Date: 4/17/24

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP
Friday, April 19, 2024
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

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Sheila Travis	Alabama	Michael Muldoon	Nebraska
Thomas Reedy	California	Jennifer Li	New Hampshire
Wanchin Chou	Connecticut	Seong-min Eom	New Jersey
Dalora Schafer	Florida	Bill Carmello	New York
Vincent Tsang	Illinois	Andrew Schallhorn	Oklahoma
Mike Yanacheak	Iowa	Rachel Hemphill	Texas
Fred Andersen	Minnesota	Tomasz Serbinowski	Utah

NAIC Support Staff: Dave Fleming

AGENDA

1. Discuss Proposal to Add Line for Total Adjusted Capital (TAC) Adjustment For Non-Admitted Affiliates—*Philip Barlow (DC)* Attachment 1

2. Discuss Proposal to Add Line to LR009, Schedule BA Mortgages, for Omitted Asset Valuation Reserve (AVR) Line—*Philip Barlow (DC)* Attachment 2

3. Discuss the American Council of Life Insurers' (ACLI) Collateral Loan Proposal—*Philip Barlow (DC)* Attachment 3

4. Discuss the ACLI's Repurchase Agreement Proposal—*Philip Barlow (DC)* Attachments 4 & 5

5. Discuss Other Long-Term Assets Proposal—*Philip Barlow (DC)* Attachments 6 & 7

6. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*

7. Adjournment

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**1/18/2024**
CONTACT PERSON:	**Dave Fleming**
TELEPHONE:	**816-783-8121**
EMAIL ADDRESS:	**dfleming@naic.org**
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**
NAME:	**Philip Barlow, Chair**
TITLE:	**Associate Commissioner of Insurance**
AFFILIATION:	**District of Columbia**
ADDRESS:	**1050 First Street, NE Suite 801** **Washington, DC 20002**

FOR NAIC USE ONLY

Agenda Item # 2024-04-L
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________
EXPOSED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________
REJECTED:
☐ TF ☐ WG ☐ SG ____________
OTHER:
☐ DEFERRED TO ____________
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) ____________

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates. This treatment was adopted as part of proposal 2022-09-CA, the revised treatment of affiliated investments. This line was omitted from the life structure change but was done for 2023 by including it in an existing line. This proposal makes no change in the treatment but makes the life formula consistent with the other RBC formulas.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

CALCULATION OF TOTAL ADJUSTED CAPITAL
(Including Total Adjusted Capital Tax Sensitivity Test)

Attachment 1

		Annual Statement Source	(1) Statement Value		Factor		(2) Adjusted Capital
	Company Amounts						
(1)	Capital and Surplus	Page 3 Column 1 Line 38		X	1.000	=	
(2)	Asset Valuation Reserve	Page 3 Column 1 Line 24.01 §		X	1.000	=	
(3)	Dividends Apportioned for Payment	Page 3 Column 1 Line 6.1, in part		X	0.500	=	
(4)	Dividends Not Yet Apportioned	Page 3 Column 1 Line 6.2, in part		X	0.500	=	
(5)	Hedging Fair Value Adjustment	Company Records		X	-1.000	=	
	Life Subsidiary Company Amounts†						
(6)	Asset Valuation Reserve ~~/ Carrying Value of Non-Admitted Insurance Affiliates~~	Subsidiaries' Annual Statement Page 3 Column 1 Line 24.01‡ § ~~/ Included in LR044 Columns 5 and 7~~		X	1.000	=	
(7)	Dividend Liability	Subsidiaries' Annual Statement Page 3 Column 1 Line 6.1 + Line 6.2‡		X	0.500	=	
(8)	**Carrying Value of Non-Admitted Insurance Affiliates**	**Included in LR044 Columns (5) and (7)**		**X**	**1.000**	**=**	
	Property and Casualty and Other Non-U.S. Affiliated Amounts						
(9)	Non-Tabular discount and/or Alien Insurance Subsidiaries: Other	Included in Subsidiaries' Annual Statement Page 3 Column 1 Line 1 + 3‡ and/or Schedule D Part 6, Section 1 Column 8 Line 0599999 and Line 1499999, in part		X	1.000	=	
(10)	Total Adjusted Capital Before Capital Notes	Sum of Lines (1) through (8) less Line (9)					
	Credit for Capital Notes						
(11.1)	Surplus Notes	Page 3 Column 1 Line 32					
(11.2)	Limitation on Capital Notes	0.5 x [Line (10) - Line (11.1)] - Line (11.1), but not less than 0					
(11.3)	Capital Notes Before Limitation	LR032 Capital Notes Before Limitation Column (4) Line (18)					
(11.4)	Credit for Capital Notes	Lesser of Column (1) Line (11.2) or Line (11.3)					
(12)	XXX/AXXX Reinsurance RBC Shortfall	LR037 XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10)					
(13)	Total Adjusted Capital	Line (10) + Line (11.4) - Line (12)					
	Tax Sensitivity Test						
	Company Amounts						
(14)	Deferred Tax Asset (DTA) Value	Page 2 Column 3 Line 18.2		X	-1.000	=	
(15)	Deferred Tax Liability (DTL) Value	Page 3 Column 1 Line 15.2		X	1.000	=	
	Subsidiary Amounts						
(16)	Deferred Tax Asset (DTA) Value	Company Records		X	-1.000	=	
(17)	Deferred Tax Liability (DTL) Value	Company Records		X	1.000	=	
(18)	Tax Sensitivity Test: Total Adjusted Capital	Line (13)+(14)+(15)+(16)+(17)					
	Ex DTA ACL RBC Ratio Sensitivity Test						
(19)	Deferred Tax Asset-Company Amounts	Page 2 Column 3 Line 18.2		X	1.000	=	
(20)	Total Adjusted Capital Less Deferred Tax Asset Amounts	Line (13) less Line (19)					
(21)	Authorized Control Level RBC	LR034 Risk-Based Capital Level of Action Line (4)		X	1.000	=	
(22)	Ex DTA ACL RBC Ratio	Line (20) / Line (21)					0.000%

† Including subsidiaries owned by holding companies.
‡ Multiply statement value by percent of ownership.
§ The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. ~~The amount on line (6) will also include the carrying value of non-admitted insurance affiliates.~~

