, COPLFR recommends that investments in insurance subsidiaries be excluded from the yield calculations indicated in both SSAP #65 and SSAP #69.

Sincerely,

J A. Lommele FCAS, MAAA, FCA
Chair
Committee on Property and Liability Financial Reporting

cc: M. Toothman
G. Vass
COPLFR Members

