

Draft date: 9/29/26

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Tuesday, October 6, 2026

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Ben Slutsker, Chair	Minnesota	William Leung	Missouri
Philip Barlow, Vice Chair	District of Columbia	Michael Muldoon	Nebraska
Sheila Travis/Sanjeev Chaudhuri	Alabama	Jennifer Li	New Hampshire
Thomas Reedy	California	David Wolf	New Jersey
Wanchin Chou	Connecticut	William B. Carmello	New York
Hannah Howard	Florida	Andy Schallhorn	Oklahoma
Matt Cheung	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah

NAIC Committee Support: Kazeem Okosun/Maggie Chang

AGENDA

1. Receive Comments on the Reinsurance Recapture Charge from the Financial Condition (E) Committee Referral—*Ben Slutsker (MN)*
 - A. Northwestern Mutual Attachment 1A
 - B. Cayman International Reinsurance Companies Association (CIRCA) Attachment 1B
 - C. Everlake Attachment 1C
 - D. Athene Attachment 1D
 - E. American Council of Life Insurers (ACLI) Attachment 1E
 - F. American Academy of Actuaries (Academy) Attachment 1F
2. Discussion questions related to the reinsurance recapture charge from the Financial Condition (E) Committee referral —*Ben Slutsker (MN)* Attachment 2
3. Receive Notification from the Statutory Accounting Principles (E) Working Group’s Intention to Sponsor a Proposal on a Referral on Asset Value Reserve (AVR) Affiliated Common Stock—*Ben Slutsker (MN)* Attachment 3
4. Consider Adoption of its Working Agenda—*Ben Slutsker (MN)* Attachment 4
5. Discuss Any Other Matters Brought Before the Working Group —*Ben Slutsker (MN)*
6. Adjournment

LRBCWG Exposure on Reinsurance Recapture Charge from E Committee Referral

The first change the Financial Condition (E) Committee directed in its referral to the Life Risk-Based Capital (E) Working Group is to create a reinsurance recapture charge for reinsurance to entities in non-reciprocal jurisdictions, starting at year-end 2027. The memo states “*The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves.*”

1. Method – Please assess which of the following methods would most appropriately implement this specific change, as worded in the memo:
 - a. Factor Approach - Create an additional RBC charge applied to ceded reserves and modified coinsurance balances to approximate the additional capital required upon recapture, reduced for overcollateralization
 - b. Non-Allowance of RBC Credit – Explicitly include adjustments for each RBC component to not allow reinsurance credit for RBC for transactions in scope
 - c. Other – Another approach that appropriately captures the specific E Committee change outlined in its directive to the Working Group

2. Asset Composition – One concern is whether excess of loss reinsurance, letters of credit, otherwise non-admitted assets, parental/affiliate guarantees, and similar types of assets can be approved as collateral to offset the new RBC recapture charge. Which of the following appropriately addresses these concerns?
 - a. If permitted assets are less than the US statutory reserve credit, charge the difference as RBC
 - b. If permitted assets (e.g., defined as AG 48 Primary Security, AG 55 non-Guideline Excluded Assets, etc.) are less than a PBR-type of calculation for ceded reserves, charge the difference as RBC
 - c. Any other approaches to address these concerns

Note: The referral has already been approved and issued by the Financial Condition (E) Committee, a parent committee of the Working Group. The Working Group is tasked with determining how to implement the directives therein; the Working Group does not have the authority to change directives from its parent committee. Please keep any comments focused on how to implement the changes outlined in the memo rather than attempting to modify or override them.

MEMORANDUM

To: Ben Slutsker (MN), Chair of the Life Risk-Based Capital (E) Working Group

From: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

Date: July 27, 2026

Re: Reinsurance Recapture and Counterparty Risk

As you are aware, an increasing number of U.S. life and annuity insurers have ceded large portions of their business to reinsurers in non-U.S. jurisdictions in recent years. Most of this business has been ceded to reinsurers in Bermuda, which has been recognized as a reciprocal jurisdiction and has continued to make meaningful enhancements to its regulatory system in recent years. Overall, many of the regulatory changes adopted by the Bermuda Monetary Authority (BMA) have been viewed positively by U.S. regulators, and states with experience collaborating with the BMA generally report a favorable view of Bermuda as a reciprocal jurisdiction.

While reinsurance is a risk-mitigation tool that diversifies the risks borne by insurers, it also changes the nature of those risks. In life and annuity reinsurance, pricing/underwriting, reserving and market risks are transferred to the reinsurer and replaced by credit risk. As a result, the cedent's primary concern becomes the reinsurer's ability to meet its obligations and the possibility that the ceded business may need to be recaptured.

Reinsurance has long been used to stabilize life and annuity operations, support growth, and mitigate risk. Historically, however, its use in the U.S. has been relatively limited, accounting for only 6% of policy obligations in 1999.¹ After the global financial crisis (GFC), declining interest rates placed significant pressure on annuity writers, leading many U.S. insurers to sell or reinsure substantial portions of their business. Increasingly, those transactions have been executed with reinsurers domiciled outside the U.S. to take advantage of lower taxes and other regulatory benefits.²

¹ See the Federal Reserve, [Accounting for Reinsurance Transactions in the Financial Accounts of the United States, Accessible Data](#).

² The Society of Actuaries Research Institute February 2026 report, [International Reinsurance Landscape Overview for U.S. Life & Annuities](#), synthesizes why and how U.S. carriers are using cross-border solutions, the structures they choose (third-party, affiliates, and sidecars), and where they domicile them.

As more business is ceded to jurisdictions outside the U.S., recapture risk also increases. Beyond the operational complexities of recapturing previously ceded business, returning those policies to the cedent's balance sheet would increase capital requirements.

In 2025, the NAIC adopted *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves for Certain Life Reinsurance Treaties* (AG 55). Preliminary reviews that the NAIC's Valuation Analysis (E) Working Group conducted indicate that business ceded to unauthorized reinsurers generally comes from newer, relatively small annuity writers offering aggressive crediting rates. These transactions also tend to produce larger reductions in total asset requirements than comparable business ceded to Bermuda.

As a result, the ceding company may face greater capital strain if the business must be recaptured or if the reinsurer experiences solvency issues. Many state insurance regulators believe this risk warrants immediate attention given the increase in the continued growth in offshore reinsurance transactions.

Therefore, the Committee directs that the Life Risk-Based Capital (E) Working Group develop the following two changes to the life RBC formula:

- A reinsurance recapture RBC factor to be applied to ceded reserves and modified coinsurance balances for all reinsurance located outside of reciprocal jurisdictions while of course considering an overcollateralizing of the reserves in establishing the required RBC. The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves.
- To account for increased credit risk for reinsurers that have lower financial strength ratings, modify the reinsurance methodology used in the life RBC formula for recoverability risk by aligning with the approach used in the property/casualty (P/C) RBC formula.

Because the NAIC already has a contract with Bridgeway Analytics, the firm is available to assist with this work. The Committee directs that these efforts be prioritized so that the changes are in place for year-end 2027.

If there are any questions regarding this referral, please contact NAIC committee support (Dan Daveline, ddaveline@naic.org) for further clarification.

Andrew T. Vedder

Vice President – Enterprise Risk Management

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andrewvedder@northwesternmutual.com

September 23, 2026

Mr. Ben Slutsker
Chair, NAIC Life Risk-Based Capital (E) Working Group

Re: Reinsurance Recapture Risk-Based Capital Exposure

Dear Mr. Slutsker:

Northwestern Mutual appreciates the opportunity to comment on the exposure issued by the Life Risk-Based Capital (E) Working Group (Working Group) regarding reinsurance recapture risk-based capital (RBC). As a company that has engaged extensively on solvency, capital, reserve, and reinsurance issues, we support the NAIC's continued evaluation of whether existing regulatory frameworks remain appropriately aligned with the evolving use of reinsurance within the life insurance industry. Reinsurance serves an important and valuable role, and we believe the current NAIC initiative represents a constructive step in the broader discussion. While the exposure includes specific questions for comment, our comments below focus on broader regulatory considerations that we believe are important to the Working Group's continued evaluation of reinsurance recapture risk.

Clarity of Regulatory Objectives

We recognize that concerns regarding reinsurance recapture risk have become an important NAIC priority, including through direction from the Financial Condition Committee. As this work progresses, we encourage the NAIC to clearly articulate the specific regulatory concern it is seeking to address and evaluate potential responses against that objective. A common understanding of how recapture risk can arise, how it may affect policyholder protection, and how the RBC response is intended to operate will help ensure that any policy response is appropriately calibrated and does not create new regulatory gaps.

Longstanding Regulatory Principles

In our 2022 comment letter to the NAIC's Macroprudential Working Group on offshore reinsurance, we expressed concern about the potential for gaps in the existing solvency regulatory system to be exploited. At the time, we offered three core concepts of insurance regulation to form the basis for future NAIC activity: uniformity, transparency, and strong reserving and capital standards. We believe those principles remain relevant as the NAIC evaluates how reinsurance-related risks should be reflected in the RBC framework.

Focus on the Underlying Risk

While we support the NAIC's decision to evaluate recapture risk associated with non-reciprocal jurisdictions, we do not believe the underlying concern is limited to that category of transactions. Similar considerations may arise in reciprocal jurisdictions, captive transactions, and other structures, depending on the nature of the arrangement, the alignment with NAIC accreditation standards, and the resources ultimately available to support policyholder obligations. We therefore encourage the NAIC to focus on underlying economic risks rather than rely exclusively on jurisdictional classifications. Over time, a durable framework should ensure that similar risks are considered consistently regardless of where they arise.

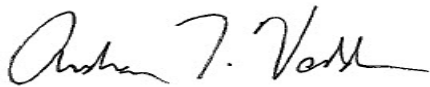
Reciprocal Jurisdiction Framework and Future Review

The current exposure also highlights a broader question regarding the role of jurisdictional status within the NAIC's solvency framework. The jurisdictional constructs were developed within the credit for reinsurance system to support cross-border reinsurance recognition and collateral-related requirements. They were not developed as determinations of equivalence to the NAIC solvency framework or as a basis for assigning RBC treatment. If the Working Group's reinsurance recapture RBC initiative results in differentiating capital requirements by reciprocal jurisdictional status, we believe review and further development of the reciprocal jurisdiction framework should be prioritized to ensure it is appropriate for these broader purposes.

Looking Forward

Northwestern Mutual views the current exposure as one step in a longer-term discussion regarding how the NAIC addresses evolving reinsurance practices and maintains confidence in the state-based solvency framework. We encourage continued consideration of how this work aligns with broader efforts involving reinsurance, capital, reserving, and financial oversight. Long-term success should be measured by whether the resulting framework reflects underlying economic risks, addresses the targeted concerns without creating new regulatory gaps, and supports a strong and credible solvency system for policyholders. We appreciate the Working Group's efforts and look forward to continued engagement as these issues evolve.

Sincerely,



Andrew T. Vedder
Vice President – Enterprise Risk Management
The Northwestern Mutual Life Insurance Company



Mr. Ben Slutsker
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-21971

September 23, 2026

Re: LRBCWG Exposure on Reinsurance Recapture Charge from Financial Condition (E) Committee Referral

Dear Mr. Slutsker:

The Cayman International Reinsurance Companies Association (CIRCA) appreciates the opportunity to comment on the Life RBC (E) Working Group's (the Working Group) exposure regarding the reinsurance recapture charge directed by the Financial Condition (E) Committee's July 27, 2026, referral. CIRCA has separately raised with the Committee its concerns about the process by which the referral was developed and the basis for concluding that additional RBC is the appropriate response. That letter is attached as an Appendix so those concerns form part of this Working Group's record.

CIRCA supports rigorous examination of risks and effective supervision to protect policyholders. We recognize the important role of adequate capital and strongly support the state-based system of insurance regulation.

The Financial Condition (E) Committee's referral directs two separate changes:

- a recapture factor applied to ceded reserves and modified coinsurance balances outside reciprocal jurisdictions, considering overcollateralization; and
- a distinct revision to recoverability for reinsurers with lower financial strength ratings.

The Working Group's exposure concerns only the recapture charge, on which it asks two questions – the method of implementation, and the treatment of asset composition and collateral. This letter answers both and raises the considerations we believe should shape the work. However, our response to the Working Group's exposure should not be misunderstood as agreement that an additional RBC requirement is necessary.

One principle runs through the comments below: risk-based capital reflects both the consequences of a recapture event and the likelihood that it occurs. The reserve (net of eligible collateral) and capital that a

cedant needs to establish after a recapture are both contingent on the recapture occurring and must be adjusted for likelihood. A ceding company facing the prospect of forced recapture would likely negotiate, re-reinsure, or restructure first; which impacts the level of that severity. Each enumerated method as currently drafted by the Working Group would apply that severity in full to business ceded outside reciprocal jurisdictions which presumes a forced recapture is certain. The NAIC has access to tools relevant to this assessment such as AG55 (which is an evolving standard requiring further development), financial strength ratings or other forms of financial strength analyses, and the existing counterparty risk charge under the current RBC formula.

The referral directs the charge be applied only to reinsurers domiciled in non-reciprocal jurisdictions. Reciprocal status is not a measure of counterparty risk and does not distinguish between strongly and weakly capitalized reinsurers. Jurisdictional status cannot serve as a proxy for the likelihood of recapture. Recapture risk exists across all reinsurers in varying degrees, and a charge that does not reflect that variation is not risk-based. The capital impact of a forced recapture is the same for the ceding company, regardless of the jurisdiction of the reinsurer and if the charge is likelihood based, it would not violate obligations for covered agreements or reciprocal jurisdictions.

1. Method — CIRCA recommends a modified option 1(a), the Factor Approach

As presented, Option 1(a) does not define scope, distinguish collateral available to re-establish reserves from resources available for incremental RBC strain, explicitly reflect the likelihood of recapture, or account for the existing 0.78% counterparty risk charge on uncollateralized ceded balances.

