**MEMORANDUM**

TO: Carrie Mears, Chair, Valuation of Securities (E) Task Force

FROM: Rachel Hemphill, Chair, Life Actuarial (A) Task Force

Craig Chupp, Vice-Chair, Life Actuarial (A) Task Force

RE: Life Actuarial (A) Task Force Response to Bond Risk Measures Referral

DATE: May 5, 2023

**Background**

On February 13, 2023 a memorandum from the Valuation of Securities (E) Task Force (VOSTF) was received by the Life Actuarial (A) Task Force (LATF) requesting that the Task Force consider the following items:

1. Whether the LATF was supportive of the NAIC’s Securities Valuation Office (SVO) building out a new capability to calculate market and analytical information for bonds utilizing commercially available data sources and investment models,
2. Which investment analytical measures and projections would be most helpful to support the work of the LATF,
3. How the LATF would utilize the investment data and why it would be of value,
4. Whether other investment data or projection capabilities would be useful to the LATF that could be provided by commercially available data sources or investment models, and
5. Any other thoughts the LATF had on the SVO initiative.

**Recommendation**

At their public meeting on April 20th, 2023 the LATF developed the following responses with respect to the VOSTF referral: 1) the LATF was supportive of the SVO initiative to build out a new capability to calculate market data fields; 2) weighted-average life (WAL), option-adjusted spread (OAS), duration, and convexity are some of the most helpful measures, along with comparisons of credit rating provider ratings to SVO ratings, to support regulator review of principle-based reserves (PBR) and asset adequacy testing (AAT); 3) the investment data would be used to complement Actuarial Guideline 53 (AG 53), PBR, and AAT reporting, which is less granular than the proposed risks measures, to give regulators additional insights into the risk/reward profile of insurer assets while reducing the need for LATF stress testing, and; 4) that a description of the scenarios or situations where an asset (such as a collateralized loan obligation) could lose much of its value would assist regulators in assessing tail risk in PBR, AAT, and other reviews.