

Draft Pending Adoption

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Macroprudential (E) Working Group
Virtual Meeting
November 7, 2025

The Macroprudential (E) Working Group of the Financial Stability (E) Task Force met Nov. 7, 2025. The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis (CT); Philip Barlow (DC); Tom Hudson (DE); Carolyn Morgan (FL); Roy Eft (IN); Greg Ricci (MD); Patrick Tess (MI); Fred Andersen (MN); John Rehagen (MO); Cynthia Iu (NE); Jennifer Li (NH); David Wolf (NJ); Diana Sherman (PA); Liz Ammerman (RI); Rachel Hemphill and Jamie Walker (TX); Greg Chew and Dan Bumpus (VA); and Amy Malm (WI).

1. Heard Opening Remarks

Kasinow began by outlining the meeting's objective, which was to discuss statutory reporting for funding agreements (FAs) and funding agreement-backed notes (FABNs). Market developments and regulatory issues were included in the agenda, with a focus on data transparency and recent changes in FABN issuance. There was discussion of discrepancies in aggregate data from the Federal Reserve and Bloomberg, as well as related regulatory attention. Kasinow noted that comprehensive statutory reporting was lacking, which presented a challenge for macroprudential oversight.

Kasinow stated that NAIC committee support prepared a proposal for improving statutory reporting for FAs and FABNs. The proposal addresses data gaps and aims for accurate and uniform disclosure of aggregate issuance and FABN types, which supports regulatory monitoring and identification of transmission risk channels. The process includes feedback from organizations such as the American Council of Life Insurers (ACLI). The Financial Stability (E) Task Force's interest in expanded disclosures was included, citing a need for closer monitoring of FABN market activity and risk transmission.

Supervisory interest from the Financial Stability Oversight Council (FSOC) and the Federal Reserve supported a shift in policy toward direct insurer-level reporting rather than relying solely on third-party sources. The goal is to build better data availability for analysis and regulatory coordination while avoiding unnecessary reporting burdens for insurers when risk is low. The agenda for this meeting included a review of background information, a summary of the ACLI's responses, and further consideration of the blanks proposal.

2. Discussed the FABN Presentation

Tim Nauheimer (NAIC) presented a flowchart overview that detailed activities and relationships involved in FABNs, including the roles of insurers and special purpose vehicles (SPVs). The discussion reviewed how SPVs issue foreign-denominated FABNs, and insurers provide corresponding funding agreements denominated in the same currency. This structure was highlighted, along with an estimated \$48 billion in outstanding foreign exchange (FX) FABNs in the market, based on Fitch Ratings data. A previous review of these items in regulator-to-regulator sessions was noted.

Regulators and industry participants addressed risk management practices for FX FABNs. Insurers commonly use currency and interest rate swaps as hedges for FX exposure, with these derivative transactions recorded in Schedule DB. The approach is to record derivatives on the insurer's balance sheet, rather than at the SPV level, since the terms of the FA and FABN are designed to match. No further hedging is required for the SPV. The

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discussion clarified that proceeds from FABN issuance are invested and treated as operating leverage, which was confirmed by ACLI responses. Details on operating versus financial leverage and booking derivatives were highlighted for future regulatory disclosures.

3. Heard Comments from the ACLI and Industry on the FABN Presentation

Nauheimer reviewed specific questions posed to ACLI and industry, including whether the proceeds from FABNs and the related FAs are invested in the same manner as other insurance products.

The first question addressed how the proceeds from FABNs and the backing FAs are managed. The Working Group sought to clarify whether these instruments function as operating leverage (used for spread lending purposes and invested as part of the insurance company's general account) or financial leverage (used for general corporate borrowing). The ACLI's response explained that FABNs are recognized as operating leverage under insurance regulations. They are classified as operational insurance company liabilities—deposit-type contracts filed with and approved by state insurance departments. Insurance companies invest proceeds from FABNs in their general account, subject to the same asset-liability management, cash flow testing, and statutory asset adequacy analysis as other policyholder obligations. These are not classified as debt, and state regulation requires that funding agreements be treated equally to other general account liabilities, not as general corporate borrowings. Marc Altschull (ACLI) highlighted this distinction to clarify that proceeds are allocated to insurance activities and not to support unrelated company funding needs.

The next question the Working Group posed concerned the treatment and reporting of derivatives used for hedging, specifically those managing FX exposures. Regulators asked whether derivatives used in connection with FABNs are booked at the insurance company level or if hedging is done at the SPV level. ACLI responded that hedges are booked on the insurer's balance sheet and are reported in Schedule DB as part of statutory reporting; special purpose vehicles do not undertake separate hedging activities, as the funding agreement and FABN are structured to match and eliminate the need for additional risk mitigation at the SPV. This approach reduces mismatches, locks in funding terms, and simplifies reporting. A follow-up question was posed to ACLI regarding the possibility of including a summary of the hedges used for each FA and whether companies can match the swaps reported in Schedule DB with the FAs backing FABNs. ACLI's view is that they do not believe it is feasible to map hedges to the FAs due to hedges not necessarily being a one-to-one basis and inconsistencies in the use of derivatives or non-U.S.-dollar (USD) FABN with assets denominated in that same currency.

Lastly, Nauheimer discussed questions regarding the required level of disclosure for these instruments. Nauheimer described the ACLI's proposal to add a single footnote to Exhibit Seven in the statutory annual statement, reporting the aggregate amount of FAs. He explained that while some regulators suggested more granular, individual funding agreement-level reporting, the ACLI's position was that such detail would be unwieldy and impractical for the industry. Instead, summary-level information would provide regulators with needed oversight without imposing unnecessary complexity or data collection requirements. Throughout this portion of the meeting, Altschull expressed the ACLI's ongoing openness to regulator questions, offered willingness to provide further written responses, and supported efforts to enhance transparency in a practical way.

4. Exposed the Blanks Proposal

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Nauheimer then went over the proposed blanks revision. He discussed each line item that will be included and its similarity to the ACLI's proposal. The only difference between the two proposals is to indicate whether the FX FAs are hedged or not.

Kasinow then spoke on the intent to expose the blanks proposal for a 30-day public comment period to attempt to include the blanks proposal for year-end 2026. Kasinow then explained that the 30-day comment period will extend to the Fall National Meeting, where the Working Group will make a formal recommendation to the Financial Stability (E) Task Force. From there, the Task Force will make formal referrals to the Blanks (E) Working Group and to the Statutory Accounting Principles (E) Working Group.

Mears made a motion, seconded by Eft, to expose the blanks proposal for a 30-day public comment period ending Dec. 8, 2025.

6. Discussed Other Matters

Kasinow described the Receivership and Insolvency (E) Task Force's research on the current treatment of FAs in an insolvency, specifically the pari passu treatment of FX FAs and foreign FABN holders. The Task Force is working to understand exposures exceeding certain thresholds and how rating agencies treat them.

Kasinow then mentioned the possibility of future education modules and regulatory tools. These topics can be seen as quite complex with FX exposures, derivative use, repurchase agreements (repos) out of SPVs, and bank counterparty credit risk. Questions that were posed to regulators regarding training on this topic from the Oct. 7 regulator-to-regulator call were presented. There was regulator interest in training modules on these topics or leveraging tools that aggregate Federal Home Loan Bank (FHLB) advances, FABNs, securities lending, and repos for insurers.

Having no further business, the Macroprudential (E) Working Group adjourned.

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