CIRCA supports Option 1(a) with certain modifications:

- All business ceded effective 31-Dec-2027 or prior be scoped out as that business will have already been priced by the cedant and the reinsurer prior to these requirements. Retroactive application of a new risk charge would have wide ranging impacts with potentially unintended consequences for US domestic insurers.
- Stress/cashflow testing should be used to identify transactions with material risk of collateral deficiency and recapture under stress. The recapture charge should only apply to transactions identified under a defined methodology.
- A factor approach also maintains continuity with the existing LR016 treatment of reinsurance counterparty risk. The existing 0.78% factor incorporates credit quality through Category 1 and 2 bond factors. Any incremental recapture factor should similarly reflect recapture likelihood, with an expanded AG55 testing to a certain confidence level (e.g. VaR 99.5 or CTE99 over a one-year horizon in line with IAIS standards) and/or financial strength ratings or other forms of financial strength analyses as tools to develop measures of the reinsurer's ability to meet its obligations. This would produce a risk-based result: stronger, well-capitalized counterparties that demonstrate the ability to perform should attract a lower or no incremental charge, while weaker counterparties or transactions showing material stress deficiencies would attract a higher charge.

- The approach should separately identify (i) assets available to re-establish the required U.S. statutory reserve after recapture and (ii) resources available to meet the cedent's incremental capital strain. Qualifying collateral, including overcollateralization, should be recognized to the extent it is legally available for (i); overcollateralization maintained solely to remedy a reserve deficiency should not automatically reduce (ii).

Hence, in the factor-based approach, the severity should be reduced for all legally available collateral (including funds withheld and Mod-co balances, and not just over-collateral). It is this severity, net of all legally available collateral, that the likelihood should be applied to.

Option 1(b) goes against the referral as non-allowance is binary and cannot vary with overcollateralization as the Committee directed. It recreates the requirement for the gross risk – in effect assuming a 100% probability of recapture and would apply uniformly on arrangements which differ materially in counterparty strength, in collateral, and in the actual likelihood that a recapture occurs. Recapture likelihood and severity depend on many variables such as market conditions, asset liability mismatch, type of reinsurance product, and counterparty financial strength. CIRCA recommends a multi-dimensional view by determining a grid of factors, with a periodic review as conditions change.

2. Asset Composition — CIRCA recommends an approach under option 2(c)

The exposure asks whether excess of loss reinsurance, letters of credit, otherwise non-admitted assets, parental and affiliate guarantees and similar items can be approved as collateral to offset the new RBC charge. That is a question about which assets qualify against a capital requirement. Options 2(a) and 2(b) address something else and do not answer the question. Each compares permitted assets to a reserve measure — the U.S. statutory reserve credit, or a PBR-type calculation — and so addresses the assets supporting the reserve credit. That is the subject of the credit for reinsurance framework, which the Credit for Reinsurance Model Law (#785) and the related statutory accounting requirements already determine. It is not the question the referral put to the Working Group.

CIRCA recommends an approach under option 2(c) that all assets deemed admitted by the cedent's domiciliary commissioner should be recognized for purposes of meeting the charge. Additionally, the approach should recognize each form of protection according to the extent it is available to the cedent under the adverse event. Recognition should turn on legal enforceability, accessibility, liquidity, stressed value, replacement capacity, the applicable RBC treatment and where protections depend on a third party – that party's financial strength and the conditions and timing of payment. The objective is to measure actual availability of the asset to the company under the adverse event, rather than to grant or deny credit on the basis of an asset's categorization.

3. Additional Considerations

Disaggregate the risks being capitalized. Recapture probability, counterparty default, concentration, collateral adequacy, asset quality, liquidity and replacement capacity are related but distinct and should not be combined under a general characterization of offshore reinsurance risk. The capital required after an assumed recapture speaks to the severity of that event, it does not take into account the likelihood of a forced recapture and therefore does not adequately establish the capital requirement.

Establish materiality at the market and the cedent level. The Bridgeway Analytics presentation to the RBC Model Governance (EX) Task Force on August 13, 2026, reports approximately \$2.85 trillion in life reserve credit and modified coinsurance balances, of which roughly \$135 billion — about 4.7% — is associated with non-reciprocal jurisdictions. Those figures identify an exposure worth analyzing; they do not establish materiality or demonstrate the capital required. In fact, exposure is substantially greater to reciprocal-jurisdiction reinsurers given the volume of business ceded and the absence of collateral requirements for reserve credit. A smaller exposure may matter more for a cedant with concentrated counterparties or limited replacement capacity. Scope and calibration should therefore be based on actual risk, using objective measures such as financial strength ratings or other forms of financial strength analyses and AG 55 or a similar methodology rather than jurisdictional status alone.

Remove duplication in the factor, not in the formula. The recapture charge and the recoverability revision address different consequences of what may be a single event and should be developed as separate measures with separate exposure bases without double counting. Counterparty credit quality is the likely point of overlap. Any overlap, other than the counterparty credit quality, must be eliminated in the factor calibration.

Test before calibrating. Any proposed factor should be supported by impact testing across a representative range of transaction structures, counterparties, collateral arrangements, jurisdictions and cedent concentrations, and the factor schedule should be separately exposed for comment with the supporting calibration analysis.

Distinguish jurisdiction designation from risk. Reciprocal and qualified jurisdiction status are indications that the NAIC has conducted an evaluation of the jurisdiction's reinsurance supervisory system but that is not the same as considering an individual reinsurer's risk. In fact, recent experience involving a reinsurer in a reciprocal jurisdiction is clear evidence that jurisdiction status alone is not an adequate proxy for recapture risk. A rational reinsurance market needs a level playing field. Applying an additional capital charge based primarily on a reinsurer's jurisdiction, rather than the underlying risk, is anti-competitive in effect: by removing capital and risk-management value from ceding to reinsurers in non-reciprocal jurisdictions, the proposal confines capacity to jurisdictions already recognized and limits the development of other well-regulated markets. The resulting reduction in reinsurance capacity and competition could increase costs for U.S. insurers and consumers, while also making it more difficult for the industry to expand retirement and longevity protection and address the broader protection gap.

Consider the effect on jurisdictional concentration. Access to multiple well-regulated jurisdictions supports capacity, competition and product innovation, particularly for smaller and emerging annuity writers. Concentrating reinsurance capacity in a small number of jurisdictions creates its own exposure to jurisdiction-specific disruption. Impact testing should consider whether the proposed factors would increase that concentration.

Coordinate with the Life Actuarial (A) Task Force and Coordinate across the concurrent NAIC efforts. The Life Actuarial (A) Task Force is developing Additional Guidance for year-end 2026 AG 55 analyses. Given the directive from the E Committee and the alignment with LATF's initiative, CIRCA recommends coordinating efforts with LATF and the Valuation Analysis (E) Working Group. Not only could this coordinated effort provide the empirical information Life RBC Working Group should

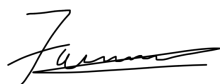
examine before calibrating a factor, but it will also ensure efficiency and avoidance of duplicative impacts.

The RBC Model Governance (EX) Task Force's List of Potential Gaps, the Committee's exposure on Model #285 all bear on this work. That Task Force's own standards — "equal capital for equal risk," and assessment of materiality, existing oversight elsewhere in the framework, and effort involved — are the standards against which a recapture factor should be judged. Identification of a potential gap through that process is not a complete technical determination that a capital deficiency exists.

Closing

CIRCA supports a risk-based outcome based on a methodology supported by quantitative analysis, giving appropriate recognition to existing protections, and avoiding capital requirements built on proxies not demonstrated to correspond to the risk being addressed. If a recapture factor is ultimately developed, it should capitalize demonstrated residual risk, and reflect the assuming reinsurer's financial strength, capitalization and ability to meet its obligations, rather than the jurisdiction in which the reinsurer is domiciled. We appreciate the opportunity to provide feedback and look forward to working with the Working Group, NAIC staff, Bridgeway Analytics and other interested parties as the methodology develops.

Respectfully submitted,



Faramarz Romer
Chairman of the Board
Cayman International Reinsurance Companies Association

Appendix — CIRCA letter to the Financial Condition (E) Committee regarding the process by which the referral was developed (submitted separately; attached for inclusion in the Working Group's public record).



**Commissioner Nathan Houdek
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197**

September 23, 2026

Re: Referral to Life RBC (E) Working Group Regarding Reinsurance Recapture and Counterparty Risk

Dear Commissioner Houdek:

The Cayman International Reinsurance Companies Association (CIRCA) writes regarding the Financial Condition (E) Committee's (the Committee) referral directing the Life RBC (E) Working Group (the Working Group) to develop new risk based capital requirements addressing reinsurance recapture and counterparty recoverability.

CIRCA supports rigorous examination of these risks and effective supervision to protect policyholders. We recognize the important role of adequate capital and strongly support the state based system of insurance regulation.

Our concern is not whether regulators should examine reinsurance recapture and counterparty recoverability risk. They should. Our concern is that the referral selects additional RBC as the regulatory response before a transparent technical process has established whether a material capital deficiency exists, whether existing regulatory protections are inadequate, and whether additional capital is the most effective and proportionate regulatory tool.

CIRCA respectfully requests that the Committee revise or supplement the referral before implementation proceeds further so that the policy outcome remains open to the evidence. The threshold governance question is straightforward: Where is the open proceeding in which stakeholders can test the underlying evidence, challenge whether a material capital deficiency exists, consider alternative supervisory responses, and influence the policy determination while the outcome remains genuinely open?

The Referral Directs the Remedy Before Establishing the Need

The Committee's referral does not ask the Working Group to determine whether additional capital is warranted. It directs the Working Group to develop the capital response.

The distinction became particularly clear when the Working Group considered the referral on August 26. The Working Group subsequently exposed the referral for comment, but expressly stated that it does not have authority to change directives from its parent committee and instructed interested parties to focus their comments on implementation rather than attempting to modify or override those directives.

CIRCA does not fault the Working Group for recognizing the limits of its authority. The Working Group received a directive from its parent committee and has explained its understanding of that directive. But that leaves a fundamental question unanswered.

Exposing implementation of a decision is not the same as exposing the decision itself. The NAIC's public process should permit stakeholders to address not merely the calibration of a predetermined remedy, but also the predicate for that remedy.

The appropriate analytical sequence should be straightforward: identify the risk, establish its materiality, evaluate existing safeguards, quantify the residual exposure, consider the available regulatory tools, and then determine which regulatory response is most effective and proportionate.

The referral appears to reverse that sequence by selecting additional RBC first and directing the technical process toward implementation.

Confidential Supervision and Public Policymaking Serve Different Purposes

CIRCA recognizes that the concerns underlying the referral may have originated through confidential supervisory work, including examinations, Valuation Analysis (E) Working Group (VAWG) regulator-only deliberations, AG 55 reviews and other regulator discussions. We do not question the legitimacy or importance of confidential supervision, nor do we seek disclosure of protected company information.

But confidential supervision and the development of generally applicable regulatory policy serve different purposes. Confidential supervisory processes can identify emerging concerns and individual company or transaction risks. When those observations become the basis for a generally applicable capital requirement, however, the policy proposition should be supported by a public analytical record sufficient to permit interested parties to understand and test the rationale.

That record can be developed without compromising supervisory confidentiality through aggregated findings, anonymized transaction examples, disclosed assumptions and stress scenarios, materiality analysis, comparison to existing safeguards, and an explanation of any residual risk after those safeguards are considered. We do not believe that public analytical record has yet been developed here.

Establish the Risk Before Selecting the Regulatory Tool

A supervisory concern does not, by itself, establish an RBC deficiency. A material risk does not necessarily require an additional capital factor. Additional capital can provide protection against many

financial risks, but that observation does not establish that capital is the most appropriate regulatory response to every identified concern.

Regulators already possess a substantial supervisory toolkit, including statutory reserves, collateral requirements, Credit for Reinsurance requirements, existing RBC, financial surveillance, examinations, actuarial analysis, ORSA, holding company supervision and transaction review. The necessary first step is to determine where those protections fall short and what residual risk remains after they are considered.

If the concern involves asset quality, concentration, collateral accessibility, transaction structure, governance, counterparty strength or insufficient regulatory visibility, a targeted supervisory response may address the concern more directly than a generally applicable capital factor.

This is not an argument against additional RBC. It is an argument that the analysis should determine whether RBC is appropriate rather than beginning from the assumption that it is.

The Referral Appears to Run Ahead of RBC Model Governance

The sequencing of the referral is particularly difficult to reconcile with the NAIC's ongoing RBC Model Governance initiative. Model Governance is currently examining potential gaps in the RBC framework and developing disciplines around materiality, prioritization, consistency and the relationship between policy judgments and technical analysis.

Those are precisely the disciplines that should apply here. Identification of a potential gap is not itself a determination that a material RBC deficiency exists. Nor does identification of a material risk establish that a new capital factor is necessarily the appropriate regulatory response.

Yet while Model Governance continues evaluating potential RBC gaps, the Committee has already directed the Working Group to develop the capital remedy for this particular issue. In practical terms, Model Governance is still examining the question while the Committee referral has already prescribed the answer.

If this issue presents circumstances sufficiently urgent or unique to warrant proceeding ahead of the Model Governance process, the public record should explain why.

The Procedural Precedent Extends Far Beyond Life Reinsurance

CIRCA's concern with the procedural precedent is not limited to offshore reinsurance or the interests of CIRCA members. This flawed procedure should not be used in the future to establish capital requirements affecting property and casualty insurers, health insurers, investments or other business practices.

Stakeholders may disagree strongly about the merits of any particular regulatory proposal while sharing an interest in a process that permits evidence and technical analysis to influence the outcome before the policy determination is settled.

That principle is especially important to those who strongly support state based insurance regulation and share a common interest in ensuring that the processes supporting it are transparent, disciplined and capable of withstanding scrutiny.

The Implementation Objective Should Follow the Analysis

The referral also establishes a year end 2027 implementation objective. CIRCA appreciates the value of establishing regulatory priorities and reasonable timetables. But the timetable should follow the analysis rather than influence its outcome.

A predetermined implementation objective should not create pressure to produce a capital factor regardless of what the technical inquiry ultimately demonstrates. If additional RBC is warranted, the process should provide adequate time for quantitative analysis, impact testing, consideration of mitigants, assessment of unintended consequences and meaningful public comment.