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: 1/18/2024	Agenda Item # 2024-05-L Year 2024
CONTACT PERSON:	**Dave Fleming**	**DISPOSITION**
TELEPHONE:	**816-783-8121**	**ADOPTED:**
EMAIL ADDRESS:	**dfleming@naic.org**	☐ TASK FORCE (TF) ______
ON BEHALF OF:	**Life Risk-Based Capital (E) Working Group**	☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
NAME:	**Philip Barlow, Chair**	**EXPOSED:**
TITLE:	**Associate Commissioner of Insurance**	☐ TASK FORCE (TF) ______
AFFILIATION:	**District of Columbia**	☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
ADDRESS:	**1050 First Street, NE Suite 801**	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
	Washington, DC 20002	**OTHER:** ☐ DEFERRED TO ______ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ______

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ______

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

This proposal adds a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013. This proposal does not include a factor but facilitates the application of one specific to this category if appropriate.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 2-2023**

Attachment 2

SCHEDULE BA MORTGAGES

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Involuntary Reserve Adjustment †	(3) RBC Subtotal	(4) Cumulative Writedowns ‡		(5) Average Factor		(6) RBC Requirement
	In Good Standing									
(1)	Insured or Guaranteed	AVR Equity Component Column 1 Line 43 + Line 45				XXX	X	0.0014	=	
(2)	**Residential - All Other**	**AVR Equity Component Column 1 Line 44**				**XXX**	**X**	**TBD**	**=**	
(3)	Unaffiliated Mortgages with Covenants	AVR Equity Component Column 1 Line 57				XXX	X	*	=	
(4)	Unaffiliated Mortgages - Defeased with Government Securities	AVR Equity Component Column 1 Line 58				XXX	X	0.0090	=	
(5)	Unaffiliated Mortgages - Primarily Senior	AVR Equity Component Column 1 Line 59				XXX	X	0.0175	=	
(6)	Unaffiliated Mortgages - All Other	AVR Equity Component Column 1 Line 60				XXX	X	0.0300	=	
(7)	Affiliated Mortgages - Category CM1	AVR Equity Component Column 1 Line 38				XXX	X	0.0090	=	
(8)	Affiliated Mortgages - Category CM2	AVR Equity Component Column 1 Line 39				XXX	X	0.0175	=	
(9)	Affiliated Mortgages - Category CM3	AVR Equity Component Column 1 Line 40				XXX	X	0.0300	=	
(10)	Affiliated Mortgages - Category CM4	AVR Equity Component Column 1 Line 41				XXX	X	0.0500	=	
(11)	Affiliated Mortgages - Category CM5	AVR Equity Component Column 1 Line 42				XXX	X	0.0750	=	
(12)	Total In Good Standing	Sum of Lines (1) through (**11**)								
	90 Days Overdue, Not in Process of Foreclosure									
(13)	Insured or Guaranteed 90 Days Overdue	AVR Equity Component Column 1 Line 47 + Line 49				**XXX**	X	**0.0027**	=	
(14)	All Other 90 Days Overdue - Unaffiliated	AVR Equity Component Column 1 Line 61				**XXX**	X	**0.1100**	=	
(15)	All Other 90 Days Overdue - Affiliated	AVR Equity Component Column 1 Line 48 + Line 50 `				**XXX**	X	**0.1100**	=	
(16)	Total 90 Days Overdue, Not in Process of Foreclosure	Lines **(13) + (14) + (15)**								
	In Process of Foreclosure									
(17)	Insured or Guaranteed in Process of Foreclosure	AVR Equity Component Column 1 Line 52 + Line 54				**XXX**	X	**0.0054**	=	
(18)	All Other in Process of Foreclosure - Unaffiliated	AVR Equity Component Column 1 Line 62				**XXX**	X	**0.1300**	=	
(19)	All Other in Process of Foreclosure - Affiliated	AVR Equity Component Column 1 Line 53 + Line 55				**XXX**	X	**0.1300**	=	
(20)	Total In Process of Foreclosure	Lines **(17) + (18) + (19)**								
(21)	Total Schedule BA Mortgages (pre-MODCO/Funds Withheld)	Lines **(12) + (16) + (20)**								
(22)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)								
(23)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)								
(24)	Total Schedule BA Mortgages (including MODCO/Funds Withheld.)	Lines **(21) - (22) + (23)**								

† Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
‡ Cumulative writedowns include the total amount of writedowns, non-admissions, and involuntary reserves that have been taken or established with respect to a particular mortgage.
* This will be calculated as Column (6) divided by Column (3).

Denotes items that must be manually entered on the filing software.

Capital Adequacy (E) Task Force

RBC Proposal Form

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☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

	DATE: **03/15/2023**	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Brian Bayerle**	Agenda Item # 2024-15-L Year ____
TELEPHONE:	**(202) 624-2169**	**DISPOSITION**
EMAIL ADDRESS:	**BrianBayerle@acli.com**	**ADOPTED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:	**ACLI**	**EXPOSED:** ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
NAME:	**Brian Bayerle**	**REJECTED:** ☐ TF ☐ WG ☐ SG ____
TITLE:	**Chief Life Actuary**	**OTHER:** ☐ DEFERRED TO ____
AFFILIATION:	**ACLI**	☐ REFERRED TO OTHER NAIC GROUP
ADDRESS:	**101 Constitution Ave, NW Suite 700** **Washington, DC 20001**	☐ (SPECIFY) ____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Background: In order to support reporting of certain mortgage-type investments as collateral loans backed by mortgages in 2024, without changing capital treatment of BA mortgage investments, in 2024, update RBC mapping capture those investments consistent with existing practice. Note that those investments will map to AVR for Investments with Underlying Characteristics with Mortgages and be captured in that RBC category.

While this change accomplishes a "no change" result for 2024, it is expected that a broader discussion, including structural changes, will occur in 2025.

ACLI Proposal:

Life and Fraternal RBC Blanks LR008:

Update Line "(50) Schedule BA Collateral Loans" Annual Statement Source to be updated as follows:

Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part

The value in Column (1) Book / Adjusted Carrying Value will now be a company records entry and should represent all collateral loans which have not been captured elsewhere in the RBC formula.

Update to LR008 RBC Instructions:

Line (50)
Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g., BA mortgages.

Update to LR009 RBC Instructions:

Column (1) Except for Line (1), (12), and (16), calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheet (Figure 10) for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,1299999, 2399999 and 2499999, and collateral loans backed by mortgages, as reported in footnote 5T, line 7.

Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 11-2023**

Attachment 3

Collateral Loan → AVR → RBC mapping proposal - 2024

For Life RBC Working Group

Overview

In 2024, certain investments will be required to be reported as collateral loans backed by mortgages. The attached proposal comprises a mapping change from BA → AVR → RBC which results in those assets maintaining their historical capital treatment as BA mortgages. This would be appropriate given that they are fixed income instruments which are collateralized by mortgages (generally first lien mortgages) and that they therefore have mortgage-like risk.

