Date: March 27, 2023

Virginia is submitting comments regarding the following exposure:

**APF 2023-05 (Index Credit Hedging)**

**Comments:**

In Section 4.A.4.b.i of VM-21, the language used should be consistent with the new definitions of “index credit” and “index crediting strategies”. Therefore, I propose changing “For a future hedging strategy with hedge payoffs that solely offset interest credits associated with indexed interest strategies (indexed interest credits):” to read as follows: “For a future hedging strategy with hedge payoffs that solely offset interest credits associated with index crediting strategies (index credits):” Also, should be changed in the proposed VM-22.

For a company that does not have a future hedging strategy supporting the contracts, only VM-21 Section 4.A.4.a applies and the company does not need to calculate a CTE70 (best efforts) and CTE70 (adjusted) in VM-21 Section 9. The changes in APF 2023-05 allow companies whose only hedging strategies are those associated with index crediting strategies to use an Index Credit Hedge Margin in cash flows without the need to calculate a CTE70 (best efforts) and CTE70 (adjusted) in VM-21 Section 9. Therefore, the phrase in Section 4.A.4.b.i(c), “in both the ‘best efforts’ and the ‘adjusted’ runs” is confusing and unnecessary and should be removed. Rather, the following new subsection should be added under Section 4.A.4.b.ii, similar to subsection Section 4.A.4.b.ii(c) in VM-22: “Consistent with Section 4.A.4.b.i, if the company has an indexed credit hedging program, the index credit hedge margin for instruments associated with index credits shall be reflected by reducing hedge payoffs by a margin multiple as defined in Section 4.A.4.b.i(c) in both the CTE70 (‘best efforts’) and CTE70 (‘adjusted’) runs.”

1. In VM-21 Section 4.A.4.b.ii(b), the phrase “and only future hedge purchases associated solely with indexed interest credited” should be removed. This phrase is unnecessary since such future hedge purchases are not modeled but rather future hedge purchases associated with index credits are reflected in the Index Credit Hedge Margin. For the same reason, in Section 9.C.2, the phrase “except hedge purchases solely related to strategies to hedge index credits” should be removed.
2. The new subsections being added in VM-31 Section 3.F.8.d should be “x” and “xi”, rather than :”x” and “y”.

We need to make sure that corresponding changes are made to the draft VM-22, if necessary. Thank you for your consideration of these comments.

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