Requested Action

CIRCA respectfully requests that the Financial Condition (E) Committee adopt a process that allows the analysis to precede the remedy by taking the following actions:

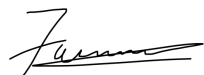
1. Revise or supplement the referral to keep the policy outcome open and permit an evaluation of whether a material residual capital deficiency exists and whether additional RBC is the appropriate regulatory response. The analysis should be capable of concluding that RBC is warranted, that another supervisory response would more effectively address the identified risk, or that existing protections adequately address the concern.
2. Identify an accountable public forum in which interested parties may examine the evidence, assumptions, materiality, existing protections, residual risks and alternative supervisory tools while the policy outcome remains open.
3. Coordinate the inquiry with RBC Model Governance so that the materiality, prioritization and analytical disciplines being developed through that initiative apply to this work.
4. Allow the analysis, rather than a predetermined implementation date, to determine the outcome and timetable, including sufficient opportunity for quantitative assessment, impact testing and public comment before any capital requirement becomes effective.

Permitting interested parties to argue for a smaller factor, or even a factor of zero, does not resolve the underlying concern. Calibration of a predetermined requirement is different from determining whether the requirement should exist.

CIRCA will engage constructively if the analysis demonstrates that additional RBC is appropriate. We ask only that the process remain capable of reaching a different conclusion if the evidence warrants one.

Our request is straightforward: establish the need, evaluate the alternatives, and allow the analysis to determine the outcome.

Respectfully submitted,



Faramarz Romer
Chairman of the Board
Cayman International Reinsurance Companies Association

cc: Executive (EX) Committee
Life RBC (E) Working Group

Submitted Electronically

September 23, 2026

Mr. Ben Slutsker, Chair
Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners

cc: Mr. Dan Daveline, NAIC

Re: Technical Comments on LRBCWG Exposure — Reinsurance Recapture Charge from Financial Condition (E) Committee Referral

Dear Chair Slutsker:

Everlake Life Insurance Company appreciates the opportunity to comment on the LRBCWG's exposure implementing the Financial Condition (E) Committee's ("Committee") July 27, 2026 referral. Everlake is domiciled in Illinois and maintains reinsurance arrangements with affiliated reinsurers domiciled in the Cayman Islands.

Recapture risk is a legitimate subject of supervisory attention. Whether it leaves a material residual capital deficiency, after reserves, collateral, asset adequacy testing and existing RBC already in place, is a separate question that has not been established on this record. ***Nothing in these comments should be read as conceding that additional RBC is necessarily required.***

As we will explain in our comments, where a ceding company holds collateral in excess of required reserves and cedes to an assuming company that maintains U.S. statutory reserves and U.S. statutory capital sufficient to support the business, any incremental recapture charge is unwarranted. Our comments that follow identify the definitional and methodological corrections needed to ensure that any charge the LRBCWG ultimately adopts reflects that reality instead of a jurisdictional proxy. Furthermore, our comments are technical and are directed at the exposure's two questions (Question 1: what method should be used to calculate the charge; and Question 2: what asset composition should be assumed upon recapture) so that any resulting charge measures the actual risk the Committee identified which is *"the additional capital that would be required if a ceding company had to recapture those reserves."*

I. Threshold Definitions

Neither question in the exposure can be answered until the Working Group settles several threshold definitions. We raise them first because the answers drive all else.

What is a non-reciprocal jurisdiction? The referral applies the charge to "all reinsurance located outside of reciprocal jurisdictions." Reciprocal jurisdiction is a defined term under the Credit for Reinsurance Model Law and Regulation, and it operates at two levels: a jurisdiction may qualify, and an individual reinsurer must then satisfy conditions to obtain reciprocal treatment. The Working Group should state which level governs.



What is a permitted asset? The exposure references AG 48 Primary Security and AG 55 non-Guideline Excluded Assets as possible definitions. Both were constructed for different purposes, (XXX/XXXX captive financing and reserve adequacy testing respectively), and neither was calibrated to the question of what a cedent would actually hold upon recapture. The Working Group should adopt an explicit definition built for this charge rather than importing one by reference.

What is capital? The exposure is unclear on the definition of capital. We read that capital for recapture risk is funding “US stat reserves plus some level of surplus.” This concept should be clearly defined.

II. Question 1 — Method

Set the Objective: Before a method can be fully discussed, the outcome of the analysis must be defined. The Company Action Level algorithm does not contemplate that an insurer must maintain a constant RBC ratio before and after a transaction. Requiring a cedent operating at, say, 400% or more of CAL to fund recapture capital as though it were operating at the action level overstates the requirement. If the concern is that recapture capital be available, existing surplus above CAL is available. We ask that the framework recognize this rather than charge as if it did not exist.

We recommend the Working Group state explicitly whether the charge is intended as a probability-weighted expected requirement or as a full-strain provision, and if the latter, explain why this risk alone is charged at certainty. We further recommend that whatever calibration is adopted, it varies with the observable treaty attributes the referral itself identifies: reserve reduction magnitude, crediting rate profile, cedent size and seasoning, collateral adequacy, and valuation basis. Those markers were surfaced by the Valuation Analysis (E) Working Group’s preliminary review and are attributes of transactions and not the jurisdiction in which those transactions occur. The charge should not be a fixed factor applied uniformly to all non-reciprocal-jurisdiction arrangements. Recapture risk varies based on the characteristics of the transaction including: the capitalization of the reinsurer, collateral, reserve reduction valuation basis, cedent size, and other structural protections. Any resulting charge should reflect those differences. Where those protections are sufficient such that recapture would not create an incremental capital need, (as discussed in Section IV below) the appropriate charge should be zero. In an instance where a shortfall remains, the charge should reflect the amount of that residual risk.

Approach: Similar to C3, modeling the company and recapture scenarios may be a better approach to consider for this risk. This approach would more fairly capture the recapture risk.

We raise the data issue constructively because we expect the Working Group is already confronting it. Meaningful loss experience base for offshore life and annuity recapture does not exist. RBC factors are ordinarily calibrated to a statistical distribution derived from observed outcomes — mortality experience, default studies, asset return histories. Few completed recaptures of the relevant type have occurred resulting in effectively no severity distribution, and no frequency data. A charge derived without that foundation is a judgment, and the framework should be transparent that it is one.

Rejecting Option (b): The referral describes the capital required “*if a ceding company had to recapture.*” A charge set at 100 percent of the recapture strain assumes recapture occurs with certainty. No party to this proceeding is asserting that. The economically correct charge is the recapture strain weighted by the likelihood of recapture, consistent with how every other RBC factor is constructed (e.g., the C-1 bond factors are not set at 100 percent of par because default is possible).



Another method to consider: Separate from the question of how the capture amount is measured, the LRBCWG should consider whether that amount belongs in the RBC ratio at all. The charge is not a measure of risk in the assets and liabilities currently on the balance sheet, rather, it is a provision for a contingent future balance sheet event. Embedding it in the denominator conflates the two and will distort the ratio's comparability and its supervisory signal, potentially triggering action levels for companies whose current risk profile has not changed.

III. Question 2 —Asset Composition

The exposure's framing implies that U.S. statutory reserves ceded outside the United States must be supported dollar-for-dollar by invested assets. We ask the Working Group to examine that premise, because it is not the standard applied to a U.S. insurer's own balance sheet.

No U.S. insurer supports its statutory reserves exclusively with invested assets. Admitted non-invested assets routinely support statutory liabilities: deferred tax assets within limits, due and accrued investment income, policy loans, premiums receivable, and reinsurance recoverable. Negative IMR is directly on point. Following the NAIC's action on SSAP No. 7, admitted negative IMR is recognized reserve support subject to defined limits and disclosures. A cedent holding admitted negative IMR on its own balance sheet receives credit for it; the same economic position within a ceded structure would receive none under an invested-assets-only test. We highlight negative IMR specifically, rather than the other admitted non-investment assets listed above, because the NAIC's recent SSAP No.7 action. The same principle applies equally to deferred tax assets and the other categories described above: an asset that is recognized as supporting statutory liabilities on the cedent's own balance sheet should not lose that recognition solely because the underlying reserve is ceded.

Without recognizing admitted non invested assets for this analysis, the result is that a cross-border treaty would be held to a stricter asset composition standard than the cedent's retained business, without a stated rationale grounded in recapture mechanics. If an asset would be admitted on the cedent's balance sheet after recapture, it should count as a permitted asset before recapture. We ask that the definition be drawn on admissibility upon recapture rather than on asset class.

Recapture strain should be measured incrementally, not grossly. Where a cedent holds permitted assets exceeding the statutory reserve credit, the excess is available to fund post-recapture requirements and should reduce the charge accordingly.

The discussion in the exposure, as we understand it, references US stat reserves and PBR-type calculation for comparison to permitted assets. Other approaches may also be reasonable, for example AAT moderately adverse assumptions, and should be explored.

Capital is for more than moderately adverse scenarios. Any excess in the liability carrying value over the moderately adverse US AAT result should be viewed as an offset to recapture capital.



IV. Qualifying Criteria for a Zero Factor

We do see a clear path to a zero factor should an RBC factor be implemented. For example, companies that implement treaties with the following characteristics:

1. Collateral is held on a funds withheld or modified coinsurance basis, or in a qualifying trust under the cedent's control.
2. The ceded block is valued and reported on a U.S. statutory basis consistent with the Valuation Manual by the assuming company
3. The reinsurer reports on NAIC-format statutory financial statements and NAIC RBC, or the cedent provides equivalent NAIC-format reporting for the ceded block.

In this case, the assets are already on the cedent's balance sheet or under its control, and the reserve is already computed on the basis that would apply post-recapture. To the extent the collateral, other available capital, and the **reinsurer's financial strength** provide sufficient support for the returning block, the incremental capital requirement may be reduced or eliminated. Everlake stands ready to help regulators develop additional criteria to arrive at a zero factor.

V. Residual Risk and Avoidance of Double Counting

If the recapture factor is also calibrated to counterparty weakness rather than to collateral shortfall upon recapture, the same exposure is charged twice. We recommend clean separation: the second directive addresses whether the reinsurer performs; the recapture factor addresses what recapture costs given the collateral held. So constructed, the two are additive rather than duplicative. We ask that the residual-risk question be made explicit in the methodology itself.

VI. Prospective and Retrospective Application

Existing treaties were negotiated, priced, and collateralized against the framework in effect at execution. Collateral levels, funds withheld provisions, and recapture triggers are contractual terms that generally cannot be unilaterally amended. A charge applied retrospectively to in-force business imposes a requirement the cedent may have no contractual means to satisfy other than by holding additional capital against a structure it cannot modify, resulting in converting a risk-sensitive charge into a fixed penalty and eliminates the incentive to improve collateral that the framework should be creating. We recommend either prospective application to treaties executed after the effective date.

VII. Timing

We support delaying the year-end 2027 effective date to year end 2028 to allow sufficient time for calibration to be informed by field testing across a representative range of treaty structures, including funds withheld and modified coinsurance arrangements at varying collateral levels. Everlake is prepared to participate in any data call or field test and to provide treaty-level collateral, valuation, and asset composition data on a confidential basis.



Our objective in these comments is a narrow one. If a recapture charge is to be constructed, it should measure the residual risk that actually remains after the protections already in place, rather than apply a jurisdictional proxy to transactions that present none. Consistent with the qualifying criteria for a zero-factor outlined in Section IV above, where a ceding company holds collateral in excess of required reserves and cedes to an assuming company that maintains U.S. statutory reserves and U.S. statutory capital sufficient to support the business, that arrangement should incur no charge. We appreciate the Working Group's consideration and welcome the opportunity to discuss these comments further.

Respectfully submitted,

Larry M Chadwick
Chief Government Affairs Officer
Everlake Life Insurance Company



September 25, 2026

Mr. Ben Slutsker, Chair
Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: Comments on the Reinsurance Recapture Charge Exposure

Dear Chair Slutsker:

Athene Holding Ltd. (“Athene”) appreciates the opportunity to comment on the Life Risk-Based Capital (E) Working Group’s exposure implementing the Financial Condition (E) Committee’s directive on reinsurance recapture risk. We support this workstream. It advances the principle of equal capital for equal risk and closes a real gap in the framework, one that can otherwise be used to arbitrage capital requirements across jurisdictions that offer materially different regulatory assurances.

We recognize that several design details remain open, and we welcome an iterative dialogue with the Working Group. We do not, however, believe the answers to the Working Group’s core questions need to wait on that dialogue. Just as the pace of change in the sector has accelerated, we understand the need for regulation to move at a corresponding pace, particularly given the corresponding risk to US policyholders if no action is taken.

The exposure poses two areas for decision, on method and on asset composition, and Athene offers a position on each below, together with the principles that any workable design should satisfy. We have kept our comments to those principles and to the results the charge must achieve, rather than to the mechanical architecture, which is properly the subject of continued technical work.

This proposal continues a deliberate evolution in solvency oversight

It has been suggested that this proposal arrived without warning. It did not. The enduring strength of the state-based system has been its willingness to return to the fundamentals of solvency and policyholder protection at the moments when those fundamentals come under strain; and in more than 150 years the NAIC’s most consequential corrections have come precisely when regulators re-anchored to those basics. Risk-based capital is itself such a correction. It was built in response to the asset-quality-driven insolvencies of the

late 1980s and early 1990s, when risk migrated through insurer balance sheets faster than the capital framework recognized it.

The concern before the Working Group is a variant of that same problem. Today the migration runs across jurisdictional lines rather than just across asset classes, but the mechanism is familiar: capital and asset risk moving faster than the framework accounts for. Contagion risk of this kind, whether it originates offshore or onshore, is a material risk to U.S. policyholders and to confidence in the state-based system. It is squarely a matter of solvency and consumer protection, which is to say squarely within the NAIC's competence. Acting on it decisively is how the state-based system demonstrates that it can police its own perimeter.

