Comment Summary - GCC Template and Instructions
July 29, 2020 (Revised August 27)

Issue 1	Commenter	Essence of Comment	Primary Rationale
Calibration Level	ACLI Global Atlantic Coalition	Adopt a 200% ACL calibration level for the GCC. In addition, calibrations of other factors and regimes should be based on 200% ACL level RBC as well. Coalition considers 300% calibration a fatal flaw.	The coalition letter incorporates the rational stated by the other two commenters
	AHIP	Should the GCC ratio be expressed as the percentage achieved of the 300% ACL Trend Test calibration level. For example, if a group had capital resources of $400 and calculated capital of $100, that would imply a ratio of 4:1 or 400%, but it is actually reported in the template as 133% (the group has achieved 1 1/3 X the 300% target calibration level).	Whether the relevant point of comparison in this case is 133% or 400% makes a sizeable difference in any conversation about the GCC results.
	North American CRO Council	• CRO Council is concerned with introducing a new regulatory tool for analyzing an insurer's capital adequacy by calibrating the GCC at a level that is inconsistent with existing regulatory and industry practices even if a group's GCC would remain confidential. • The issue of calibration is linked with other facets of the GCC, including the development of scalars.	• It could undermine the market's perception of the solvency levels insurers are subject to at the entity level and the market's perception of the capital adequacy of the sector. • Actions that create uncertainty should be avoided unless they are anchored to a strong risk-based rationale.
	United Health Group	There is no sound justification for calibrating the GCC to 150% of the Risk-Based Capital Company Action Level (RBC CAL).	The GCC trigger level should be addressed in the Financial Analysis Handbook, rather than in conservatism of the GCC itself for two reasons: First, the natural inference that a ratio below 100% is automatically "bad." Such misinterpretation should be avoided by addressing the review trigger point in the Handbook. Second, even 100% of CAL may be excessive, at least for large groups, because of the benefits arising from the diversity of businesses in such large, heterogeneous groups.

NAIC Staff Recommendation: Staff continues to support reporting of a 300% calibration level for a group-wide analytical tool that compliments entity-based RBC. However, staff offers a possible compromise as indicated below. Staff believes a decision on the reporting levels to be included in the GCC Template is necessary to before adopting the template.

Many of the comments relate to the interpretation of the ratio as potentially resetting the regulatory view of solvency. Some comments contend that 200% x ACL RBC represents the U.S. solvency measure. It does represent a solvency measure in the sense that it is defined solvency point for insurance entities, but it not intended to be an overall assessment of solvency, particularly at the group level. but rather a means for regulators to take defined action at the insurance entity level. Overall solvency is measured in multiple ways using multiple means including a significant reliance on analysis. In addition, RBC is applied to virtually all U.S. insurance entities with a limited group view extended to subsidiaries of insurers. The RBC ratio is the sole determinant of specified regulatory responses for insurance entities. The GCC will have a broader overall scope that looks at the entire group but allows flexibility to apply to only to those entities not owned by insurers in the group that pose material risk to the insurers. In addition, lead-State regulators will have significant leeway to exempt some groups from filing or to limit the data included in the filing. Finally, the GCC will incorporate allowances for debt and ultimately scalars that would not be reflected in the RBC action level calculations.

The analytical benchmark for the GCC ratio is currently set at 100% of a 300% calibration. Yes, that is calibrated at a higher level than 100% x ACL, but the GCC does not authorize any action and will be viewed within the context of other data in the GCC template and other groupwide information available to the lead-State regulator. Furthermore, stress tests were initially contemplated for the GCC. However, the current calibration with non-binding sensitivity analysis can be considered as representing a reasonable stress scenario in lieu of specific stress tests.

Although considerations related to the AM – ICS being proposed by Team USA are not primary drivers in developing a domestic GCC there are major pieces of the GCC such as the clear intent to incorporate reasonable scalar and potential for significant capital allowances for senior and hybrid debt were include largely as a response to international capital initiatives and might not otherwise be relevant to the U.S regulatory framework.

The current template incorporates summary reporting of the GCC ratio at 100%, 200% and 300%, but the calculation uses the 300% level.