1- Overview of Proposal

2- Note on AVR mapping proposal supported by SAPWG

3- Review of proposed Life RBC instruction changes

Note that this is designed to solve 2024 reporting and capital with no disruption on the transition year. If a more comprehensive set of changes is adopted in 2025, we would expect those changes would supercede this fix. In other words, the focus of this proposal is to maintain current capital treatment this year, even as accounting changes occur.

Attachment 3

Invested Assets Which are Captured for Capital as BA Mortgages

Prior to 2024

Blanks

Mortgage Funds
SSAP48 Investments
Sch BA LLCs - Mortgages

Loan-on-Loan, Mortgage Warehouse Loans

Sch BA - non-registered private funds - mortgage type
SAPWG concluded this is incorrect for accounting and Blanks reporting

Collateral Loans

AVR

Investments with
Characteristics of Mortgages

RBC

LR009 BA Mortgages
generally 1.75% if backed by primarily senior
references BA LLCs, non-registered private funds

LR008 Collateral Loans
6.8%

2024

Blanks

Mortgage Funds
SSAP48 Investments
Sch BA LLCs - Mortgages

Loan-on-Loan; Mortgage Warehouse Loans
Collateral Loans - Mortgages
Sch BA - Collateral Loans with Mortgage Collateral
Disclosed by collateral type in Notes

Collateral Loans
Remaining Collateral Loans - not incl. mortgages

AVR

Investments with
Characteristics of Mortgages

new mapping
AVR instructions

RBC

LR009 BA Mortgages
generally 1.75% if backed by primarily senior
references BA LLCs, non-registered private funds,
and collateral loans backed by mortgages
LR009 instruction

LR008 Collateral Loans
6.8%

propose capturing collateral loans link only "in part" for 2024 to avoid a double count

LR008 instructions

2025

Subsequent to determination of 2024 guidance, expose for comment a mapping of all collateral loans to AVR to RBC
Result of 2025 exposure should be that everything maps directly through all of the steps, 1-to-1, or many-to-1, with no "in part" reference needed

<u>Blanks Proposal for 2024 Reporting:</u>

<u>Annual Statement Instructions - AVR</u>

Blanks proposal ensures that Collateral Loans backed by Mortgages map the AVR section which categorizes those investments in the appropriate buckets for RBC.

<u>Life RBC Proposal:</u>

To maintain capital treatment of loan-on-loan investments as BA mortgages, in a year when their accounting presentation navigates to Collateral Loans back by Mortgages, the following changes are proposed:

<u>LR008</u>

<u>Line (50)</u>

<u>Exclude: any collateral loan amounts which have been included elsewhere in the RBC formula, e.g, BA mortgages.</u>

8	(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)	
9	(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part**	
20	(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93	

<u>LR009</u>

Reference to tie out should be adjusted to include new category: Line (20) should equal Schedule BA Part 1, Column 12, Lines 1199999,12999999, 23999999 ~~and~~ 24999999 **and collateral loans backed by mortgages (footnote 5T, line 7).**

The minor changes listed above to LR008, and LR009, will be provided in an RBC Proposal Form, and would result in BA mortgages maintaining their capital charge in 2024, even as reporting for those investments changes to Collateral Loans backed by Mortgages.

OTHER LONG-TERM ASSETS

		Annual Statement Source	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †		(4) Factor		(5) RBC Requirement
	Schedule BA - Unaffiliated Common Stock								
(42)	Schedule BA Unaffiliated Common Stock-Public	AVR Equity Component Column 1 Line 65				X	§	=	
(43)	Schedule BA Unaffiliated Common Stock-Private	AVR Equity Component Column 1 Line 66				X	0.3000	=	
(44)	Total Schedule BA Unaffiliated Common Stock (pre-MODCO/Funds Withheld)	Line (42) + (43)							
(45)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(46)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(47)	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)	Lines (44) - (45) + (46)							
	Schedule BA - All Other								
(48.1)	BA Affiliated Common Stock - Life with AVR	AVR Equity Component Column 1 Line 67							
(48.2)	BA Affiliated Common Stock - Certain Other	AVR Equity Component Column 1 Line 68							
(48.3)	Total Schedule BA Affiliated Common Stock - C-1o	Line (48.1) + (48.2)				X	0.3000	=	
(49.1)	BA Affiliated Common Stock - All Other	AVR Equity Component Column 1 Line 69							
(49.2)	Total Sch. BA Affiliated Common Stock - C-1cs	Line (49.1)				X	0.3000	=	
(50)	Schedule BA Collateral Loans	**Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999, in part**				X	0.0680	=	
(51)	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93				X	0.3000	=	
(52.1)	NAIC 01 Working Capital Finance Notes	AVR Equity Component Column 1 Line 94				X	0.0050	=	
(52.2)	NAIC 02 Working Capital Finance Notes	AVR Equity Component Column 1 Line 95				X	0.0163	=	
(52.3)	Total Admitted Working Capital Finance Notes	Line (52.1) + (52.2)							
(53.1)	Other Schedule BA Assets	AVR Equity Component Column 1 Line 96							
(53.2)	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes	Column (1) Lines (23) through (27) + Column (1) Lines (33) through (37)							
(53.3)	Net Other Schedule BA Assets	Line (53.1) less (53.2)				X	0.3000	=	
(54)	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)	Lines (11) + (21) + (31) + (41) + (48.3) + (50)+ (52.3) + (53.3)							
(55)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)							
(56)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)							
(57)	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)	Lines (54) - (55) + (56)							
(58)	Total Schedule BA Assets Excluding Mortgages and Real Estate	Line (47) + (49.2) + (51) + (57)							

† Fixed income instruments and surplus notes designated by the NAIC Capital Markets and Investment Analysis Office or considered exempt from filing as specified in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported in Column (3).

‡ Column (2) is calculated as Column (1) less Column (3) for Lines (1) through (17). Column (2) equals Column (3) - Column (1) for Line (53.3).

§ The factor for Schedule BA publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the Schedule BA publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 15.8 percent factor for Schedule BA publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

Denotes items that must be manually entered on the filing software.