Nor is this the first step in that direction. NAIC leadership has treated offshore and affiliated reinsurance, and the asset intensity that accompanies it, as a priority for roughly two years. AG 53 and, more recently, AG 55 were sequential steps to improve transaction-level transparency and asset-adequacy discipline. The recapture charge follows directly from that work. **The question, then, is not whether to act, but how to act effectively without creating unintended consequences.** We offer the comments below in that spirit, as an institution that both relies on cross-border reinsurance and believes the state-based system must hold its own perimeter. Those two commitments are not in tension; that is the point.

The distinction the Committee has drawn is jurisdictional, and it should remain so

The referral is explicit that the relevant distinction is the jurisdiction in which the assuming reinsurer is domiciled, not the individual reinsurer, and that framing is worth preserving. Reinsurers in the same jurisdiction share a home-country solvency, transparency, and supervisory regime; the charge simply asks whether that regime offers assurances comparable to those the NAIC requires.

Bermuda, which has satisfied the NAIC's Reciprocal Jurisdiction standards, illustrates the point, and cessions to Bermuda-domiciled reinsurers should be treated accordingly. Importantly, regulatory collateral for reinsurance to non-reciprocal jurisdictions does not replicate what reciprocity provides: legal enforceability, asset transferability, and supervisory access at the moment of recapture. Those are precisely the assurances a non-reciprocal regime cannot guarantee, and precisely what is most likely to fail under the stress that forces a recapture.

Keyed to jurisdictional status, the charge is also the most durable answer to arbitrage: it dulls the incentive to shop domiciles for capital advantage, while leaving any jurisdiction a legitimate path to better treatment by strengthening its framework and pursuing

recognition through the NAIC's established qualified/reciprocal jurisdiction process. In that sense the NAIC has done more than close a door on arbitrage; it has opened one, giving jurisdictions a concrete incentive to raise their own solvency and supervisory regimes toward the U.S. standard and to earn the recognition that follows, so that a measure built to protect U.S. policyholders also quietly lifts the baseline of prudential regulation beyond our borders.

We encourage the Working Group to address expressly how Qualified Jurisdictions that have not attained Reciprocal Jurisdiction status and therefore have not explicitly agreed to recognize U.S. group supervision, should be treated. Cessions to jurisdictions that are neither Reciprocal nor Qualified warrant the full charge; for Qualified Jurisdictions, a defined and lesser treatment may be appropriate, provided it preserves the incentive to complete the path to reciprocity. Reciprocal Jurisdiction Reinsurer or Certified Reinsurer status, which attaches to a reinsurer rather than to the quality of a home-country regime, is a poor fit for this charge and should not substitute for the jurisdictional test.

Jurisdictional distinctions are an established feature of reinsurance supervision

The NAIC is not alone in recognizing that the strength of an assuming reinsurer's home-country regulatory framework is a material factor in determining the appropriate solvency treatment of reinsurance. Solvency II provides a clear example: reinsurance agreements with reinsurers in third countries deemed equivalent under Solvency II are treated comparably to reinsurance with an EU reinsurer, while arrangements with reinsurers in non-equivalent jurisdictions may be subject to additional scrutiny and safeguards. Although the specific mechanisms differ, both approaches recognize that the quality of the home-country regulatory regime is relevant and distinct from the risks presented by the individual counterparty.

Method: the factor approach, calibrated to the full capital that returns on recapture (Question 1)

The method question concerns how the charge is computed, not whether it applies; the jurisdictional test above governs the latter. On the method question, Athene supports the factor approach. An additional RBC charge applied to ceded reserves and modified coinsurance balances is the most direct and administrable way to approximate the capital a cedant would need if the business returned to its balance sheet, and it recognizes qualifying overcollateralization without a transaction-by-transaction reversal of every RBC component.

The factor should be calibrated to reproduce the substance of a recapture analysis, and that analysis is not confined to asset default risk. Recapture returns the full block to the

cedant, so the charge should reflect the capital required across the relevant C-1, C-2, and C-3 risks, not merely an increment bolted onto the C-1 total. The framework already contemplates holding certain requirements without full reinsurance credit; extending that logic to the C-1, C-2, and C-3 requirements for cessions to non-reciprocal jurisdictions is the coherent completion of it, subject to actuarial calibration.

Two cautions:

- First, the Working Group should coordinate this factor with the separate counterparty recoverability charge the E Committee has directed, so that the two do not impose duplicative capital for the same underlying exposure.
- Second, the charge should remain anchored to the capital that returns on recapture and should not be diluted by assumed diversification benefits across multiple reinsurers or globally pooled books. Diversification tends to fail precisely in the stressed conditions that produce a forced recapture, and a charge calibrated to the sunny-day case would defeat the purpose of the exercise.

Asset composition: a two-part test of quantum and character (Question 2)

The soundest way to resolve the asset-composition question is to recognize that it contains two distinct tests, both of which must be satisfied before overcollateralization reduces the charge: whether there are *enough* qualifying assets (quantum), and whether they are of the *right kind* (character). The E Committee's stated concern in Question 2, whether excess-of-loss reinsurance, letters of credit, parental or affiliate guarantees, and otherwise non-admitted assets should count as offsetting collateral, is fundamentally a question of character, and it deserves a direct answer.

On quantum, the benchmark should be the liability that would re-establish on the cedant's balance sheet upon recapture. In operation, the U.S. statutory reserve is the clean, consistently applied, and already-defined measure of that liability, and it should serve as the yardstick. Where a more economically complete measure of the total asset requirement would be higher, the quantum of assets should not fall below it, so that the charge never understates the true recapture need. Any shortfall of qualifying assets against that benchmark should be charged as an RBC requirement to the cedant.

On character, only assets that would be admitted, legally available, transferable, and suitable to support the recaptured block should count as "permitted." The asset standards in AG 48's Primary Security framework and AG 55's treatment of non-Guideline Excluded Assets are the right reference points, and they should be applied with discipline. Letters of credit, parental and affiliate guarantees, excess-of-loss arrangements, and otherwise non-

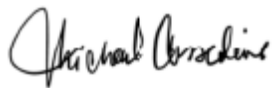
admitted assets should not receive the same recognition as a portfolio of high-quality admitted assets. Nominal collateralization with instruments that would not survive a recapture is not collateralization at all. Anchoring the character test to the AG 48 and AG 55 standards also keeps this charge aligned with the reserve and asset-adequacy concerns that AG 55 was designed to surface, rather than reintroducing the very gaps those guidelines addressed.

The framework should look through retrocession

A cedant should not be able to avoid the charge by ceding first to a reinsurer in a reciprocal jurisdiction that then retrocedes the risk to a retrocessionaire in a non-reciprocal jurisdiction. The framework should look through such arrangements and apply the charge that would have applied had the risk been placed directly with the non-reciprocal-jurisdiction retrocessionaire. Without a look-through, the jurisdictional distinction that anchors this exposure would be trivially easy to defeat.

Athene commends the Working Group for taking up a difficult but consequential charge. The fundamentals at stake, solvency, policyholder protection, and confidence in the state-based system, are worth the effort of getting the details right, and we would welcome the opportunity to discuss these comments, to assist with calibration, and to engage on the related counterparty recoverability charge.

Sincerely,



Michael Consedine
Executive Vice President Global Head of Government and Regulatory Affairs
Athene Holding Ltd.



September 25, 2026

Mr. Ben Slutsker, Chair

Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: Exposure of Reinsurance Recapture Charge from Financial Condition (E) Committee Referral

Submitted Electronically

Dear Chair Slutsker:

ACLI appreciates the opportunity to comment on the recapture risk proposals that the Life Risk Based Capital (E) Working Group (LRBC) has exposed. We acknowledge that the Financial Condition (E) Committee (E Committee) has specifically directed LRBC to develop the recapture risk charge. ACLI supports regulators addressing potential solvency risks and ensuring policyholder protection, and provides these comments in the interest of preserving reinsurance as a tool to support policyholder obligations and enhance policyholder benefits through risk transfer and diversification. ACLI agrees that counterparty risk is a key risk for ceding companies to consider with reinsured blocks.

ACLI supports the objective of appropriately reflecting reinsurance-related risks within the RBC framework. As the proposal continues to be developed, additional clarity regarding the intended calibration, interaction with existing RBC components, and treatment of different reinsurance structures would help stakeholders assess the proposal and provide more targeted feedback.

We ask that LRBC adopt an iterative, consultative process to this referral. We look forward to working with regulators as this project unfolds. To that end, we want to ensure that our understanding of counterparty risk is calibrated with LRBC's understanding as soon as possible so that we can provide constructive feedback on how to best approach updates to the RBC formula. A shared understanding will provide clarity on these considerations before finalizing an approach, as they could materially affect the appropriate scope, structure and calibration of any resulting charge.

We would appreciate the opportunity to discuss the following implementation considerations that have been raised as we review the exposure:

- Greater clarity regarding the policy objective of each item individually and in total, including whether the proposal is intended to increase overall capital requirements or enhance risk sensitivity within the RBC framework, would help stakeholders evaluate the proposal.

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

- Understanding whether a target post-recapture RBC ratio or capital outcome is contemplated would provide important context for assessing the proposed calibration.
- Consideration should be given to how diversification benefits are reflected, including whether the use of multiple reinsurers may reduce aggregate recapture risk.
- The framework should consider whether reinsurers supporting a diversified group of ceding companies present different risk characteristics and how those characteristics are reflected in the charge.
- Additional clarity would be helpful regarding whether the recapture risk charge is intended to operate solely within credit risk RBC or affect capital requirements across multiple risk categories.
- The interaction between the recapture risk charge and the counterparty credit risk charge should be clearly defined to avoid unintended double counting of risk.
- Appropriate acknowledgement of the treatment of reciprocal jurisdiction reinsurers, reinsurers located in reciprocal jurisdictions, reinsurers located in qualified jurisdictions, and certified reinsurers would help ensure sound application of the framework.

We appreciate the need to soundly and promptly address regulator concerns. Given the significance and complexity of the contemplated changes, we believe the process would benefit from sufficient time for technical analysis and stakeholder input. We note that this update is likely more complicated than the P/C charge for counterparty risk as a standalone update in that sector because this update covers both counterparty risk charges and recapture risk charges, which are interrelated.

Based on our current understanding, ACLI thinks the factor method deserves to be explored because it is more risk-based and accordingly more appropriate as an RBC charge. Concepts to explore include differences in the level of risk, such as relative size, diversification of the reinsurer, diversification of the ceding company, or reinsurer credit quality as measured through ratings or other financial analyses. Conversely, the non-allowance method is less risk-based. While it has the potential to directly offset the RBC that would be required if a ceding company had to recapture, it assumes recapture is certain. If LRBC continues to consider the non-allowance method, we would suggest adding a factor to represent the likelihood of forced recapture in the event of a reinsurer's insolvency. We would suggest leaving the door open for other solutions for now.

In any case, we encourage LRBC to consider the level of diversification in the ceding company's reinsurance relationships and each assuming company's book of business. All else equal, a company with diversified reinsurers would face lower risk of forced recapture across multiple treaties due to reinsurer insolvency, while a reinsurer with diversified clients and lines of business would present lower risk to its cedants. While diversification can fail during stressed conditions, it still affects the magnitude of risk and increases the likelihood of a partial recovery. Any charge should reflect the actual risk to the cedant that any specific counterparty will become insolvent. Any other type of charge (like a denial of credit) would not appropriately capture the economics of the risk of recapture.

We support LRBC's thoughtful consideration of how appropriate asset levels, asset composition, and collateralization could offset the recapture RBC charge. We think that issue warrants further discussion as the design of the recapture charge develops.

We thank LRBC for a thoughtful response to the E Committee referral, and for explicitly considering other approaches to the method and asset composition. Again, we ask LRBC to meet with us to calibrate our understanding of counterparty risk in reinsurance agreements. We would welcome further conversation on the recapture risk charge, and we look forward to a similarly thoughtful evaluation and reevaluation of counterparty risk charge.

Sincerely,

A handwritten signature in black ink, appearing to read "B Bayerle".

Brian Bayerle

Chief Life Actuary

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(202) 624-2169

A handwritten signature in blue ink, appearing to read "Hans Avery".

Hans Avery

Actuary

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cc: Kazeem Okosun, NAIC; Maggie Chang, NAIC



September 28, 2026

Ben Slutsker
Chair, Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners

Re: Reinsurance Recapture Charge

Dear Chair Slutsker:

On behalf of the American Academy of Actuaries’¹ Reinsurance Work Group (RWG), we appreciate the opportunity to provide comments to the Life Risk-Based Capital (E) Working Group (LRBCWG) regarding the July 27, 2026, referral from the Financial Condition (E) Committee directing the development of a [reinsurance recapture RBC factor and a revised reinsurance recoverability methodology \(referral\)](#). The RWG recognizes the importance of this issue and appreciates the LRBCWG’s consideration of public comments as it works to implement the Committee’s directives.

The RBC Model Governance (EX) Task Force (MoGo Task Force) is developing a prioritized list of RBC initiatives that are designed to fill in perceived gaps and inconsistencies in the current RBC formulas. Such changes would take place over the next 24 months. At the August 2026 MoGo Task Force meeting, Bridgeway Analytics, a MoGo Task Force consultant, presented 10 potential gaps and inconsistencies for consideration as part of their initiative. One of those proposed initiatives closely resembles the E Committee referral. This leads to two points. First, we recognize that the MoGo Task Force and the E Committee identified similar opportunities, and this represents an opportunity to coordinate more closely. Second, Bridgeway labeled the effort required to accomplish the life reinsurance charge as “significant.” As we discuss below, we agree with this assessment and believe that, to achieve the regulator’s goals, it will take a “significant” amount of time to develop new RBC methodology.

