ACLI
Financial Security for Life

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Mr. Mike Boerner
Chair, NAIC Life Actuarial Task Force (LATF)

Mr. Fred Andersen
Chief Life Actuary, Minnesota Department of Commerce

Re: December Exposure of Proposed Actuarial Guideline on Complex Assets in Asset Adequacy Testing

Dear Messrs. Boerner and Andersen:

The American Council of Life Insurers (ACLI) appreciates the opportunity to submit the following comments on the December exposure of the proposed Actuarial Guideline to address the modeling of complex assets in Asset Adequacy Testing (AAT).

Consistent with our prior letter, ACLI suggests an initial approach of providing disclosures within the Valuation Manual, coupled with more immediate guidance to address the immediate concerns of regulators. ACLI recommends three components for the regulatory guidance: 1) a clear definition of "complex assets" in VM-01; 2) requirements for disclosures in VM-30 based on the materiality of the assets, the level of complexity of the asset, and the assumed net yield of the asset; 3) state disclosure request for YE 2022 to reflect the requirements for the 2023 Valuation Manual.

1) Definition of Complex Assets

ACLI suggests the following preliminary definition for consideration by LATF; if deemed beneficial, there could be a guidance note that provides examples of the types of assets in and out of scope of this definition.

The term "complex assets" means structured securities and asset-backed securities with

a) materially different uncertainty in the timing and amount of cashflows than otherwise present in traditional bond investments, and
b) limited historical data available to set assumptions around the expected performance of such assets.

The rationale of this definition was to provide a flexible, principle-based approach to enable regulators to better understand the assets under consideration. Simple comparison to the yield of rated traditional bonds may be inadequate due to significant differences in cash flows; further, focusing on yield alone may fail to capture risks associated with these assets.

2) Disclosure requirements

ACLI suggests the following principles around disclosures for inclusion in VM-30:

i) Materiality: Consistent with our prior comment letter, guidance should include size/materiality thresholds for both the size of the block and the material use of complex assets. Immaterial current or projected amounts of complex assets should be exempt from additional disclosure requirements.

ii) Level of disclosure: Disclosure requirements should be linked to both the complexity and the net yield of the asset. The greater complexity and assumed net yields for such assets, the more robust the disclosures should be to justify the assumptions used in the projection of such assets.

iii) Transparency on initial and future yield assumptions: Disclosure requirements should support the initial and future yield assumptions, nature of the risks, and demonstrate that modeling adequately recognizes risks associated with such assets.

iv) Sensitivity testing: To the extent constraints or guardrails are deemed necessary to address regulator concerns in addition to enhanced disclosures, they should be considered in the context of sensitivity testing within the asset adequacy testing process.

3) Additional guidance on additional disclosures for YE 2022 reporting

ACLI appreciates the concern of regulators regarding the use of these assets and would like to work with regulators to develop a path forward that maintains the asset adequacy requirements within VM-30 and provides guidance to companies before 2023. ACLI suggests a guidance letter from LATF or individual regulators to provide these additional disclosures either within or as a supplement to the Actuarial Opinion for the reporting year before such an amendment can be operative in the Valuation Manual.

We appreciate the consideration of our comments and look forward to discussing on a future call. Thank you.

Sincerely,

cc: Reggie Mazyck, NAIC