Financial Security for Life

Brian Bayerle
Chief Life Actuary
202-624-2169
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Colin Masterson
Policy Analyst
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March 8, 2024

Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Exposure of the ACLI RBC Repurchase Agreement (Repo) Proposal (2024-03-L)

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the LRBC Working Group's consideration and exposure of our proposal to reduce the repo charge to 0.2% for programs that meet "conforming program criteria" through the General Interrogatories, including identification of a reinvestment pool funded by conforming repo programs.

Following conversations with regulators regarding our previous suggestions on February 23, 2024, ACLI has decided to amend our proposal slightly to leave the word "dedicated" within the RBC Instructions while specifying that the primary conforming requirement should be to identify a "pool of" dedicated reinvested assets. Within the Background section, the change would appear as such:

- To qualify for a "conforming" securities lending program, insurers must attest that their program conforms to appropriate operational and investment risk guidelines and that the collateral margin applied to transactions is within the industry standard. The primary "conforming" requirement is to identify a pool of dedicated reinvest~~ment portfolio~~ed assets to match the securities lending liability.

In a similar vein, we also recommend the following change in the ACLI proposal section:

1. Establish "conforming program criteria" for repo, similar to securities lending. Reporting insurers must attest that they have identified a pool of dedicated reinvested~~ment~~ assets to

support the repo liability and enhance their statutory reporting so that regulators can validate these attestations.

Thank you once again for the consideration of our proposal and we look forward to future discussions with regulators on this topic.

Sincerely,

Colin Masterson

cc: Dave Fleming, NAIC

Capital Adequacy (E) Task Force
RBC Proposal Form

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☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: XX/YY/2024	Agenda Item # ___________ Year ___________
CONTACT PERSON:	Brian Bayerle	DISPOSITION
TELEPHONE:	(202) 624-2169	ADOPTED: ☐ TASK FORCE (TF) ___________ ☐ WORKING GROUP (WG) ___________ ☐ SUBGROUP (SG) ___________
EMAIL ADDRESS:	BrianBayerle@acli.com	EXPOSED: ☐ TASK FORCE (TF) ___________ ☐ WORKING GROUP (WG) ___________ ☐ SUBGROUP (SG) ___________
ON BEHALF OF:	ACLI	REJECTED: ☐ TF ☐ WG ☐ SG ___________
NAME:	Brian Bayerle	OTHER: ☐ DEFERRED TO ___________ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ___________
TITLE:	Chief Life Actuary	
AFFILIATION:	ACLI	
ADDRESS:	101 Constitution Ave, NW Suite 700 Washington, DC 20001	

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☒ Life and Fraternal RBC Formula
☐ OTHER ____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Summary: Life Risk-Based Capital (RBC) currently has a C-0 charge for Repurchase Agreements (repo) advances of 1.26% computed on LR017. ACLI proposes a reduction of the repo charge to 0.2% for programs that meet "conforming program criteria" through the General Interrogatories, including identification of a reinvestment pool funded by conforming repo programs; General Interrogatories will be updated as part of this proposal. This reduced charge will apply to footnote 5 F (7) ending balance for collateral received under secured borrowing (or the conforming amount as determined by the instructions). The overcollateralized amount (the difference in statement balances for the above-mentioned footnote 5 F (7) ending balance for collateral received under secured borrowing net of the statement balance for Footnote 5 F (5) defining the fair value ending balance for securities sold under repurchase secured borrowing) would receive C-1 RBC factor for bonds rated BBB; this would only apply to counterparties rated BBB or higher. All other repo programs that do not meet the conforming programing criteria or where the counterparty is rated BB or lower would continue to receive the current 1.26% charge.

Rationales for change: Approval of this proposal would align capital charges and disclosure requirements between conforming securities lending programs and conforming repo programs, incentivizing insurers to diversify sources of short-term funding. Enhanced disclosure for conforming repo programs would improve regulatory oversight, while RBC alignment would help insurers reduce interconnectedness with Primary Dealers and the idiosyncratic risk associated with bank balance sheet management, particularly during periods of financial stress.

Background:

Repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers. Counterparties are a key difference between these two funding structures. While Primary Dealers act as intermediaries for securities lending transactions, repo is generally executed directly with end-counterparties, such as money market funds. When risk-based capital (RBC) standards were developed, both securities lending and repurchase agreements were assigned C-0 RBC factors of 1.26%. Around 2006, the NAIC revised the C-0 RBC factor for “conforming” securities lending programs to 0.2%:

- To qualify for a “conforming” securities lending program, insurers must attest that their program conforms to appropriate operational and investment risk guidelines and that the collateral margin applied to transactions is within the industry standard. The primary “conforming” requirement is to identify a pool of dedicated reinvest~~ment portfolio~~ed assets to match the securities lending liability.
- Adjusting RBC requirements for smaller “repo” programs was left for a later date.

Since the Great Financial Crisis, regulators and market participants have worked towards reducing the interconnectedness of funding through both regulation and risk management practices. A core tenant of these efforts has been to reduce concentration risk, both in single counterparty and source. Reliance on Primary Dealers in the securities lending market has exposed insurers to the idiosyncratic risks that drive bank balance sheet availability, particularly under stress. The expansion of funding sources to include repo counterparties would enhance overall liquidity for Securities Lenders, increase stability in secured funding markets during times of stress and diversify loan exposures, collectively reducing systematic risk. Alignment of RBC charges would support this enhancement.

ACLI Proposal

The ACLI proposal for conforming repo programs mirrors existing RBC for conforming securities lending:

1. Establish “conforming program criteria” for repo, similar to securities lending. Reporting insurers must attest that they have ~~dedicated~~ identified a pool of dedicated reinvested~~ment~~ assets to support the repo liability and enhance their statutory reporting so that regulators can validate these attestations.

2. Proposed RBC for conforming repo programs is the sum of:

- 0.20% charge for repo assets, plus
- Additional RBC applied to insurer’s net uncollateralized counterparty exposure (typically 2% of funding amount). To be conservative, the C-1 RBC charge for bonds rated BBB is applied to the insurer’s net counterparty exposure. Counterparts rated lower than BBB would not qualify for a conforming repo program.