We believe a fully developed method to deal with the E Committee’s concern would require refining what risks are being targeted, then determining the data/methods to assess the risks, and only then, with results in hand, proposing how RBC should respond to the identified risks. Over the last several decades, there have been very few instances of life and annuity reinsurance breaches where a forced recapture occurred. Even in these few situations, data on exactly what, if any, capital and surplus strain occurred due to the recapture may be difficult to obtain. While Actuarial Guideline LV (AG 55) provides some insight into the issue, those insights focus on reserves, with capital implications being a secondary concern. It explicitly does not analyze the total assets supporting a transaction. That’s a genuine data gap, not merely a modeling gap, and addressing it will require significant time,

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

potentially over multiple years. To put this in perspective, obtaining the missing data first requires agreement on what data would be most useful to quantify the risk. Then there needs to be formulated a data request which can obtain this data. This data request would then be required to be completed by companies and finally it would need to be analyzed. A similar process with AG 55 took 18 months from proposal to NAIC adoption and then another year to get some preliminary analysis completed. This reinforces our belief that it will take significant time to create new RBC factors.

That said, we have the following comments on the referral:

Question 1—Method for the Recapture Charge

The RWG suggests that the LRBCWG consider a more robust approach—Option 1(c)—and present the following two possible approaches:

- (i) a hybrid or tiered design under which a factor applies as the general rule, but a more punitive factor or non-allowance applies only where collateral or asset-quality tests are failed, similar in spirit to how Actuarial Guideline 48 and the Term and Universal Life Reserve Financing Model Regulation (#787) operate; or
- (ii) a stress- or scenario-based charge that estimates the excess reserve or asset need under a prescribed shock, which more directly captures the point-in-time replacement cost that recapture actually represents.

Other ways of reflecting the risk the LRBCWG is looking to capture may be reasonable, and with additional time, the RWG could explore other solutions. We recognize that either of the approaches above will take longer to develop and calibrate than a simple static factor, and we would welcome the opportunity to work with the LRBCWG on the data and design questions associated with these approaches.

In reviewing methods 1(a) and 1(b), the RWG developed a list of pros and cons (see the Appendix) for those simpler approaches that led the RWG to suggest the above scenarios. Please let us know if a deeper discussion about those pros and cons would be beneficial to the LRBCWG.

Question 2—Asset Composition and the Collateral Offset

While we have not had sufficient time to consider all potential alternatives, we believe a stronger approach than either method 2(a) or 2(b) would be to build on the work already done in AG 55. Insurers already must do stress testing under AG 55 and report any asset shortfall. We could use the shortfall as the basis for the RBC charge, instead of inventing a brand-new test.

Concerns with Option (a) and Option (b) as written

Option (a) (require collateral to cover the full statutory reserve) is too blunt. For example, XXX/AXXX reserves are intentionally conservative—higher than the real economic risk—by design, for *all* companies. This option would penalize well-run, well-collateralized companies the same as the handful of risky outliers, i.e., the outliers that prompted this referral.

Option (b) (require collateral to cover a PBR/economic-style reserve) borrows a method built for a different purpose—domestic affiliated captives under AG 48. The regulators' own memo says

transactions with unauthorized reinsurers tend to show *bigger* reserve reductions than Bermuda deals. We believe that is a warning sign that the AG 48 assumptions may not hold here—meaning Option (b) could end up requiring *too little* collateral exactly where the risk is highest.

As with Question 1, we have a more detailed list of strengths and weaknesses of Options 2(a) and 2(b) in the Appendix.

Correlation Among Counterparties and Counterparty Diversification

One additional issue we would encourage the LRBCWG to consider, which is not directly addressed by either question in the memo, is correlation—not only the correlation already embedded elsewhere in the RBC formula, but also correlation that may exist among reinsurance counterparties themselves. A ceding company that reinsures a single block of business across several reinsurers presents a materially different risk profile than one that concentrates the same exposure with a single counterparty, and the current framing of the referral (a charge applied to ceded reserves and modified coinsurance balances by jurisdiction) does not appear to distinguish between the two.

We would encourage the LRBCWG to consider whether, and how, the recapture charge (and the related recoverability methodology) should reflect diversification of counterparties, e.g., where a single block is reinsured on a coinsurance basis with multiple partners, each assuming a 10%–25% quota share, rather than a single reinsurer assuming the full risk. A methodology that is sensitive to counterparty concentration and scales smoothly to the level of diversification, and to correlation among counterparties (e.g., common ownership, affiliated asset/investment managers, shared retrocessionaires, or common jurisdictional or market exposures), would more accurately capture the incremental risk the charge is intended to address, and would avoid penalizing ceding companies that have structured their reinsurance programs specifically to reduce single-counterparty concentration risk.

We recommend that any method adopted does not have a cliff effect, such as one based solely on the number of reinsurers instead of their relative share of the business ceded. A further advantage of the diversification of reinsurance counterparties is the increased likelihood that the impact of one of the reinsurers defaulting could readily be covered by one of the other reinsurers already on the risk.

Other Items for the LRBCWG's Consideration

In addition to the specific questions posed, we would ask the LRBCWG to consider the following implementation issues, which we believe are material to a workable outcome regardless of which method is ultimately adopted:

1. Effective date and phase-in. A Dec. 31, 2027, effective date is aggressive for a fully calibrated factor. Industry commenters on the parallel, similarly targeted-for-year-end-2027 collateral loan RBC proposal have already requested additional runway; we would ask the LRBCWG to build in an explicit phase-in (for example, over two to three years) rather than a cliff-edge effective date.
2. Coordination with the recoverability methodology. The same referral directs a separate change to the recoverability credit-risk methodology. The recapture charge and the recoverability charge address related but distinct risks (loss of the cession versus failure to

pay recoverables) and should be designed, and informed by data call results, together so they do not double-count the same underlying counterparty risk.

3. Definition of non-reciprocal jurisdiction and cliff effects. A binary jurisdictional trigger may incentivize restructuring (e.g., retrocession chains or fronting through reciprocal-jurisdiction intermediaries) rather than genuine risk reduction. We would ask whether the Working Group has considered anti-avoidance provisions or a more graduated jurisdictional risk measure.
4. Interaction with existing reserve financing frameworks. The new charge should be reconciled with AG 48, Model #787, and the reduced-collateral treatment already available to reciprocal-jurisdiction reinsurers, so that business already subject to primary security requirements is not inadvertently swept into a charge designed for arm's-length, non-reciprocal cessions.
5. Confidentiality of data submissions. Any data call supporting factor development will involve commercially sensitive treaty information. We would ask that data collection proceed through an Academy/industry aggregation process, as with prior RBC factor projects, rather than company-identifiable submissions made directly to regulators, and that a credibility or materiality threshold be applied so immaterial cessions are not swept into new reporting requirements.
6. Retroactivity and grandfathering. The memo does not specify whether the charge applies to treaties already in force. We would ask for an explicit statement on scope, since retroactive application to legacy blocks priced without this capital cost would be a significant change in the economics for existing treaties.
7. Ongoing governance and recalibration. Market conditions will drift after initial calibration. We would ask the Working Group to specify how and when the factor(s) will be reviewed and updated so the charge does not become stale over time.

We appreciate the opportunity to share these comments and look forward to the continued collaborative conversations between the E Committee and interested stakeholders. If you have any questions or would like to discuss these comments further, please contact Will Behnke, the Academy's policy project manager, risk management and financial reporting (behnke@actuary.org).

Sincerely,

Jeremy Starr, MAAA, FSA
 Chairperson, Reinsurance Working Group
 Risk Management and Financial Reporting Council

Appendix

Question 1—Method for the Recapture Charge

1a. Factor Approach (RBC charge on ceded reserves/ModCo balances, net of overcollateralization)

Strengths

- Directly matches the memo's stated intent: a charge sized to “the additional capital that would be required if a ceding company had to recapture those reserves”—this is inherently a factor-based, magnitude question, not a binary credit/no-credit question.
- Preserves the existing RBC architecture (a charge added to the formula) rather than rewriting how reinsurance flows through each RBC component—reducing implementation burden for both regulators and filers.
- Naturally accommodates a collateral offset (overcollateralization credit), which the memo explicitly calls for a factor applied to an exposure base, with an allowance for posted assets, is a familiar RBC construct. Similar net-of-offset approaches are already reflected elsewhere in the RBC framework, including certain C-1 calculations. Scalable/gradable—the factor can be recalibrated over time as data quality improves, rather than requiring a structural rewrite.

Weaknesses

- A single factor (or even a factor grid) applied to *ceded reserves* is a crude proxy for “additional capital required upon recapture.” The true cost of recapture depends on reserve basis differences between the current statutory reserve and the reserve that would be required following recapture. Depending on the business involved, that reserve could reflect a PBR-based requirement, a reserve associated with XXX or AXXX requirements, or a reserve requiring additional asset support. Recapture costs are also affected by asset-liability mismatch considerations and market conditions (a recapture in a rising-rate environment or one in which credit spreads have widened sharply). A static factor cannot capture this cycle-dependence.
- Basis risk: recapture cost varies enormously by product (YRT mortality reinsurance vs. long-duration XXX/AXXX term/UL vs. variable annuity or longevity risk transfer) and by treaty structure (funds withheld vs. coinsurance vs. ModCo). A single factor — or even a factor by broad product line—risks being punitively conservative for some blocks and inadequate for others.
- Double-counting risk: to the extent the ceding company already holds C-1/C-3 charges on retained business of similar character, and to the extent the reinsurer's own capital and collateral already address counterparty risk (the existing 0.78%-type credit risk charge on unauthorized reinsurance), a new recapture factor could overlap with existing charges unless carefully scoped.
- “Non-reciprocal jurisdiction” as the trigger is a binary, jurisdiction-based test, not a risk-based test. It doesn't distinguish a well-collateralized, well-capitalized non-reciprocal reinsurer from a thinly-collateralized one, other than through the overcollateralization offset—so the design leans heavily on that offset mechanism to avoid being blunt.

1b. Non-Allowance of RBC Credit (deny reinsurance credit component-by-component)

Strengths

- Conceptually cleaner in one sense: it restores the ceding company's RBC to what it would be with the business retained gross, which is the most literal interpretation of "capital required upon recapture"—you simply don't give credit for the cession in the first place.
- Avoids inventing a new, freestanding factor; instead, it reuses the existing gross RBC calculation machinery (asset risk, insurance risk, interest rate risk on the retained/regenerated liability) that's already embedded in the formula for each component.
- Symmetric with how the formula already treats reinsurance with unauthorized/non-certified/non-reciprocal counterparties for credit-risk purposes (denial of credit is a familiar mechanism, not a novel one).

Weaknesses

- This is a substantially larger and more disruptive change than the memo appears to contemplate. The memo frames the goal as "account for the additional capital that would be required," i.e., a *charge approximating a cost*, not "act as if the cession never happened." Full non-allowance would also gross up asset risk (the ceding company doesn't actually hold the assets backing the ceded reserves) unless paired with a synthetic asset add-back, which introduces its own modeling problems and is arguably beyond the Committee's stated intent.
- Would require touching multiple RBC pages/components (C-0/C-1 asset risk, C-2 insurance risk, C-3 interest rate/market risk, and the reinsurance credit risk charge itself) with company- and treaty-specific adjustments—a much heavier lift for both the LRBCWG (design and calibration) and filers (implementation, data collection, and ongoing reporting) than a single new factor line.
- Likely overstates the true economic cost of recapture in most cases, because in an actual recapture the ceding company would not literally reconstruct the pre-cession gross position—it would negotiate, re-reinsure, restructure, or hold a PBR-consistent reserve, not necessarily the original (often redundant, e.g. XXX/AXXX) statutory reserve. Using full non-allowance as the proxy risks a charge that is far larger than the "additional capital that would be required," which is inconsistent with the memo's own framing and with RBC's general design principle of approximating tail risk, not worst-case gross-up.
- Creates a much bigger financial cliff-edge for affected companies, raising implementation and transition concerns (see timeline discussion below) and increasing the risk of unintended solvency actions (RBC-level triggers) that are disproportionate to the underlying risk.

Question 2—Asset Composition / Collateral Offset

2a. Charge the shortfall of permitted assets vs. U.S. statutory reserve credit

Strengths

- Simple, uses data companies already produce (statutory reserve credit is a known, audited quantity), and is directly tied to current regulatory reporting (Schedule S, AG 55 disclosures already show reserve credit and some collateral detail).
- Conservative and easy to administer/verify—a straightforward comparison, not a new valuation exercise.

Weaknesses

- U.S. statutory reserve credit for XXX/AXXX-type business is frequently *redundant* relative to an economic/PBR basis, so using it as the benchmark can produce a charge that is disconnected from the actual “additional capital that would be required,” i.e., it may overstate the true exposure precisely in the cases (long-duration redundant-reserve business) that motivated offshore reinsurance in the first place.
- Doesn’t resolve the core question in the prompt: *which specific asset types qualify as “permitted assets”* in the first place. Excess-of-loss reinsurance, letters of credit, non-admitted assets, and parental/affiliate guarantees all have materially different enforceability, liquidity, and credit-quality characteristics, and this does not establish qualification criteria by itself—it only tells you what to do once you’ve decided which assets fall into this category.

2b. Charge the shortfall of permitted assets vs. a PBR-type calculation of ceded reserves

Strengths

- More economically accurate than 2a: benchmarking against a PBR-consistent reserve (rather than the often-redundant statutory reserve) better isolates the *actual* tail risk being reinsured, which is more consistent with the memo’s “additional capital that would be required” framing and avoids penalizing companies for reserve redundancy that isn’t a real economic risk.
- Aligns methodologically with the direction the NAIC has already been heading (VM-20, the broader PBR framework, and the AG 48/AG 55 “Primary Security” and “non-Guideline Excluded Assets” concepts specifically referenced in the prompt), so it reuses existing regulatory infrastructure and definitions rather than creating new ones from scratch.

Weaknesses

- Requires performing (or re-performing) a PBR-type calculation for blocks that may never have been valued on a PBR basis in the first place (particularly older XXX/AXXX business reinsured before VM-20’s effective date), which is a significant actuarial undertaking—modeling, assumption-setting, governance, and audit, not just a lookup.
- Introduces model risk and inter-company comparability problems: PBR calculations involve company-specific assumptions and margins, so two companies with economically similar risk could show different “required” collateral levels purely from modeling choices, unless the LRBCWG prescribes a standardized (rather than company-specific) PBR-type calculation for this purpose—which itself takes time to build (see AG 55/VM-20 experience).
- Still leaves open the definitional question of which specific asset types qualify as permitted collateral (same gap as 2a).

