Cessation of the London Interbank Offered Rate (LIBOR)

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Agenda

- Background
- Actions Needed
  - Company Preparation
  - Valuation Manual Amendment
Background

- The UK’s Financial Conduct Authority is responsible for regulating LIBOR and has indicated that publication of LIBOR is not guaranteed beyond 2021

- The Alternative Reference Rates Committee (AARC) was formed in 2014 by the Federal Reserve Board and the NY Fed

- In 2017, the AARC identified the Secured Overnight Financing Rate (SOFR) as the rate that represents best practice for use in certain new USD derivatives and other financial contracts

- The AARC has 10 working groups to help ensure a successful transition from USD LIBOR to SOFR, e.g.:
  - Outreach/Communications Working Group
  - Regulatory Issues Working Group
  - Accounting/Tax Working Group
Actions Needed

- Insurance companies will need to take inventory of existing products and processes that use LIBOR, which may include:
  - Investments (e.g., floating rate debt, where the interest rate is reset periodically based on LIBOR; derivatives linked to LIBOR)
  - Contracts with policyholders (e.g., annuities with credited rate equal to LIBOR plus a margin)
  - Reinsurance treaties
  - IT feeds

- Take action where required to move toward SOFR or another rate (e.g. for annuity contracts with policyholders, file for approval with the IIPRC and notify owner)
Actions Needed

  
  Interest rate swap spreads over Treasuries shall be prescribed by the NAIC for use throughout the cash-flow model wherever appropriate for transactions and operations including, but not limited to, purchase, sale, settlement, cash flows of derivative positions and reset of floating rate investments. A current and long-term swap spread curve shall be prescribed for year one and years four and after, respectively, with yearly grading in between. **The three-month and six-month points on the swap spread curves represent the corresponding London Interbank Offered Rate (LIBOR) spreads over Treasuries.**

- VM-20 Spreads Drafting Group was formed to consider the changes needed to this language
Questions?