Staff continues to support careful coordination between the GCC Template, and the analysis guidance as regards the purpose, level, and use of the GCC ratio. Staff notes that industry representatives are assisting in revising and reviewing the analysis guidance.

See further staff comments under Issue 5 – Data Collection

Regarding the AHIP question… The denominator of the ratio is set at the calibration level, so the ratio is expressed relative to that calibration ratio. See proposal below which would show results at multiple calibration levels.

Possible compromise staff recommendation:

- **Calculate and report GCC at 200% x ACL calibration.**
- **Show 100% x ACL an informational basis as a familiar RBC-type reference point for regulators).**
- **Include the GCC @ 300% x RBC as a sensitivity analysis**
- **Capital calculations for all entities which are currently calibrated based on RBC in the CCC would be reported at the 200% level and then multiplied by 1.5 for the sensitivity test.**
- **Entities not currently calibrated based on RBC (i.e. financial entities with prescribed capital requirements) would be reported at the same amount for both base and sensitivity levels. These include foreign insurers at 100% of jurisdictional PCR (subject to eventual application of scalars at each level) and banks.**
- **Eventual scalars would be calculated at 200% level and adjusted upward for sensitivity analysis.**

The FAHB would provide / adjust guidance to lead State Regulators in assessing the revised level and sensitivity analysis.

Staff acknowledges that a 300% calibration may be necessary for the AM-ICS, subject to G committee deliberations. However, the proposed compromise leaves flexibility to select the calibration level to advocate for in the AM-ICS.

Issue 2	Commenter	Essence of Comment	Primary Rationale
Scalars	ACLI Global Atlantic	• We support the Excess Relative Ratio approach for scaling available capital and required capital for non-U.S. entities. OK with using no adjustment for scalars as a placeholder and including the impact of the Excess Relative Ratio impact as a sensitivity test. • We encourage the Working Group and NAIC to consider how scalars will be evaluated over the course of the coming year.	Self-explanatory.
	Genworth	• Consider scalar for Mortgage Insurance	

NAIC Staff Recommendation: No change. (See further staff comments under Issue 5 – Data Collection).

Staff agrees that an appropriate scalar should be explored and incorporated into the GCC and that reporting the results based on the Excess Relative Ratio method will provide a good comparable as other methods are evaluated. Additional nuances on scalars such as those suggested by Genworth should be addressed by the working group, but further analysis is required.

Issue 3	Commenter	Essence of Comment	Primary Rationale
Allowance for Debt	ACLI AHIP North American CRO Council	Limits (15% and 30%) on senior and hybrid debt will make it harder for companies to counteract periods of economic stress.	• Because the individual limit is directly tied to available capital levels, the amount of debt a group can receive credit for will naturally decline when available capital decreases creating a procyclical effect • For purposes of parity, we request the GCC Working Group also increase the proxy allowance to reduce the impact of the artificial restrictions created by the initially suggested limits. • During times of stress, when solvency capital declines, the amount of admissible debt is expected to be reduced using the current guidelines. This would lead to a larger reduction in available capital in the GCC than under an RBC assessment and consequently a larger decline in the GCC ratio. • The GCC debt limits would disincentivize insurers to raise capital through debt issuances during times of stress because only a fraction of the debt would be treated as capital under the GCC.
	ACLI GAFG United Health Care	Eliminate the down-stream tracking (Repeat Comment)	Downstream tracking requirements are difficult to implement, especially if the debt has been refinanced by the parent or if the date of the down-streaming does not align with the borrowing date.
	ACLI	Remove the call option criteria, because the exercise of a call option is typically followed by refinance of the instrument which supports its permanence and structural subordination. (Repeat comment)	Relative to the 5-year term, the presence of call options should not prevent a capital instrument's inclusion as a qualifying instrument. Call options are a common feature of U.S. issued capital instruments.
	APCIA	APCIA is concerned that the criteria, as currently drafted, could be read to inadvertently disqualify instruments that include standard "make-whole" provisions. We understand that make-whole provisions are rarely exercised by issuers of debt, particularly in the recent	These provisions, which we are told are present in most U.S. debt instruments, allow issuers to retire (for purposes of refinancing, usually) a debt instrument with a payment that is typically equal to the net present value of future payments required by the

Allowance for Debt (cont.)	APCIA	interest rate environment where rates cannot get much lower, because the benefit of calling an instrument and refinancing is minimal.	instrument. Any exercise of a make whole provision would also be subject to the requirement of subparagraph b. below, in instances where the debt is structurally subordinated.
		Define hybrid Debt as: *Senior Debt (and Hybrid Debt, e.g. debt issuances that receive an amount of equity credit from rating agencies) issued.*	• Rating agencies treat subordinated debt issued by a parent company as "hybrid debt" if it is long-dated and has provisions to defer interest payments for a period.

