

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Brian Bayerle, ACLI – Interest Rate Swap Spread Determination

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual Jan. 1, 2020 Edition; VM-20 Section 9.F.8.d., VM-31 Section 3.D.6.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)

See attached.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

Interest Rate Swap Spreads are currently being calculated by the NAIC under methodology outlined in the Valuation Manual. With the forthcoming termination of LIBOR, the requirements of the Valuation Manual will need to change. This APF provides broad guidance allowing for one or more currently unnamed rate to replace LIBOR in these calculations. Additionally, it allows the company to calculate its own current rates only using market observable values. The spread requirements are currently included in VM-20, with VM-21 referencing the applicable sections. With the potential of VM-22 likely having similar references, LATF may want to consider moving these and other asset requirements to their own section.

* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
05/4/20			
Notes: VM APF 2020-06			

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VM-20 Section 9.F.8.d

Interest rate swap spreads over Treasuries shall be ~~prescribed~~ calculated 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.~~

The company may elect to produce their own current swap spread curves based on current observable rates. The company will document the data source(s) of the observable rates in the VM-31 report.

Guidance Note: The swap curves should be determined by the NAIC using appropriate market-observable rate or rates. The London Interbank Offered Rate (LIBOR) spreads over Treasuries was the defined spread curves up to and including the 2020 NAIC Valuation Manual, however with the expectation that this rate will be terminated, the rate or rates used in the calculations should be replaced with the most appropriate rate or rates that replace LIBOR for the specified purpose.

VM-31 Section 3.D.6.v (additional bullet):

v. Current Swap Spreads Data Source: If the company used something other than the NAIC produced current swap spreads as permitted by VM-20 Section 9.F.8.d, documentation of the data source(s) used in the determination of the swap spreads.

VM-31 Section 3.F.4.h (additional bullet):

v. Current Swap Spreads Data Source: If the company used something other than the NAIC produced current swap spreads as permitted by VM-20 Section 9.F.8.d, documentation of the data source(s) used in the determination of the swap spreads.