Additional Staff Comments:

** This section must be completed on all forms. **Revised 11-2023**

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☒ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ P/C RBC (E) Working Group ☐ RBC Investment Risk & Evaluation (E) Working Group

		FOR NAIC USE ONLY
	DATE: 1/22/2024	Agenda Item # 2024-03-L Year ____
CONTACT PERSON:	Brian Bayerle	DISPOSITION
TELEPHONE:	(202) 624-2169	ADOPTED: ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
EMAIL ADDRESS:	BrianBayerle@acli.com	EXPOSED: ☐ TASK FORCE (TF) ____ ☐ WORKING GROUP (WG) ____ ☐ SUBGROUP (SG) ____
ON BEHALF OF:	ACLI	REJECTED: ☐ TF ☐ WG ☐ SG ____
NAME:	Brian Bayerle	OTHER: ☐ DEFERRED TO ____ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ____
TITLE:	Chief Life Actuary	
AFFILIATION:	ACLI	
ADDRESS:	101 Constitution Ave, NW Suite 700 Washington, DC 20001	

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<u>Background:</u>

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Additional Staff Comments:

** **This section must be completed on all forms.** **Revised 11-2023**

OFF-BALANCE SHEET AND OTHER ITEMS

			Annual Statement Source	(1) Statement Value	(2) Less Noncontrolled Assets Funding Guaranteed Separate Accounts, Synthetic GIC's and Certain FHLB Liabilities	(3) Subtotal	(4) Factor	(5) RBC Requirement	(6) Yes/No Response
		Noncontrolled Assets							
(1)	(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 25.04				X 0.0020	=	
(2)	(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 25.05				X 0.0126	=	
	(3)	*Loaned to Others - Conforming Repurchase Agreement Program Collateral*	*General Interrogatories Part 1 Line 25.06*	§			*X 0.0020*		
	(4)	*Loaned to Others - Conforming Repurchase Agreement Program Overcollateralization*	*General Interrogatories Part 1 Line 25.07*	§			*X 0.0126*		
	(5)	*Loaned to Others - Repurchase Agreement Programs - Other*	*General Interrogatories Part 1 Line 25.08*				*X 0.0126*		
~~(3)~~	~~(6)~~	~~Subject to Repurchase Agreements~~	~~General Interrogatories Part 1 Line 26.21~~				~~X 0.0126~~	~~=~~	
(4)	(6)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 26.22				X 0.0126	=	
(5)	(7)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.23				X 0.0126	=	
(6)	(8)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 26.24				X 0.0126	=	
(7)	(9)	Placed Under Option Agreements	General Interrogatories Part 1 Line 26.25				X 0.0126	=	
(8)	(10)	Letter Stock or Other Securities Restricted as to sale - excluding FHLB Capital Stock	General Interrogatories Part 1 Line 26.26				X 0.0126	=	
(9)	(11)	FHLB Capital Stock	General Interrogatories Part 1 Line 26.27				X 0.0126	=	
(10)	(12)	On Deposit with States	General Interrogatories Part 1 Line 26.28				X 0.0126	=	
(11)	(13)	On Deposit with Other Regulatory Bodies	General Interrogatories Part 1 Line 26.29				X 0.0126	=	
(12.1)	(14.1)	Pledged as Collateral - excluding Collateral Pledged to an FHLB	General Interrogatories Part 1 Line 26.30						
(12.2)	(14.2)	Less Derivative Collateral Pledged	Schedule DB Part D Section 2 Column 7, Line 0199999999				X 0.0039	=	
(12.3)	(14.3)	Pledged as Collateral - excluding Collateral Pledged to an FHLB Less Derivatives Collateral Pledged	Line (15.1) - (15.2)				X 0.0126	=	
(13)	(15)	Pledged as Collateral to FHLB - including Assets Backing Funding Agreements	General Interrogatories Part 1 Line 26.31		†		X #	=	
(14)	(16)	Other	General Interrogatories Part 1 Line 26.32				X 0.0126	=	
(15)	(17)	Total Noncontrolled Assets	Sum of Lines (1) through (13) Plus Lines (14.2) through (16)						
		Derivative Instruments							
(16)	(18)	Exchange Traded and Centrally Cleared	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.0039	=	
(17)	(19)	Off-Balance Sheet Exposure NAIC 1	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.0039	=	
(18)	(20)	Off-Balance Sheet Exposure NAIC 2	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.0126	=	
(19)	(21)	Off-Balance Sheet Exposure NAIC 3	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.0446	=	
(20)	(22)	Off-Balance Sheet Exposure NAIC 4	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.0970	=	
(21)	(23)	Off-Balance Sheet Exposure NAIC 5	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.2231	=	
(22)	(24)	Off-Balance Sheet Exposure NAIC 6	Schedule DB Part D Section 1 Column 12, Line 0999999999, in part				X 0.3000	=	
(23)	(25)	Total Derivative Instruments Off-Balance Sheet Exposure	Sum of Lines (18) through (25)						
(24)	(26)	Guarantees for Affiliates	Notes to Financial Statements Number 14A3c1				X 0.0126	=	
(25)	(27)	Contingent Liabilities	Notes to Financial Statements Number 14A1				X 0.0126	=	
(26)	(28)	Long Term Leases	Notes to Financial Statements Number 15A2a1				X 0.0000	=	
(27)	(29)	Total Off-Balance Sheet Items (pre-MODCO/Funds Withheld)	Lines (17) + (25) + (26) + (27) + (28)						
(28)	(30)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)						
(29)	(31)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)						
(30)	(32)	Total Off-Balance Sheet Items (including MODCO/Funds Withheld.)	Lines (29) - (30) + (31)						
		Other Items							
(31)	(33)	Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer a regulated insurance company?	"Yes", "No" or "N/A" in Column (6)						
(32)	(34)	SSAP No. 101 Paragraph 11a Deferred Tax Assets	Notes to Financial Statements Item 9A2(a)				X ‡	=	
(33)	(35)	SSAP No. 101 Paragraph 11b Deferred Tax Assets	Notes to Financial Statements Item 9A2(b)				X 0.0100	=	
(34)	(36)	Total Off-Balance Sheet and Other Items	Line (32) + Line (34) + Line (35)						

† For Column (2) Line (16), include assets pledged as collateral other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Column (2) include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore

‡ If Line (35) Column (6) is "Yes", then the factor is 0.005. If Line (35) Column (6) is "No", then the factor is 0.010. If Line (35) Column (6) is "N/A", then the factor is 0.000.

\# In most instances, apply a factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with spread-lending activities exceed 5% of total net admitted assets. This higher factor shall equal the factor

§ For Column (1), lines (3) and (4), values are based on Cash and Fair Value amounts.

Denotes items that must be manually entered on the filing software.

