Concept for APF to Limit Cherry-Picking Assets in PBR

- Key PBR Principle
  - Require consistency between the model portfolio and actual company management practices

- Details
  - Scope
    - Applies to VM-20, VM-21, VM-22, VM-30, and VM-31
    - Applies to all starting assets, both fixed income and non-fixed income assets, as well as negative IMR
    - Although the "key principle" above is intended to apply to both starting assets and reinvestments, new requirements introduced by this APF will only apply to starting assets in general account portfolios (not reinvestments)
    - New requirements also apply to non-insulated separate accounts (e.g., certain PRT and RILA contracts) if there is any asset segmentation to support different products/liabilities within a single account
  - Multiple items of documentation will be required to support the asset segmentation within the model portfolio
    - If documentation requirements are not met, the company shall reflect a model portfolio that represents a prorata slice of the entire actual company general account portfolio
      - If documentation is not provided, a prorata slice of the portfolio is not a safe harbor
      - To accomplish this, will include wording to clarify that prorata cannot be held if a company thinks its modeled reserve would be higher if reflecting actual company management practices
      - Therefore, VM will not require two runs to determine whether prorata or anticipated portfolio is greater (as is the case with the reinvestment guardrail)
      - Note this will not be a requirement unless documentation is not provided to support ALM modeling is consistent with reality
    - "Prorata" refers to a proportionate slice of the entire general account portfolio, even if the portfolio supports multiple VM chapters, product lines, and surplus

- Use the same starting assets to support different blocks between PBR and VM-30

- Documentation Requirements (all items are required, pending any exemptions stated in this document)
    i. Excel Template - Fill out a prescribed excel template for VM-30 and VM-31 that requires the following:
        1. Mapping between groups of asset and liabilities which they support (note: does not imply pre-PBR and PBR liabilities are different groups, unless the company's management practices reflect such)
        2. Confirmation of mapping across PBR, CFT, ALM, and NGE determination
        3. Asset duration and liability duration for each segment
        4. Brief description of ALM strategy (e.g., tolerance between asset and liability matching, convexity, cash flow matching, and any other risk management measures for ALM)
        5. Brief description of investment governance structure
    ii. ALM Documentation - Materials explaining ALM strategy (e.g., duration matching within a certain range, cash flow matching, treatment for convexity. liquidity considerations)
    iii. Attestation – Attestation from a company officer that assets in the model portfolio are consistent with actual company investment practices
        - Separate attestations for VM-30 and VM-31
    iv. Investment Governance Structure – Minutes or materials from an investment governance committee that further supports model asset allocation being consistent with real company management practices
    v. Inforce Management – Documentation that the company is setting crediting rates (UL, deferred annuities), dividend surplus contributions (participating products), or other non-guaranteed elements using asset segmentation that is consistent with the PBR and CFT models
        - Note: This is not to review the appropriateness of NGE decisions themselves, but rather consistency of how asset segments are used in determining NGE decisions compared to models used for PBR/CFT.
        - The goal is not for crediting rates in a model to dictate how to set NGEs in reality; this is just to collect evidence that the assets in the model are consistent with company practices

    vi. Annual Updates – Specific disclosure for any changes made compared to the prior year

- VM-21 & VM-22 Full Inforce Exemption
  - Upon inforce application of VM-22, any company that brings in all inforce business into PBR, the above disclosure requirements do not apply to VM-21 or VM-22, with the exception of the attestation requirement
    - This exemption does not apply to VM-20
    - This exemption still applies, even if exclusion testing is conducted within VM-22
      - If a company has all business in PBR, but passes exclusion testing for half of it, for example, the exclusion test still assumes the allocation of starting assets used and these assets cannot be used elsewhere
- Other
  - Exemption for no portfolio segmentation and only prorata – If the company has no segment breaks within a given portfolio and uses the full portfolio to support the liabilities (i.e., prorata mix), no documentation is needed other than an attestation
  - Reinsurance – The requirements in this proposal are post-reinsurance
  - Segmentation between liabilities and surplus – To the extent that asset segments/mixes within a single portfolio are different between liabilities and surplus, documentation should be provided to show this is consistent with actual company practices