Life RBC Working Group Discussion Questions for RBC Recapture Charge (Oct 2026)

1. **Method** – What method should serve as the basis for the new RBC charge?
 - a. Factor
 - b. Non-Allowance of RBC Credit
 - c. Other (e.g., stress/scenario-based calculation)
2. **Asset Level** – Should collateral levels generally be based on PBR or stat reserves (prior to considering any additional exemptions/adjustments)?
3. **Asset Composition** – Should all assets be considered, partial credit for non-admitted assets, or exclude all non-primary securities (per AG 48)?
4. **Exemptions** – General openness to considering exemptions in certain situations? Examples could include exemptions to inforce contracts or 0% factors with sufficiently high collateral and filing NAIC statements.
5. **Retrocessions** – Extend scope to retrocessions to non-reciprocal jurisdictions?

Recapture Risk Exposure - Comments Received (Sep 2026)

#	Topic	Party	Item	Comment	Which discussion question addresses?
1	Method	Various Parties	Factor-Based Approach	Preference for factor-based approach over non-allowance of RBC credit; CIRCA recommends modifications to reflect risk	1
2		Academy	Alternative Approach (i)	hybrid/tiered design with a general factor but more punitive factor applies only where collateral or asset-quality tests fail	1
3		Academy	Alternative Approach (ii)	stress/scenario-based charge to estimate amount needed under a prescribed shock to capture replacement cost	1
4		Athene	Recapture Risk	Calibrate factor to reproduce the substance of a recapture analysis, which is not confined to asset default risk	1
5	Assets	Academy	Alternative Approach	Leverage AG55 testing to determine any assets shortfall; stat reserve may overestimate and PBR may underestimate	2
6		Athene	Level at stat reserves	Support using stat reserve, not PBR	2
7		Academy & Everlake	Definitions	Define terms, such as "permitted asset"	2 (define other terms later in process)
8		CIRCA	Asset Composition	All assets deemed admitted by the cedent's domiciliary commissioner should be recognized	3
9		Everlake	Non-admitted assets	Re-examine the premise that stat reserves ceded must be supported on a dollar-by-dollar basis with admitted assets	3
10		CIRCA	Availability of Collateral	The severity should be reduced for legally available collateral	3
11		Athene	Non-Primary Security	Exclude non-primary security (AG 48) and guideline-excluded assets (AG 55)	3
12	Scope	Multiple Parties	Retrospective Application	All transactions prior to 12/31/2027 have already been priced and should be scoped out	4
13		Everlake	Zero factor	Permit zero factor if collateral is held in trust/FWH/Modco and ceded block is held at US stat, reports NAIC statements	4
14		Athene	Retrocessions	Framework should extend through to retrocessions	5

Additional Comments on Non-Reciprocal Reinsurance Recapture Exposure

- Double-counting – Multiple comments expressed concern around double-counting the RBC impact between the first directive and second directive in the E Committee referral. This is an important issue that the Working Group plans to address, which will be discussed when the second directive is taken up. So more to come.
- Scope beyond non-reciprocal jurisdictions – There were several comments around specifying treatment for qualified and other types of jurisdictions, including captives. This goes beyond the scope of the referral.
- Objective – The Working Group is operating from the broad objective provided in the E Committee referral memo and accompanying directives. Further details around these objectives will be subject to the working group's discussions and decisions going forward.
- Reflecting risk elements – The E Committee referral states that the RBC factor would be based on “the additional capital that would be required if a ceding company had to recapture those reserves.” This limits in the Working Group's scope. Several comments requested to vary the factor based on probability of recapture, the ability to diversify or not diversify risk across counterparties, distinguishing or not distinguishing by specific jurisdiction, and only holding additional amounts if determined by cash flow testing or stress testing. Although these may be appropriate factors to consider for the second directive regarding the broader counterparty risk charge, they are outside of the purview of the Working Group for the first directive.
- Process – Comments made on the process regarding the timing, testing, coordinating with other NAIC groups and governance are important considerations, and will be addressed at a later point in this project.

Recapture Risk Exposure - Comments Received (Sep 2026)

#	Topic	Party	Item	Comment
15	Double-Counting	Various Parties	Double-Counting	Avoid double-counting of RBC across both E Committee directives
16	Scope	ACLI & Athene	Reinsurer Type	Treatment of reciprocal vs. qualified jurisdiction reinsurers?
17		NWM	Expanding scope	Underlying concerns not only apply to non-reciprocal, but also reciprocal jurisdictions and captives
18	Objective	Various Parties	Clarity	Greater clarity regarding objective
19	Reflecting Risk Elements	ACLI & Academy	Diversification	Reflect lower charge for diversification of using multiple reinsurers decrease recapture risk?
20		Athene	Diversification	Do not dilute the factor for diversification, as this tends to fail precisely in the stressed conditions that force recapture
21		CIRCA & Everlake	Likelihood of Recapture	Any incremental recapture factor beyond current C-1 factor should reflect recapture likelihood
22		CIRCA & Everlake	Disaggregate Risks	Recapture probability, counterparty default, crediting rate profile, collateral adequacy and others should not all be combined
23		CIRCA	Jurisdiction	Distinguish jurisdiction designation from risk; consider the effect of jurisdictional concentration
24		Athene	Jurisdiction	Keep the framework based on jurisdiction distinctions, as this is an established feature of reinsurance supervision
25		Academy	Coordination with AG48	Coordination so that companies already in scope of Model 787/AG48 do not also receive this treatment
26		CIRCA	Cash flow testing or stress testing	Only apply to transactions in which cash flow/stress testing identify material risk under stress
27	Process	CIRCA	Testing	Test before calibrating
28		CIRCA	Coordinate with LATF	Coordinate with LATF and VAWG for related items, such as AG55 analysis
29		Academy & Everlake	Timing	Delay until Year-end 2028 or have phase-in
30		Academy	Confidentiality	Any field test should have aggregation/compile company information in a confidential manner
31		Academy	Governance and Recalibration	Market conditions will change over time and any factor should be updated accordingly
32		NWM	Reciprocal Process	Jurisdictional constructs were developed for reserve credit, not equivalent solvency outcome or RBC; revisit process

MEMORANDUM

TO: Ben Slutsker, Chair, Life Risk-Based Capital (E) Working Group
Philip Barlow, Vice Chair, Life Risk-Based Capital (E) Working Group
FROM: Kevin Clark, Chair, Statutory Accounting Principles (E) Working Group
Dale Bruggeman, Vice Chair, Statutory Accounting Principles (E) Working Group
DATE: August 31, 2026
RE: Agenda item 2026-07: Referral on AVR affiliated common stock

At its August 12 meeting, the Statutory Accounting Principles (E) Working Group adopted agenda item 2026-07: Referral on AVR affiliated common stock. As part of that adoption, SAPWG directed NAIC committee support to sponsor a proposal to update the 2027 Life, Accident & Health/Fraternal Annual Statement blank and instructions. The proposal would revise the instructions for the identified AVR reporting lines, including related changes to other AVR reporting lines—particularly previous AVR lines 65-69—to improve clarity. The annual statement blanks proposal, with a proposed 2027 effective date, is being developed for discussion by the Blanks (E) Working Group in December 2026.

SAPWG also directed that the Life Risk-Based Capital (E) Working Group be notified of SAPWG’s intent to sponsor the proposal. This agenda item does not include any SSAP revisions.

The proposed Life, Accident & Health/Fraternal Annual Statement AVR blank and instruction revisions would clarify the reporting of SCAs with statutory accounting principle impacted valuations (as required under SSAP No. 97, paragraphs 8bi and 8bii.) Under the proposal, those SCAs—excluding life SCAs that have an AVR—would be reported on line 15 and receive the lower AVR reserve factor applicable to the “SCA – Certain Other” category. All other SCAs would be reported on line 16.

The agenda item was developed to respond to a referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded American Council of Life Insurers (ACLI) comments received on life risk-based capital proposal 2025-04-L Other Long-Term Assets (LR008). The following four AVR equity schedule lines were highlighted in the referral for clarification:

Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)
	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other ⁷

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**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: Referral on AVR affiliated common stock

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

This agenda item is to respond to a referral from the Life Risk-Based Capital (E) Working Group which was received at the 2025 Summer National Meeting. The referral forwarded comments received on life risk-based capital proposal 2025-04-L Other Long-Term Assets (LR008). Specifically, the American Council of Life Insurers (ACLI) raised questions on the asset valuation reserve (AVR) equity reporting lines for subsidiary, controlled or affiliated (SCA) common stock on the AVR reporting schedule in the Life, Accident & Health/ Fraternal Annual Statement and requested clarifications to the AVR blanks and instructions.

The following four AVR equity schedule lines were highlighted in the referral for clarification:

Maximum Reserve Factor	2025 AVR Schedule Line Number and Name
.1580	15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries (See SVO Purposes & Procedures Manual)
	68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
.1945	16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.
	69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other ⁷

AVR was first applicable in 1992, and the original instructions and line names included references to specific SCA valuation categories for the SCA common stock lines for “affiliated – certain other.” However over time specific references to SCA valuations associated with the “affiliated – certain other” were removed from the AVR schedule and instructions which caused the distinction between the line categories for “affiliated certain other” and “affiliated other” to become unclear.

This agenda item provides a recommendation to clarify the reporting for these categories based on an overview of key research points from using the NAIC library resources, to review historical AVR instructions and schedules and the references to the SCA valuation methods previously within in the *Securities Valuation Office (SVO) Purpose & Procedures Manual* (P&P Manual) and the guidance currently in the *Accounting Practices and Procedures Manual*.

As detailed below in the “Key Points in Historical Research” NAIC staff has identified that the historical intent of what is “line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries” is most similar to the current methods of SCA valuation in *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* described below. Note that because of existing “Line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurers with an AVR” are excluded from line 15:

1. U.S. insurance companies using the methodology detailed in SSAP No. 97, paragraph 8.b.i. This is an equity method using audited statutory accounting principles valuation. The historical wording referenced in the in the SVO P&P Manual for this line was book equity of common stock issued by a U.S. insurer.
2. Non-insurance companies (foreign and domestic) using the methodology detailed in SSAP No. 97, paragraph 8.bii. This is an equity method using audited generally accepted accounting principles (GAAP) with limited statutory adjustments. The historical wording for this line initially noted non-insurance companies and the value of assets if the held directly by an insurer. The historical intent of this wording is to arrive at either a statutory accounting valuation or a SAP like valuation for the assets.

Key Points in Historical Research

1. 1992 - the AVR schedule begins and the equity section has 3 key SCA common stock lines:

- **Line 3 - Subsidiary, Controlled or Affiliated Common Stock – Life Insurer with an AVR**
 - Affiliated life with AVR maximum reserve factor of 0.00
 - This line is relevant as it scopes out life insurance SCAs out of other SCA common stock lines. In 2025, line 4 has the same name and the scope of this line is unchanged.
- **Line 4 - Subsidiary, Controlled or Affiliated Common Stock – Certain Non-Life or Investment Subsidiaries**

Part of this line was later scoped out Investment SCAs and the remainder became line 15 SCA Common Stock- Certain Other (lower factor of .20) P&P Manual references were to (see excerpt in authoritative literature):

 - Section 4 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
 - Section 4(B) (a) (iii) is book equity value that cannot be applied to non-insurers and is akin to present day SSAP No. 97 8.b.i. It applies to non AVR holding insurers as SCA Life insurers with AVR are on line 3.
- **Line 5 - Subsidiary, Controlled or Affiliated Common Stock –Other** (higher factor of .25) became line 16 with the same name and the scope which represents common stock in SCAs that are not in other lines. This line has been maintained through 2025.

2. 1994 - Investment subsidiaries are divided out of line 4 into separate lines 4-14 (AVR look-through charges by asset category) and other line numbers shift down.

- The remaining part of line 4 becomes **Line 15 Affiliated - Other Section 5(B) (a)(i) or (iii)**. With the move in the P&P Manual from Part Four to Part Five, the SVO P&P Manual reference was updated from Section 4 to 5 but there were no SVO valuation changes.
 - Section 5 (B) (a)(i) (value of assets if held directly by the insurer) is akin to current day SSAP No. 97, 8.b.ii. and
 - Section 5(B) (a) (iii) is book equity value that cannot be applied to non-insurers is akin to present day SSAP No. 97 8.b.i. Therefore it applies to non AVR holding insurers.
- Prior AVR line 5 is now **Line 16 - Affiliated –Other (c)** AVR schedule footnote (c) Represents “Affiliated Common Stock-Other” Investments not allocated to another line within this section. This footnote was moved to the instructions in 1995.

3. 1996 - AVR schedule line names change – SVO Manual references are generic.

- Line 15 -AVR Schedule name changed to "**Affiliate - Certain Other (See SVO Purposes & Procedures Manual)**" This is when the specific reference to the SVO section was removed from the line name.
- Line 15 - **ASI only include a generic reference to SVO P&P Manual.**
- Line 16 - AVR Schedule name changed to "**Affiliated – All Other**"

4. 1997 - AVR schedule contribution changes and SVO Manual moves guidance to Part Eight

- AVR schedule updates to add columns for the "Basic Contribution and Reserve Objective," but the Factor for line 15 remains 0.2 for Affiliate - Certain Other
- SVO moves the guidance from Part Five to Part Eight.
 - Section 3 (a) – admitted asset equivalent for non-insurers (like SSAP No. 97, 8.b.ii.)
 - Section 3 (c)- Book value of Insurer's Common Stock (like SSAP No. 97 8.b.i.)

5. 1998 - Line 15 ASI updated to include specific SVO references again

- The ASI for line 15 referenced specific parts of the SVO P&P Manual, Part Eight, section 3 (a) (Admitted asset equivalent) [for non-insurers] and 3 (c) (Book Value of Insurer's Common Stock). (See authoritative literature section).

6. 1999 - SVO P&P Manual no longer requires insurer book values in Part Eight, Section 3 (c) to be filed with the SVO beginning Jan. 1, 1999.

