AMERICAN ACADEMY of ACTUARIES
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September 29, 2022

Ms. Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: Academy transition guidance for APF 2022-04 on swap spreads and LIBOR transition to SOFR (the "APF"), and for the anticipated next version of a related memo (the "Memo") from NAIC staff.

Dear Ms. Hemphill,

The Life Reserves Work Group, Annuity Reserves and Capital Work Group, and Variable Annuity Reserves and Capital Work Group of the American Academy of Actuaries[1] (the "Academy") appreciates the opportunity to provide comments on this topic. The Academy is thankful to LATF and NAIC staff as well for the July 30 LATF adoption of the APF, June 9 and May 26 exposures of earlier versions of the APF and of the Memo, for the March 10 exposure of an even earlier version of the APF drafted by the Academy and an accompanying Academy presentation deck, and for considering Academy member views expressed in our July 21 and June 7 comment letters and in May through an informal drafting group discussion and follow-up emails.

The Academy has received an informal request from NAIC staff for transition guidance with regards to the APF and the Memo.

On timing for the effective date of the next version of the Memo:

The Academy recommends that LATF not attempt to adopt a next version of the memo for September 30, as there are data discrepancies and other technical issues that need to be resolved

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

and there is not adequate time remaining for an exposure period. Instead, the Academy recommends that LATF plan for an effective date of December 31.

On transition guidance for valuation as of September 30:

On May 23, an NAIC e-mail to LATF Members, Interested Parties, and Interested Regulators stated the following:

> The Valuation Manual prescribes swap spreads to be used in calculating reserves under VM-20 and VM-21. These are shown in 2022 Table J Current and Long-Term Swap Spreads. The VM-20 prescribed swap spreads have been calculated using the average of LIBOR swap spreads from two third-party sources. The NAIC recently discovered that beginning December 31, 2021, one of the two sources began providing SOFR swap spreads instead of LIBOR swap spreads. Consequently, the rates published for 12/31/21 and subsequent months have been a 50/50 blend of LIBOR and SOFR. The exceptions are the swap spreads for the 3-month and 6-month tenors which continue to be based fully on LIBOR.
>
> [The NAIC is working toward discussions with both sources to ascertain their ability and desire to provide both LIBOR and SOFR through June 30, 2023, the date on which the publication of LIBOR rates is scheduled to cease.]

Given that the above data discrepancies were persisting as of August 31, and given language in VM-20 Section 7.F.8.d that notes that the prescribed spreads should be used "wherever appropriate," the Academy recommends that as of the September 30 valuation date, each company should assess whether the prescribed current benchmark swap spreads and prescribed current long-term swap spreads are appropriate for the company's calculations as of the valuation date. Such assessment should reflect the materiality of the estimated impact of the data discrepancies on the company's capital and surplus, its capital ratios, or any applicable hedging programs, reinsurance programs, or other capital management programs. If the prescribed swap spreads are materially inappropriate for the company as of the valuation date, the company should utilize non-NAIC data sources and reasonable estimates (including estimates to approximate the "85% conditional mean" methodology applicable for long-term benchmark swap spreads as described in VM-20 Section 7.G.3), which the company documents in an adequate manner, of

- current benchmark LIBOR swap spreads and/or current benchmark SOFR swap spreads, as appropriate; and
- long-term benchmark LIBOR swap spreads and/or long-term benchmark SOFR swap spreads, as appropriate.

This Academy recommendation would also apply for the valuation as of December 31, 2022, if LATF does not adopt a next version of the Memo, effective on or before December 31, 2022.

On transition guidance for the next version of the Memo and to implement APF 2022-04:

The Academy is currently deliberating on this topic. After the completion of our deliberations, the Academy is planning to prepare and submit to LATF in October or November another recommendation letter with transition guidance for the next version of the Memo and to implement APF 2022-04.

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The Academy appreciates the efforts of LATF and NAIC staff on the APF and Memo. If you have any questions or would like further dialogue on the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at barrymoilanen@actuary.org.

Sincerely,

Alan Routhenstein, MAAA, FSA
Member, Life Valuation Committee
American Academy of Actuaries