NAIC Staff Recommendation: 1. Eliminate Tracked Downstream; 2. Incorporate APCIA alternative into the calculation or as part of Sensitivity Analysis; 3: No other changes to the Debt allowance calculation. (See further staff comments under Issue 5 – Data Collection).

Staff supports eliminating tracked down-stream and replacing it with the suggested method put forth by APCIA either as part of the allowance test or as a sensitivity analysis. Some adjustments to that methodology may be suggested.

The main argument supporting inclusion of an allowance for debt is the concept of structural subordination. In addition to paid in capital and surplus or the APCIA alternative approach, the proxy approach is intended to provide a reasonable estimate of the amount of qualifying senior and hybrid debt that is structurally subordinated to the regulatory process. It is not intended to be a driver of capital management or to represent the rating agency view of appropriate leverage or to guarantee that all qualifying debt count as capital. Thus, the argument for the proxy approach is largely theoretical. Increasing the proxy allowance may stretch that argument to a breaking point. The increase in the overall limit to 75% of TACV was reasoned in the argument that GAAP equity is lost in TACV, thus compressing the view of available capital. This rationale does not easily apply to the proxy limits since the value of the qualifying debt is added to TACV for purposes of applying the limit. Therefore, in times of stress additional debt is added to the TACV which may offset, at least in part, the impact of a reduction in TACV resulting from the stress. If debt is issued for the purpose of shoring up capital in regulated entities and is contributed to the entities, then the subordination metric of Paid in and Contributed Capital would increase potentially allow more debt to be counted.

Staff has added the suggested clarity provided to better describe hybrid instruments.

Although open to the suggestions, reflecting the impact of call options adds complexity to the calculation in order to segregate the call feature from the maturity date. In addition, it seems that additional conditions around supervisory approval may be required support structural subordination.

The instrument has an initial maturity of at least five years with its effective maturity date defined to be the earlier of the first call date, together any incentive to redeem the instrument or the contractual maturity date fixed in the instrument's terms and conditions."
A requirement for supervisory approval of such a call within certain timeframes (e.g. the first five years from the date of issue can be fulfilled through the exercise of supervisory controls and supervisory review).

However, this issue along with the comment on make whole provisions can be further explored as potential future tweaks to the GCC template.

Allowance for Debt as additional capital is an area of <u>potential</u> divergence between the GCC and AM- ICS.

Issue 4	Commenter	Essence of Comment	Primary Rationale
Treatment / Charges Financial Entities	ACLI	• Additional guidance on risk gradation will be necessary to ensure that the capital requirement measures are determined consistently. • We welcome further clarification on the treatment of entities subject to certain capital requirements, like those applied by FINRA or the SEC, are categorized in the GCC. • The framework for identifying "material risk" should also consider the applicable sectoral regulatory regime (in the case of a regulated entity) treats the financial entity.	• It is difficult for us to evaluate this proposal without a more complete understanding of what entities fall into which "risk" bucket. • We presume that such entities should be treated as subject to a regulatory capital requirement such that the GCC would apply that securities-related requirement in calculating required capital for the de-stacked entity pursuant to paragraph 62,
	AHIP	• Our concern on material risk principles is that this distinction between primary and secondary. • Remove 5% threshold.	• Distinctions may be lost on many users and regulatory analysts. So as a practical matter, some analysts may treat some of the secondary considerations as primary. • The working group has not agreed on a material risk threshold.
	APCIA	• Remove 5% threshold from material risk principles	• We are concerned that 5% will be used as a de facto threshold in lieu of the principles-based analysis that is otherwise contemplated in the proposed Instructions.

NAIC Staff Recommendation: No change other than removal of the 5% criteria from the material risk principle and other clarifying edits.