7. 2001 - SAP codification- SVO P&P Manual adds reference to SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities, and ASI have a generic SVO ref.

- The 2001 ASI line 15 instructions replaces the specific reference to sections of the SVO P&P Manual and adds a generic reference. This is when the specific reference to the P&P Manual section was removed from the ASI and replaced with a generic P&P Manual reference. This generic reference to the P&P Manual continues through 2024.
- SVO P&P Manual Part Eight was updated to reflect codification and begins referencing SSAP No. 46
- The [special insert](#) (See p.45) to the 2000 publication includes tracked changes for the Jan. 1, 2001, for codification and the fling instructions begins referencing SSAP No. 46. Other sections of Part Eight, Section 3 note updates to the prior line fifteen references
 - Moved Part Eight, Section 3 (c) to Part Eight, Section 3 (b) (ii) A (This is a domestic insurer).
 - Information that matches the SSAP No. 46 valuation methods was added.
 - Part Eight Section 3(b)(i) Market with a discount rate, which is similar to current SSAP No. 97, paragraph 8.a.
 - Part Eight Section 3(b)(ii) equity Methods **(A) and (B) are what was previously referenced for line 15**
 - (A) investment in U.S. insurance SCA entities using SAP equity adjusted for goodwill - similar to SSAP No. 97 paragraph 8.b.i
 - (B) Investments in noninsurance SCA entities – no significant ongoing operations use an adjusted SAP basis that is an early version of what became SSAP No. 97 paragraph 8.b.ii.
 - (C) Investments in noninsurance SCA entities with significant ongoing operations – Use audited GAAP statements this is similar to SSAP No. 97 paragraph 8.b.iii.

8. 2003 - Changes for Line numbers and AVR Factors

- New row line 3 for FHLB was added to AVR common stock table, so the key lines are now 16 and 17.

- Instructions are unchanged except for the line numbers.
AVR factors changes to .13 line 16/ line 59 Affiliated Certain Other and .16 for line 17 / line 60 Affiliated-Other this is due to implementation of Tax Effect Calculation page in RBC (one year delay in AVR changes, the RBC changes were effective 2002).

9. 2005 – SVO P&P Manual Updated to conform with SSAP No. 88

- SVO Purposes and Procedures Manual Part Eight was amended to bring it into conformity with new *SSAP No. 88—Subsidiary, Controlled and Affiliated Investments* (effective 2005). This added more sections to be consistent with SSAP No. 88.
 - Market value is essentially the same as current SSAP No. 97, paragraph 8a.
 - (A) US Insurance SCA is essentially the same as current SSAP No. 97, paragraph 8bi
 - (B) Investments in NON insurance SCAs includes the activity and revenue test like current SSAP No. 97, paragraph 8.b.ii.
 - (C) Investments in non-insurance SCA like current SSAP No. 97, paragraph 8.b.iii
 - (D) Investments in Foreign Insurance SCA use audited US GAAP with SAP adjustments for US business like current SSAP No. 97, paragraph 8.b.iv.
 - (E) investments in Foreign Non insurance SCA are allowed to used market, or activity or revenue test
- No blanks or instruction changes for line 16 and 17

10. 2006 – Additional clarifications to SVP P&P Manual to match SSAP No. 88 better.

- 2006 SVO P&P Manual Part Eight guidance added more paragraphs references from SSAP No. 88 about holding companies and elements of the equity method like pick up and not double counting preferred stock etc.

11. 2008 - SVO P&P Manual added references to SSAP No. 97, which replaced SSAP No. 88 and added Tokyo Stock Exchange

- SVO P&P Manual Part Eight references updated from SSAP No. 88 to *SSAP No. 97—Investments in Subsidiary Controlled and Affiliated Entities* explicitly reference the activity test in SSAP No. 97, paragraph 8.b.ii.
- Added Tokyo Stock exchange for the market method (SSAP No. 97, paragraph 8.a.)
- No blanks changes for lines 16 and 17
- No instruction changes for lines 16 and 17

12. 2014 – AVR Blank removed line 14 mortgages in the affiliated investment subsidiary section and the key lines are back to lines 15 - Affiliated Certain Other and 16 - Affiliated Other. No other changes to the instructions or reporting line instructions.

13. 2017 – SCA valuation moved from SVO P&P Manual to SSAP No. 97 and FRS

- The instructions for valuation of SCA investments were deleted from SVO P&P Manual. The deletion of the valuation instructions for SCA investments was accompanied by a decision of the Valuation of Securities (E) Task Force to transfer oversight of this activity to the Statutory Accounting Principles (E) Working Group and the Financial Regulatory Services Division.
- The AVR instructions were not updated because of this transfer of valuation function. The AVR Instruction and Blanks continue to reference the SVO P&P Manual
- SSAP No. 97 had an Exhibit A – SCA Reporting Process added for the filing instructions.

14. 2019 – AVR factors updated for tax changes

- AVR Factors refreshed to reflect Tax Changes (TCJA) (one year delay in AVR changes, RBC changes in 2018) AVR Equity line 15/line 68 (.1580) & line 16/ line 69 (.1945)
- Instructions for lines 15 still reference SVO no changes to lines 15 and 16 instructions

15. 2025 – Current Status

- Blank is the same still has SVO reference for line 15 Affiliated -Certain Other (See SVO Purposes and Procedures Manual)
- AVR Factors for SCA related lines (AVR Equity line 15 / line 68 (.1580) and for line 16/ line 69 (.1945) remain the same as 2019's
- The prior year (2024) instructions reference the SVO P&P Manual for line 15 has been updated to reference SSAP No. 97, this must have been an editorial change as it is not tracked.
- The prior year (2024) instructions reference to SVO P&P Manual for line 68 has been updated to reference SSAP No. 48, this must have been an editorial change as it is not tracked.

Existing Authoritative Literature:

1. The NAIC library website contains historical publications.
 - [Life, Accident and Health/ Fraternal Annual Statement Instructions](#)
 - [Life, Accident and Health/ Fraternal Blanks](#)
 - [SVO P&P Manual](#)
2. 2025 AVR line names and Life, Accident & Health/ Fraternal Annual Statement instructions (ASI) Lines 15 and 68 include generic references to SSAP No. 97:

AVR Equity Line	Instructions (Excerpt and emphasis added)
Line 4 – Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR	Report the book/adjusted carrying value of all common stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the common stocks are not required to be included in the asset valuation reserve of an affiliated company.
Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries	Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the SSAP No. 97— Investments in Subsidiary, Controlled and Affiliated Entities in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.
Line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other	Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15 , in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively

Line 68 – Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)	...Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets should be valued according to the SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies . Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...
Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other	 Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16...

3. Excerpt from 1992 SVO P&P Manual referenced on valuations of SCA common stock is below, the full 1992 Manual is at this link: [1992 SVO](#)

SVO P&P Manual Part 4(B)(a)(i)	SVO P&P Manual Part 4(B)(a)(iii)
<i>...the value of only such of the assets of such company as would constitute lawful investments for the insurer if acquired or held directly by the insurer.</i>	book value, defined as in Section 4 (A)(c) *, provided, however, that the common stock of a non-insurance company may not be valued on the basis of this subsection (iii); * 4(A)(c) states: Association Values for common stocks which are not publicly traded which are <u>issued by insurance companies</u> will be equal to book value, which shall be calculated as follows: by dividing the amount of its capital and surplus as shown in its last annual statement or subsequent report of examination (excluding from surplus, reserves required by statute and any portion of surplus properly allocable to policyholders, rather than stockholders) less the value (par or redemption value, whichever is the greater) of all of its preferred stock, if any, outstanding, by the number of shares of its common stock issued and outstanding.

4. 1998 SVO Manual move guidance to Part Eight SVO instructions (bolding added)

Section 3. Valuation Methods In fulfilling the requirements of Sections 1 and 2 above, insurance companies may use any of the following valuation methods:

(a) **Admitted Asset Equivalent** Pursuant to this method, which may only be used for non-insurance SCA companies, the value of the common stock is limited to the value of those assets of the SCA company that would constitute lawful investments for the insurance company, if acquired or held directly by the insurance company. **This is the sole valuation method that permits submission and use of an unaudited financial statement.**

(c) **Book Value of Insurer's Common Stock** Pursuant to this method, the value of the **common stock of an insurance company** is derived by reference to the insurance company's book value, calculated by dividing the company's NAIC Financial Statement Blank capital and surplus less the value of its preferred stock and

surplus notes, by the number of shares of its issued and outstanding common stock. The insurance company is required to submit the NAIC Financial Statement Blank to the SVO. A noninsurance company may not use this valuation method.

5. 2001- Life Fraternal Annual Statement instructions for AVR equity line 15 – has a generic SVO reference.

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to the **Purposes and Procedures Manual of the Securities Valuation Office of the NAIC** in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10 respectively.

6. SVO P&P Manual Instructions 2008 Part Eight, Section 3 Valuation methods

Note (a) (i) describes the market valuation methods and is omitted. Underline was in the P&P Manual.

(ii) Equity Methods If a SCA investment does not meet the requirements for the market valuation approach in Section 3 (a) (i) of this Part, or if the requirements are met, but a reporting entity elects not to use the market valuation approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

- (A) Investments in U.S. Insurance SCA Entities
Investments in U.S. insurance SCA entities shall be recorded based on the underlying audited statutory equity (where equity is defined as net of preferred stock and surplus notes of the investee) of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in SSAP No. 68.
- (B) Investments in Non-Insurance SCA Entities Statutory Basis
Investments in non-insurance SCA entities engaged in the activities described in SSAP No. 97, paragraph 8b.ii. shall be adjusted to an audited statutory basis of accounting, if 20% or more of the SCA's revenue is generated from the reporting entities and its affiliates. For purposes of this section, revenue means GAAP revenue reported in the audited GAAP financial statements, excluding realized and unrealized capital gains and losses. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. If the reporting entity also holds an investment in preferred stock and or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97. For guidance on investments in downstream holding companies refer to paragraphs 17-19 of SSAP No. 97.
- (C) Investments in Non-Insurance SCA Entities GAAP Basis
Investments in non-insurance SCA entities that do not qualify under the preceding subparagraph (B) shall be recorded based on the audited GAAP equity of the investee.
- (D) Investments in Foreign Insurance SCA Entities
Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting, for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from an US insurer using the statutory accounting principles promulgated in the NAIC Accounting Practices and Procedures Manual and for any audit adjustments resulting from the annual GAAP

audit. Statutory basis of accounting shall be based on the underlying U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97. GAAP is defined as those pronouncements included in the United States GAAP Hierarchy as described in AICPA Statement of Auditing Standard No. 69, The Meaning of Present Fairly in Conformity With GAAP. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Foreign insurance SCA entities are defined as alien insurers formed according to the legal requirements of a foreign country.

(E) Investments in Foreign Non-Insurance SCA Entities

Investments in foreign non-insurance SCA entities shall follow the guidance in this Part Eight, Section 3(a)(ii)(B) or (C) based on the revenue and activity criteria noted above, which requires that accounting be based on the underlying adjusted audited U.S. GAAP equity of the respective entity. Statutory basis of accounting shall be based on the underlying audited U.S. GAAP equity of the respective entity with the adjustments required by paragraph 9 of SSAP No. 97.

(F) Investments in the Preferred Stock of an SCA

Investments in the preferred stock of an SCA shall be accounted for in accordance with the provisions of SSAP No. 32. If in addition to preferred stock the reporting entity also holds an investment in common stock and/or surplus notes refer to paragraphs 23 through 27 of SSAP No. 97 and paragraph 10 of SSAP No. 41.

7. SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies (Bolding added):

7. Investments in these ventures, except for joint ventures, partnerships and limited liability companies with a minor ownership interest¹, shall be reported using an equity method as defined in **SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities, paragraphs 8.b.i. through 8.b.iv.** (The equity method calculation may result with a negative valuation of the investment; therefore, the SSAP No. 97 equity method calculation shall occur regardless of whether the investment is supported by an audit and the reporting entity will nonadmit the investment.) A reporting entity whose shares of losses in a SSAP No. 48 entity exceeds its investment in the SSAP No. 48 entity shall disclose the information required by SSAP No. 97, paragraph 35.a.

Footnote¹ With the identification of whether the reporting entity has a minor ownership interest, reporting entities must also identify whether the investment is a related-party transaction. Pursuant to the concepts reflected in *SSAP No. 25—Affiliates and Other Related Parties*, consideration shall be given to the substance of the transaction and the parties whose action or performance materially impacts the insurance reporting entity holding the security. For example, if the underlying assets within a SSAP No. 48 entity represent assets issued by an affiliate, then the SSAP No. 48 entity shall be considered a related party (affiliate) investment, with the transaction subject to the accounting and reporting provisions of SSAP No. 25. As identified in SSAP No. 25, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

8. SSAP No. 97

Applying the Market Valuation, Audited Statutory Equity and Audited GAAP Equity Methods

8. The admitted investments in SCA entities shall be valued using either the market valuation approach (as described in paragraph 8.a.), or one of the equity methods (as described in paragraph 8.b.) adjusted as appropriate in accordance with the guidance in *SSAP No. 25—Affiliates and Other Related Parties*, paragraph 18.d.

a. Market valuation (Omitted for brevity)

b. If a SCA investment does not meet the requirements for the market valuation approach in paragraph 8.a. or, if the requirements are met but a reporting entity elects not to use that approach, the reporting entity's proportionate share of its investments in SCAs shall be recorded as follows:

- i. Investments in U.S. insurance SCA entities shall be recorded based on either 1) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill as provided for in *SSAP No. 68—Business Combinations and Goodwill*² or 2) the underlying audited statutory equity of the respective entity's financial statements, adjusted for any unamortized goodwill, modified to remove the impact of any permitted or prescribed accounting practices that depart from the NAIC *Accounting Practices and Procedures Manual*. Reporting entities shall record investments in U.S. insurance SCA entities on at least a quarterly basis, and shall base the investment value on the most recent quarterly information available from the SCA. Entities may recognize their investment in U.S. insurance SCA entities based on the unaudited statutory equity in the SCAs year-end annual statement if the annual SCA audited financial statements are not complete as of the filing deadline. The recorded statutory equity shall be adjusted for audit adjustments, if any, as soon as the annual audited financial statements have been completed. Annual consolidated or combined audits are allowed if completed in accordance with the Model Regulation Requiring Annual Audited Financial Reports as adopted by the SCA's domiciliary state;
- ii. Investments in both U.S. and foreign noninsurance SCA entities that are engaged in the following transactions or activities:
 - (a) Collection of balances as described in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
 - (b) Sale/lease or rental of EDP Equipment and Software as described in *SSAP No. 16—Electronic Data Processing Equipment and Software*
 - (c) Sale/lease or rental of furniture, fixtures, equipment or leasehold improvements as described in *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
 - (d) Loans to employees, agents, brokers, representatives of the reporting entity or SCA as described in *SSAP No. 20—Nonadmitted Assets*

² If the insurance SCA employs accounting practices that depart from the NAIC accounting practices and procedures, and the reporting insurance entity has not adjusted the valuation of the insurance SCA to be consistent with the NAIC accounting practices and procedures, (i.e., retains the effect of the permitted or prescribed practice in its valuation), disclosure about those accounting practices that affect the insurance SCA's net income and surplus shall be made pursuant to paragraph 37. If the reporting entity has adjusted the investment in the insurance SCA with the resulting valuation being consistent with the accounting principles of the AP&P Manual, the disclosures in paragraph 37 are not required.

