# Memo

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| **To:** | Cassie Brown, Chair, Life Actuarial (A) Task Force (LATF) |
| **From:** | Ben Leiser, Director, RRC |
| **Date:** | April 11, 2023 |
| **Subject:** | RRC Comments Regarding the Proposal for Valuation Manual Revised Hedge Modeling Language in VM-21 |
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**Background**

The Life Actuarial Task Force exposed for comment a proposal to revise the hedge modeling language in the Valuation Manual to address index credit hedging. RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss our comments with you and the LATF members.

**RRC Comments**

We generally agree with including updated language to address index credit hedging in VM-21 in light of its use in products that have recently experienced market growth, especially given recent regulator and audit agreement as to the interpretation of the current VM-21 guidance.

While we agree with the concept of an index credit hedge margin, it is unclear as to the rationale or support for the level of the proposed minimum guardrail of 1% or the proposed level of 20% if there is no company experience to support the margin.

1. It doesn’t appear appropriate that a company could have no experience to support their index credit hedging assumptions and assume that the hedging is effective with a 20% margin. If their hedging is not well designed, the margin of 20% could be too low. We suggest that there be a requirement for a company to provide justification and support for including hedging at all. In addition, the assumed margin included in the regulation should be justified and supported.
2. We also suggest that the guidance point to how the margin is set more generally; e.g., the less experience and the more volatility, the higher the required margin, and to include model based testing of the appropriateness of the margin, in a range of interest rate environments.

We also suggest that LATF consider whether to implement this change as a temporary measure and update accordingly when VM-22 is in place, given that the exposure is intended to align the index credit hedging guidance between VM-21 and VM-22; this would ensure that they be kept in alignment from the start and not result in different or inconsistent requirements or margin guardrails.

Thank you for the opportunity to provide comments on this important initiative. I can be reached at [ben.leiser@riskreg.com](mailto:ben.leiser@riskreg.com)/(201) 870-7713 if you or other LATF members have any questions.