OFF-BALANCE SHEET AND OTHER ITEMS

LR017

Basis of Factors

The potential for risk exists in off-balance sheet items. For items other than derivative instruments, a 1.26 percent factor was chosen on a judgment basis. The 1.26 percent pre-tax factor will differentiate between the companies that have small and large exposures to this risk. Since there is no firm actuarial basis for assigning the 1.26 percent pre-tax factor to these risks, off-balance sheet items are included in the sensitivity analysis using a factor of 3 percent, and leases are added as an additional off-balance sheet item. For securities lending programs, a reduced charge may apply to certain programs that meet the criteria as outlined below.

For assets pledged as collateral on funded Federal Home Loan Bank (FHLB) liabilities included in the C3 Phase 1 Cash Flow Testing, the C3 calculation already provides adequate provision for potential risks up to the Statement Value of the associated FHLB liabilities tested therein. For any excess of assets pledged as collateral above this Statement Value (FHLB liabilities included in C3 Phase 1 Cash Flow Testing) the potential exposure is proportionate to the credit risk assessed for the FHLB counterparty, making the bond factor associated with the NAIC designation assigned to the FHLB an appropriate risk provision. For FHLB advances that are not subject to the C3 Phase 1 Cash Flow Testing, the full amount of pledged collateral supporting those advances shall receive a C-0 RBC factor based on the credit standing of the FHLB. Excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer), do not present non-controlled asset risk and should be excluded.

Collateral supporting certain FHLB funding agreement activities might be subject to a higher non-controlled asset charge. If the amount of FHLB funded liabilities associated with funding agreement activities is greater than 5% of the company's total net admitted assets, the full amount of pledged collateral supporting FHLB funding agreements in excess of this 5% will receive a higher factor equal to the factor for an NAIC 2 Corporate Bond asset factor.

For derivative instruments, the book/adjusted carrying value exposure net of collateral (the balance sheet exposure) is included under miscellaneous C-1o risks. Because collars, swaps, forwards and futures can have book/adjusted carrying values that are positive, zero or negative, the potential exposure to default by the counterparty or exchange for these instruments cannot be measured by the book/adjusted carrying values. Schedule DB, therefore, includes a calculation of the potential exposure that is based on the March 1987 research paper "Potential Credit Exposure on Interest Rate and Foreign Exchange Rate Related Instruments," supporting the 1988 Bank of International Settlements framework for banks. The off-balance sheet exposure (Schedule DB, Part D, Section 1, Column 12) will measure this potential exposure for risk-based capital purposes. The factors applied to the derivatives off-balance sheet exposure are the same as those applied to bonds.

Specific Instructions for Application of the Formula

Column (2)
Assets directly funding guaranteed separate accounts or synthetic GIC contracts should be excluded from the noncontrolled assets computation.

Line (1)
Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
   a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
   b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
   c. Approved borrower lists and loan limits to allow for adequate diversification.
   d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
   e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin

of 102% of market.

f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

3. A binding securities lending agreement (standard “Master Lending Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 24.04 of the annual statement should be included on Line (1).

Line (2)

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 24.05 and included in Line (2).

Line (3) through (4)

Insurers may also engage in repurchase transactions which are eligible for lower off-balance sheet charges. The off-balance sheet charges are comprised of two items. The amount of collateral received in the repurchase transaction, subject to the elements specified under Line (2) below, will be assigned a .002 factor. The overcollateralization amount, more specifically the difference between the collateral sold and collateral received, will receive the Bonds - NAIC Designation Category 2.A factor.

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Repurchase programs (similar in nature to Securities Lending) that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in repurchase agreements and how cash collateral received will be invested.

2. Written operational procedures to monitor and control the risks associated with securities lending/repurchase agreements. Safeguards to be addressed should, at a minimum, provide assurance of the following:

a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.

b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.

c. Approved borrower lists and loan limits to allow for adequate diversification.

d. Holding collateral with margin percentages in line with industry standards for repurchase transactions.

e. Daily mark-to-market of sold securities and obtaining additional collateral needed to ensure that collateral at all times is in line with the value of the loans to maintain the appropriate margin.

f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

g. Counterparty credit rating of BBB or higher

3. A binding repurchase agreement (standard “Master Repurchase Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.

4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-designated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Line (5)
Collateral from all other repurchase programs should be included in Line (5).

Lines (~~3~~6) through (147)
Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (12.1) and (13) include assets pledged as collateral reported in the General Interrogatories Part 1 Line 25.30 and 25.31 other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF). For Line (12.2), include all collateral pledged, both cash and securities, to derivative counterparties and/or central clearinghouses for initial margin and variation margin. In addition, include securities collateral pledged as initial margin for futures. Line (12.2) should agree to Schedule DB Part D Section 2 Column 7, Line 0199999. Line (12.3) should equal Line (12.1) minus Line (12.2). For Line (13) column 2 include excess assets held by a FHLB but not associated with a FHLB advance (i.e. assets above the required collateral amount and therefore available to be recalled by the insurer). For Line (13) column 2 also include an amount equal to the lessor of Statement Value of FHLB liabilities subject to C3P1 Cash Flow Testing or 5% of total net admitted assets. For Line (13) column (4), the Factor will be manually input. In most instances, the Factor will be based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB. A higher factor applies if FHLB funded advance liabilities associated with funding agreement activities exceed 5% of total net admitted assets. If the higher factor is applicable, the Factor for column 4 is calculated as a blended factor prorated such that collateral in column 3 supporting FHLB funding agreement liabilities in excess of the limit is subject to the factor for an NAIC 2 corporate bond (Line 14 Column 4). All other collateral in column 3 is subject to the factor based on the NAIC ratings category equivalent to an unsecured debt obligation of the FHLB.

Lines (19~~6~~) through (~~23~~26)
The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part D, Section 1, Column 12, Lines 0199999 through 0899999. Off-balance sheet exposure is reported for aggregate exchange traded derivatives, OTC – bilateral derivatives aggregated by counterparty brought into each individual NAIC designation 1-6, and aggregated centrally cleared derivatives. For 2015, derivative balances subject to central clearing are to be included in Line (16) regardless of the category they are included in for Schedule DB, Part D, Section 1.

Line (2~~4~~7)
Guarantees for affiliates include guarantees for the benefit of an affiliate that result in a material† contingent exposure of the company's assets to liability.

Line (29~~6~~)
The exposure amount for long-term leases is the annual rental amount of all leases that could have a material† financial effect. If the rent expense is shared with affiliates, it should be allocated by company.

Line (34~~1~~)
"Yes" means the entity which files the US Federal income tax return which includes the reporting entity is a regulated insurance company (including where the reporting entity is the direct filer of the tax return). "No" means the entity which files the US Federal income tax return which includes the reporting entity is not a regulated insurance company (e.g. a non-insurance entity or holding company makes the filing). "N/A" means the entity is exempt from filing a US federal income tax return; lines (32) and (33) should be zero in this case.