- (e) Sale/lease or rental of automobiles, airplanes and other vehicles as described in *SSAP No. 20—Nonadmitted Assets*
- (f) Providing insurance services on behalf of the reporting entity including but not limited to accounting, actuarial, auditing, data processing, underwriting, collection of premiums, payment of claims and benefits, policyowner services
- (g) Acting as an insurance or administrative agent or an agent for a government instrumentality performing an insurance function (e.g. processing of state workers compensations plans, managing assigned risk plans, Medicaid processing etc.)
- (h) Purchase or securitization of acquisition costs

and if 20% or more of the SCA's revenue is generated from the reporting entity and its affiliates, then the underlying equity of the respective entity's audited U.S. Generally Accepted Accounting Principles (GAAP) financial statements shall be adjusted to a limited statutory basis of accounting in accordance with paragraph 9. For purposes of this section, revenue means GAAP revenue reported in the audited U.S. GAAP financial statements excluding realized and unrealized capital gains/losses. Foreign SCA entities are defined as those entities incorporated or otherwise legally formed under the laws of a foreign country. Paragraphs 22-27 provide guidance for investments in holding companies;

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
The Working Group received this referral from the Life Risk-based Capital (E) Working Group at the 2025 Summer National Meeting.

Convergence with International Financial Reporting Standards (IFRS): None

Staff Review Completed by: Robin Marcotte – NAIC Staff

Staff Recommendation: NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to the Life, Accident & Health/ Fraternal Annual Statement blank and instructions as described below. In addition, the Life Risk-based Capital (E) Working Group should be notified of the exposure. No revisions to statements of statutory accounting principles are recommended. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines to ensure the instructions are accurate.

The proposed revisions detailed below include SCAs with statutory accounting impacted valuations (excluding life SCAs that have an AVR) in line 15, receiving a lower RBC charge as the "SCA – Certain Other" category, and all other SCAs captured in line 16.

1. Line 15 - Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries be updated to include:
 - a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement.

- b. Add references to SSAP No. 97, paragraph 8.b.i (audited U.S. Insurers SAP equity) and paragraph 8.b.ii (audited GAAP for a non-insurance entity with limited SAP adjustments) to the instructions. This is consistent with specific historical SVO references that the line includes valuations with statutory adjustments. Note that historical information did not include foreign insurance entities.
 - c. Note that because of existing AVR Common Stock Line 4 - Affiliated Life insurance with AVR are excluded from line 15 and NAIC staff recommend that this be stated.
2. Line 68 - Investments with the Underlying Characteristics of Common Stock – Affiliated Certain Other (See SVO Purposes & Procedures Manual)
- a. Remove the reference to the SVO Purposes & Procedures Manual in the line name in the annual statement. Add SAP equity to line 15 name.
 - b. Include in line 68 investments with more than a minor ownership interest as described in SSAP No. 48 which are valued in accordance with SSAP No. 97, paragraph 8.b.i.; or paragraph 8.b.ii. and explicitly note that this line does not include life entities with AVR which are reported in line 67.
 - c. Note that the instructions for lines 65-68 are quite brief, so NAIC staff would recommend further instructions to these lines. With the sponsored blanks proposal for this item, NAIC staff will work with the Blanks team to propose clarifying edits to these lines, as well as the corresponding common stock lines.
 - d. The currently exposed blanks proposal number 2025-27BWG affects the AVR schedule and instructions to add a section on collateralized loan obligations (CLO), collateralized bond obligations (CBO) and collateralized debt obligations (CDO). This will require section and line renumbering of the AVR schedule and lines. For ease of review the following is a cross reference of current line numbers and the proposed line numbers in 2025-27BWG.

Current line number	Line number in 2025-27BWG
Line 4	Section A, Line 4
Line 15	Section A, Line 15
Line 16	Section A, Line 16
Line 65	Section F, Line 1
Line 66	Section F, Line 2
Line 67	Section F, Line 3
Line 68	Section F, Line 4
Line 69	Section F, Line 5

- 3. Line 69 - Investments with the Underlying Characteristics of Common Stock – Affiliated Other – All Other revisions have been proposed to add instruction for line 69 that parallels the guidance for line 16 - Subsidiary, Controlled or Affiliated Common Stocks – Other.

Proposed revisions for exposure consideration

The line numbers that will match the line numbers if proposal 2025-27BWG is adopted are shown in item 2 d above for ease of review to allow for coordination with other ongoing projects.

Life, Accident & Health/ Fraternal Annual Statement

Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Current line #	Current line name
Line 15	Affiliated certain other SAP equity (See SVO Purposes & Procedures Manual)
Line 68	Affiliated certain other (See SVO Purposes & Procedures Manual)

Life, Accident & Health/ Fraternal Annual Statement Instructions

Asset Valuation Reserve Equity And Other Invested Asset Component – Basic Contribution, Reserve Objective And Maximum Reserve Calculations

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities [in paragraph 8.b.i and paragraph 8.b.ii](#) in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. [This line does not include common stock of subsidiary, controlled, or affiliated entities holding an AVR. Such entities are disclosed in line 4 - Subsidiary, Controlled or Affiliated Common Stocks – Life Insurer with an AVR.](#)

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Lines 65 through 69 – Other Invested Assets with Underlying Characteristics of Common Stocks Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investments are similar to common stock (Lines 1999999 and 2099999) in Columns 1 and 4. [Categorize these assets consistent with the directions for Pages 32 and 33, the corresponding the common stock line have the underlying characteristics of Lines 1 through 4, 15 and 16.](#)

[Line 1- Unaffiliated public corresponds to line 65](#)

[Line 2 - Unaffiliated private corresponds to line 66](#)

[Line 4 – Affiliated Life with AVR corresponds to line 67](#)

[Line 15 Affiliated-certain other SAP Equity corresponds to line 68](#)

[Line 16 Affiliated all other corresponds to line 69](#)

[For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.](#)

[For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.](#)

Line 67 should show Schedule BA assets with the underlying characteristics of common stocks for an affiliated life insurance entity carrying AVR.

Line 68 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to subsidiary, controlled or affiliated company common stocks owned and these assets which hold more than a minor ownership interest per ~~should be valued according to the~~ SSAP No. 48—Joint Ventures, Partnerships or Limited Liability Companies which are valued according to the requirements in SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities in paragraph 8.b.i and paragraph 8.b.ii. This line does not include assets with the underlying characteristics of common stocks of a life entity holding an AVR as such entities are disclosed in line 67.

Line 69 should show all Schedule BA assets owned where the characteristics of the underlying investments are similar to affiliated common stocks and these are the assets that are not included in lines 67 or 68.

~~Categorize these assets consistent with the directions for Pages 32 and 33, Lines 1 through 4, 15 and 16. For Line 65, the reserve factor must be calculated on an individual company basis. It is equal to 15.8% times the beta factor as discussed in the Pages 32 and 33, Line 1 instructions, and must be at least 12.15% but not more than 24.31%. Multiply the amount in Column 4 by the calculated reserve factors in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively. For Lines 66 through 69, multiply the amounts in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.~~

Status:

On May 18, 2026, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as a SAP clarification, and exposed the above revisions to the Life, Accident & Health/Fraternal Annual Statement blank and instructions as described and illustrated above. In addition, the Life Risk-based Capital (E) Working Group will be notified of the exposure. No revisions to statements of statutory accounting principles are exposed. After exposure of this agenda item, NAIC staff recommend that the Working Group sponsor a blanks proposal to incorporate instruction changes to the noted AVR reporting lines, as well as to review other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear.

On August 12, 2026, the Statutory Accounting Principles (E) Working Group adopted, as final, the agenda item and directed NAIC staff to proceed with sponsoring a proposal to update the 2027 Life, Accident & Health/Fraternal Annual Statement blank and instructions to incorporate instruction changes to the noted AVR reporting lines, as well as to revisions to other AVR reporting lines (particularly lines 65-69) to ensure the instructions are clear. In addition, the Working Group directed that the Life Risk-Based Capital (E) Working Group should be notified of the plan to submit a blanks proposal. This agenda item does not include any SSAP revisions.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2026/08-12-26SummerNationalMeeting/Adoptions/26-07-AVRreferralonSCA.docx>

2027 #	Owner	2027 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – Life RBC							
L1	Life RBC WG	Ongoing	Ongoing	Make technical corrections to Life RBC instructions, blank and /or methods to provide for consistent treatment among asset types and among the various components of the RBC calculations for a single asset type.			
L2	Life RBC WG	4	2026 or later	1. Monitor the impact of the changes to the variable annuities reserve framework and risk-based capital (RBC) calculation and determine if additional revisions need to be made. 2. Develop and recommend appropriate changes including those to improve accuracy and clarity of variable annuity (VA) capital and reserve requirements.	CADTF	Being addressed by the Variable Annuities Capital and Reserve (E/A) Subgroup	
L23	Life RBC WG	1	2027 or later	1. Provide recommendations for the appropriate treatment of longevity risk transfers by updating the approach to develop the C-2 capital amount for longevity reinsurance products. 2. Monitor and make recommendations as needed based on the impact from changes to the non-variable annuity reserve framework.	New Jersey	Being addressed by the Longevity (E/A) Subgroup	
L34	Life RBC WG	1	2027 or later	Monitor the economic scenario governance framework, review material economic scenario generator updates, key economic conditions, and metrics, support the implementation of an economic scenario generator for use in statutory reserve and capital calculations and develop and maintain acceptance criteria		Being addressed by the Generator of Economic Scenarios (GOES) (E/A) Subgroup	
Carryover Items Currently being Addressed – Life RBC							
L45	Life RBC WG	1	2026-2027 or later	Update C3 Phase I to modernize the cash-flow testing methodology and revise the scope to include FIAs.	AAA	Being addressed by the American Academy of Actuaries	
L56	Life RBC WG	1	2026-2027 or later	Review companies at action levels, including previous years, to determine what drivers of the events are and consider whether changes to the RBC statistics are warranted. Deliberate the relevant weights assigned to various risk components.		<u>3/22/2026 – At the SPNM, the Academy presented Phase 1 research examining the relationship between authorized control level (ACL) RBC ratios and impairment probability across insurance sectors, with a focus on life insurers.</u>	

L67	Life RBC WG	2	2027 6 or later	In light of SAPWG INT to permit admittance of negative IMR, SAPWG requested CADTF to consider: 1. The elimination of any admitted net negative IMR from Total Adjusted Capital (TAC). 2. Sensitivity testing with and without negative IMR.	CADTF	12/2/23 - received CADTF referral for Negative Interest Maintenance Reserve (IMR).	
L78	Life RBC WG	2	2026-2027 or Later	Consider SAPWG Referral for Investments in Tax Credit Structures, specifically to consider possible factor changes for investments in Tax Credit Structures	SAPWG referral	3/27/24 – received SAPWG referral on Tax Credit Investments 2025 to address the structural and instructional changes. 5/1/25 - Tax Credit Investment Proposal 2024-21-L MOD was adopted	
L89	03-27-2024	2	2026 or Later (Completed)	Consider possible structural changes to account for reporting changes for collateral loans addressed through instructional changes for 2024 with the adoption of proposal 2024-15-L	SAPWG referral	2/29/24 – received SAPWG regarding collateral loan reporting changes 6/16/24 – Collateral loans proposal 2024-15-L was adopted 6/5/25 – received another referral from SAPWG on Collateral Loan Schedule BA reporting changes. <u>6/30/2026 - Collateral Loans proposal 2025-16-L MOD was adopted for 2027 implementation.</u>	2/29/2024
New Items – Life RBC							
L910	Life RBC WG	2	2027 6 or later	Residential Mortgage loans (LR004) and Schedule BA Residential Mortgage Loan (LR009) factors	Comment letters – Pac Life and ACLI INVAWG referral		11/14/2025 05/26/2026

L10	Life RBC WG	1	2027 or later	In light of the Financial Condition (E) Committee's directive, the Life Risk-Based Capital (E) Working Group is tasked with developing a reinsurance recapture charge for reinsurance ceded to entities domiciled in non-reciprocal jurisdictions, effective for year-end 2027: 1. A reinsurance recapture RBC factor to be applied to ceded reserves and modified coinsurance balances for all reinsurance located outside of reciprocal jurisdictions while of course considering an overcollateralizing of the reserves in establishing the required RBC. The factor would account for the additional capital that would be required if a ceding company had to recapture those reserves. 2. To account for increased credit risk for reinsurers that have lower financial strength ratings, modify the reinsurance methodology used in the life RBC formula for recoverability risk by aligning with the approach used in the property/casualty (P/C) RBC formula.	Financial Condition (E) Committee referral	Under review by the Bridgeway Analytics and NAIC Staff	07/27/2026
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