If changing to 200% x ACL calibration, adjust High / Medium / Low risk charges for financial entities without regulatory capital requirements from 15% / 6% / 3% x 3 yr. avg. revenue to 10% / 5% / 2.5% respectively.

The working group could not agree on objective thresholds for the buckets. The material risk guiding principles are intended to be applied by the filer to assign a risk bucket and reviewed by the lead-State for comfort with that determination. The instructions can be modified to allow a "medium" risk designation if no clear determination can be made after applying the material risk principles.

If there are risk-based (i.e. not a simple stated dollar capital) standards applied to entities that are overseen by FINRA or SEC, they should be provided and the working group can consider their use for the applicable entity type. It is not clear how the "regulatory regime" can be applied in a group context to determine material risk to other entities within the group.

Staff is ok with removing the 5% threshold, changing "secondary considerations to "Other Considerations" and adding a clarification that Other Considerations come into play if a risk level determination is not clear after applying the Primary Considerations.

Issue 5	Commenter	Essence of Comment	Primary Rationale
Next Steps / Data collection	**ACLI**	We urge the Working Group to commit to performing additional quantitative analysis of how the elements of the GCC perform holistically, under different scenarios. It would also be helpful if the Working Group would articulate a clear and transparent process for future revisions to the GCC elements and instructions.	It is likely that some elements may interact with each other and it would be useful to understand how they will interact under different economic stresses.
	AHIP	AHIP is curious about the way the GCC, once implemented, will be maintained.	What group will oversee that, what data will it have at its disposal, what protections will exist over that data, and what processes will there be for stakeholder engagement (etc.)?
	APCIA	We believe there is sufficient time to complete further field testing before the GCC Instructions are finalized. We are confident that field testing and the consideration of remaining open issues can be completed with sufficient time to implement the GCC in accordance with the Covered Agreement.	Many elements of the GCC are intertwined and therefore it is important to understand how the GCC will operate holistically prior to implementation. Further analysis is necessary to determine what calibration level is appropriate, with consideration given to the totality of the GCC framework, and to consider whether the debt limit structure should be modified to account for any unintended volatility in GCC ratios during times of stress.
	Coalition	Supports using 2021 to perform a holistic review of the framework that is adopted later this year including consideration of how the framework performs in times of stress and to ensure the various elements come together in a coherent manner to accomplish its regulatory objective. Following this analysis, the Working Group, in consultation with the industry, should implement any modifications determined to be necessary before approving a final version of the GCC.	Understanding any potential unintended consequences, including the potential for the proposed debt limit structure to create procyclicality and to ensure the various design elements come together in a coherent manner and allow it to accomplish its regulatory objective.
	North American CRO Council	The CRO Council recommends that the NAIC perform additional voluntary GCC data calls and coherent analysis of its final methodological decisions prior to adopting and implementing a final version in late 2021.	This work, which should include consideration of the framework's ability to deliver appropriate risk insights during stress events, would help to ensure the final product is fit for purpose and credible to end users.

Staff Recommendation: Support data collection in 2021

There is a distinction between adoption and implementation. Full implementation can only occur once the revised Model Law and Regulation are adopted. Of the 3 remaining major issues, reporting related to calibration should be addressed now (see staff proposal) while scalars and debt are further evaluated via potential future data collection in 2021. The scalar issue is under review with a sensitivity analysis for an industry supported method included. An alternative for debt as suggested by the APCIA has been substituted for down-streamed debt in the Capital Instruments Tab.

Staff will run the field test data through the agreed upon version of the template as a first step.

Staff supports data collection in 2021 to continue exploring appropriate scalars for foreign insurer capital and the impact of the current debt allowance structure and limits, as well as other minor clarifications. It is noted that all applicable groups will have the opportunity to fill in the adopted template and provide feedback to the Working Group via the lead-State.

Transfer of responsibility for maintenance of the GCC Template can be discussed at a future date.

Issue 6	**Commenter**	**Essence of Comment**	**Primary Rationale**
Other Technical Comments, Language Edits, Clarification requests and Second Tier Concerns	**ACLI AHIP GAFG State Farm United Health**	**THESE WERE ADDRESSED VIA EDITS OR TECHNICAL ADJUSTMENTS. Revised instructions and template (where applicable) are attached**	