Lines (3~~2~~5) and (3~~3~~6)
These lines are not applicable to Fraternal Benefit Societies.

Apply a one-percent (1%) charge in the RBC formula, placed outside of the covariance adjustment, to admitted adjusted gross deferred tax assets (DTAs) as described in SSAP No. 101, paragraphs 11a and 11b (lesser of paragraph 11b(i) and 11b(ii)). For the period for which the paragraph 11a component is determined, the charge is reduced to one-half percent (0.5%) when the insurance company either filed its own separate Federal income tax return or it was included in a consolidated Federal income tax of which the common parent is an insurance company. The source for the DTA amounts to use in the calculation is found in the Annual Statement, Notes to Financial Statements, Note 9, Part A, Section 2, Admission Calculation Components for SSAP No. 101. Paragraph 11a is found in Section 2, subpart (a), Paragraph 11b is found in Section 2, subpart (b).

† The definition of "material" exposure or financial effect is the same as for annual statement disclosure requirements.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Philip Barlow, Chair, Life Risk-Based Capital (E) Working Group

FROM: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group

DATE: February 20, 2024

RE: Repurchase Agreement RBC Proposal Referral

The Statutory Accounting Principles (E) Working Group (SAPWG) appreciates the Life Risk-Based Capital (E) Working Group soliciting comments on the proposal from the American Council of Life Insurers (ACLI) to modify the treatment of repurchase agreements in the life risk-based capital (RBC) formula to converge with treatment for securities lending programs. As detailed in the ACLI-sponsored proposal, the request is to incorporate a concept of 'conforming programs' for repurchase agreements, with the collateral attributed to those programs assigned a 0.2% (.0020) factor instead of a 1.26% (.0126) factor.

Although the RBC proposal was exposed for a potential year-end 2024 effective date, the SAPWG notes that the statutory accounting and reporting for securities lending and repurchase agreements are currently different. As such, the SAPWG requests that the LRBCWG defer consideration of the proposal until the SAPWG has time to assess the differences and consider converging revisions (if deemed appropriate) before modifying the RBC formula. Particularly, securities lending collateral is detailed in Schedule DL: Securities Lending Collateral Asset for 1) collateral that an entity has received and reinvested and 2) collateral received that the entity has not reinvested but for which the entity has the ability to sell or repledge. This schedule currently does not include repurchase agreement collateral and capturing consistent information on collateral for both securities lending and repurchase agreements is a topic that the SAPWG would like to consider before providing a response to the RBC proposal. As detailed within the proposal, the ACLI identifies that repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers, with counterparties reflecting the key difference between the two funding structures. With these similarities, consistent reporting of the collateral seems appropriate to ensure financial regulators receive comparable information regardless of the legal form of the agreement. This is further supported by a review of year-end 2022 data which identified that securities associated with securities lending transactions are declining, whereas securities associated repurchase agreements are increasing.

In addition to time to permit assessment and convergence of accounting and reporting, the SAPWG also notes that blanks reporting revisions would be required to incorporate a new general interrogatory for reporting entities to capture repurchase collateral from conforming programs and for that data to be pulled directly into the RBC formula. With the timing of the Blanks (E) Working Group process, such revisions would need to be adopted in

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May to be in effect for year-end. By deferring beyond 2024, further time can be provided to ensure the blanks reporting revisions are properly reflected. Although the revisions appear to be limited, the SAPWG has also noted that the guidance to complete the current securities lending conforming program Annual Statement General Interrogatories are captured in the RBC Instructions. To ensure consistency in reporting, the SAPWG would recommend including guidance within the Annual Statement Instructions. It is noted that the financial statement preparers may not have the RBC instructions, therefore the current process creates a disconnect in which preparers may not have the information to properly assess whether a program should be classified as conforming or nonconforming.

Lastly, in response to a preliminary comparison of conforming and nonconforming securities lending programs, it has been identified that very few reporting entities report any securities lending collateral as part of a nonconforming program. Although the instructions identify what is permitted as “acceptable collateral,” from a review of the collateral reported on Schedule DL, reporting entities are classifying programs as conforming even though the reported Schedule DL collateral is outside the parameters of acceptable collateral. From initial assessments, it appears that there may be interpretation differences on whether the “acceptable collateral” requirement encompasses only the collateral received from the counterparty and not what the reporting entity currently holds due to reinvestment of the original collateral. Further clarification of the intent of the guidelines and what is conforming or nonconforming may be warranted before expanding the provisions to include repurchase agreements. It is highlighted that the provisions to separate conforming and nonconforming programs in the RBC formula was incorporated before the great financial crisis, and significant changes to accounting and reporting (including Schedule DL) were incorporated because of how securities lending transactions impacted certain reporting entities during the crisis. Consideration of how the current securities lending accounting and reporting requirements interact with the conforming program requirements may want to be assessed before expanding the conforming program concepts to repurchase agreements with a reduced RBC factor.

In conclusion, the SAPWG appreciates the opportunity to provide immediate comments on the initial exposure and requests that consideration on the proposal be deferred to allow assessment and convergence of accounting and reporting requirements for securities lending and repurchase agreements. The SAPWG will add this issue to its working agenda and proceed as timely as possible and will keep the LRBC WG informed of discussions and progress as this topic is considered.

Cc: Dave Fleming, Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden, Mary Caswell, Maggie Chang, Eva Yeung, Crystal Brown

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/SAPWG Response to LRBC Repo proposal - Final 2-20-24.docx

Capital Adequacy (E) Task Force
RBC Proposal Form

☐ Capital Adequacy (E) Task Force
☐ Catastrophe Risk (E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup
☐ Health RBC (E) Working Group
☐ Investment RBC (E) Working Group
☐ P/C RBC (E) Working Group
☒ Life RBC (E) Working Group
☐ Longevity Risk (A/E) Subgroup
☐ RBC Investment Risk & Evaluation (E) Working Group

DATE: 1/29/2024

CONTACT PERSON: Bill Cushman

TELEPHONE: ____________

EMAIL ADDRESS: bcushman@nfg.com

ON BEHALF OF: Interested Parties

NAME: ____________

TITLE: ____________

AFFILIATION: ____________

ADDRESS: ____________

____

FOR NAIC USE ONLY

Agenda Item # ____________
Year ____________

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________

EXPOSED:
☐ TASK FORCE (TF) ____________
☐ WORKING GROUP (WG) ____________
☐ SUBGROUP (SG) ____________

REJECTED:
☐ TF ☐ WG ☐ SG

OTHER:
☐ DEFERRED TO ____________
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) ____________

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks
☐ Health RBC Instructions
☐ Health RBC Formula
☐ Property/Casualty RBC Blanks
☐ Property/Casualty RBC Instructions
☐ Property/Casualty RBC Formula
☒ Life and Fraternal RBC Blanks
☒ Life and Fraternal RBC Instructions
☒ Life and Fraternal RBC Formula
☐ OTHER ____________

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Changes to LR008 (Specifically LR008.2) – Other Long-Term Assets to be able to appropriately reflect MODCO Adjustments for Residual Tranches, as well as reorganizing to keep all C-1cs risks together (see Mark-up attached).

