



AMERICAN ACADEMY of ACTUARIES

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June 7, 2022

Mr. Michael Boerner,
Chair, Life Actuarial (A) Task Force (LATF)
National Association of Insurance Commissioners (NAIC)

Re: LATF's May 26, 2022, exposure of a revised version of APF 2022-04 on Swap Spreads and LIBOR transition to SOFR (the "APF"), and a related memo (the "Memo") from NAIC staff

Dear Mr. Boerner,

The Life Reserves Work Group, Annuity Reserves and Capital Work Group, and Variable Annuity Reserves and Capital Work Group of the American Academy of Actuaries¹ (the "Academy") appreciates the opportunity to provide comments on the APF and Memo. The Academy is thankful to LATF and NAIC staff as well for the March 10 exposure of an earlier version of the APF drafted by the Academy and an accompanying Academy presentation deck, and for considering Academy member views earlier in May through an informal drafting group discussion and follow-up emails.

The Academy is supportive of the exposed documents, though we have the following comments on actuarial judgment and suggested refinements to the documents to improve clarity.

Although the APF and Memo depart from the Academy's March recommendation that the NAIC continue to publish LIBOR swap spreads for as long as the NAIC can obtain supporting data from two data providers, the Academy is supportive of the approach taken in the May 26 exposures as it allows for appropriate actuarial judgment. More specifically, on or after the Memo effective date (e.g., possibly June 30, 2022) if an insurer has an asset, liability or other financial instrument subject to principles-based valuation that has a floating rate based on LIBOR, LIBOR swap rates or LIBOR swap spreads, such floating rate will no longer be prescribed under VM-20 and thus will need to be estimated by the qualified actuary via the use of actuarial judgment. The Academy believes that the expertise to perform such estimation is well within

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

the professional experience of many actuaries working with annuity or interest sensitive life blocks, yet anticipate that a variety of reasonable approaches might be used for estimation.

The Academy's comments on the APF and the Memo appear in the margin of refined versions of these documents, which are attached. In summary:

- The APF includes five self-explanatory comments that begin with "To improve clarity", one self-explanatory comment that begins with "To improve concision", and one comment that suggests for parallel construction the inclusion of a new Guidance Note (verbatim from the Memo, that begins with "Actuarial judgment may be required").
- The Memo includes two self-explanatory comments that begin with "To improve clarity", and one self-explanatory comment that begins with "To improve concision".

The Academy appreciates the efforts of LATF and NAIC staff on the APF and Memo. If you have any questions or would like further dialogue on the above topics, please contact Amanda Barry-Moilanen, Life Policy Analyst, at barrymoilanen@actuary.org.

Sincerely,

Alan Routhenstein, MAAA, FSA
Member, Life Valuation Committee
American Academy of Actuaries