Current format does not allow for credit for MODCO Ceded or Assumed for residual tranches. The current format is confusing because lines for assets with C-1cs risks are interspersed with assets with C-1 risk.

Additional Staff Comments:

** This section must be completed on all forms. Revised 2 2023

Attachment 6

Asset Risk - Other Long-Term Assets

			1	2	3	4	5	
Schedule BA - Equity - C-1cs ~~Unaffiliated Common Stock~~								
42	Schedule BA Unaffiliated Common Stock - Public	AVR Equity Component Column 1 Line 65			0	0.4500	0	
43	Schedule BA Unaffiliated Common Stock - Private	AVR Equity Component Column 1 Line 66	0		0	0.3000	0	
43.1 ~~49.1~~	BA Affiliated Common Stock - All Other - C-1cs	AVR Equity Component Column 1 Line 69	0		0	0.3000	0	Moving line into C-1cs section allows for appropriate ajdustment for MODCO
43.2 ~~51~~	Total Residual Tranches or Interests	AVR Equity Component Column 1 Line 93	0		0	0.4500	0	Moving line into C-1cs section allows for appropriate ajdustment for MODCO
44	Total Schedule BA Equity C-1cs ~~Unaffiliated Common Stock~~ (pre-MODCO/Funds Withheld)	Line (42) + (43) + (43.1) + (43.2)	0		0		0	Moving line into C-1cs section allows for appropriate ajdustment for MODCO
45	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements						0	
46	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements							
47	Total Schedule BA Unaffiliated Common Stock (including MODCO/Funds Withheld.)		0				0	
48.1	BA Affiliated Common Stock - Life with AVR							
48.2	BA Affiliated Common Stock - Certain Other							
48.3	Total Schedule BA Affiliated Common Stock - C-1o		0		0	0.3000	0	
~~49.1~~	~~BA Affiliated Common Stock - All Other~~							To move line to a C-1cs Section
~~49.2~~	~~Total Sch. BA Affiliated Common Stock - C-1cs~~		~~0~~		~~0~~	~~0.3000~~	~~0~~	To Delete sub total line no longer needed
50	Schedule BA Collateral Loans		0		0	0.0680	0	
~~51~~	~~Total Residual Tranches or Interests~~		~~0~~		~~0~~	~~0.3000~~	~~0~~	To move line to a C-1cs Section
52.1	NAIC 01 Working Capital Finance Notes				0	0.0050	0	
52.2	NAIC 02 Working Capital Finance Notes				0	0.0163	0	
52.3	Total Admitted Working Capital Finance Notes		0		0		0	
53.1	Other Schedule BA Assets							
53.2	Less NAIC 2 thru 6 Rated/Designated Surplus Notes and Capital Notes		0					
53.3	Net Other Schedule BA Assets		0	0	0	0.3000	0	
54	Total Schedule BA Assets C-1o (pre-MODCO/Funds Withheld)		0				0	
55	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements							
56	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements							
57	Total Schedule BA Assets C-1o (including MODCO/Funds Withheld.)		0				0	
58	Total Schedule BA Assets Excluding Mortgages and Real Estate		0				0	

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members of the Life Risk-Based Capital (E) Working Group

FROM: NAIC Staff

DATE: April 16, 2024

RE: NAIC Staff Recommendation for Proposal 2024-07-L Other Long-Term Assets

Background

Proposal 2024-07-L Other Long-Term Assets (the Proposal) was exposed by the Life Risk-Based Capital (E) Working Group on January 31, 2024, for a public comment period ending February 26, 2024. No comments were received. The Proposal suggests changes to LR008 Other Long-Term Assets in order to appropriately reflect modified coinsurance (Modco) adjustments, as well as reorganizing lines within the page for grouping within different risk-based capital (RBC) risk components.

Staff recommendations

After review, NAIC staff recommend deferring the proposed changes to 2025 or later in light of the following considerations:

1) The Statutory Accounting Principles (E) Working Group (SAPWG) exposed a conceptual agenda 2024-07 Reporting of Funds Withheld and Modco Assets (the Agenda) during the 2024 Spring National Meeting with a public comment period ending April 19, 2024. The Agenda proposes to add a new part to the Schedule S in the Life/Fraternal blanks, which is similar in structure to Schedule DL and would require disclosure of all assets held under a funds withheld arrangement and would include a separate signifier for Modco assets. NAIC staff recommend further expanding the Proposal to incorporate potential changes resulting from the implementation of the SAPWG Agenda.

2) While reviewing the residual tranches and interest data reported in 2023 filings, NAIC staff noted a diversity in practice by the life insurers as to whether the residual investments reported in LR008 should be gross or net of Modco arrangements. Note that the instructions and the layout of the forecasting file would explicitly require a gross basis reporting, however, NAIC staff is currently looking into ways to enhance RBC instruction and/or blanks to enhance consistency.

3) NAIC staff acknowledge concerns raised by IPs but disagree with the comment that “Current format does not allow for credit for Modco Ceded or Assumed for Residual Tranches.” Filers can consider the use of 2023 LRBC

LR008 Line (45), Reduction in RBC for Modco/Funds Withheld Reinsurance Ceded Agreements and Line (46), Increase in RBC for Modco/Funds Withheld Reinsurance Assumed Agreements to capture necessary Modco adjustments.

Based on the considerations above, NAIC staff recommend a holistic review of LR008 as well as Modco adjustments, to i) reduce reliance on company record reporting in LR008; ii) promote more consistency in reporting, both consistency in risk component reporting as well as consistency among life insurers' filings. This holistic review may delay adoption of the Proposal but would enhance the effectiveness and comprehensiveness of the review and potential changes.

