



Date: 2/28/22

Virtual Meeting

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Monday, February 28, 2022

1:00 – 2:00 p.m. ET / 12:00 – 1:00 p.m. CT / 11:00 a.m. – 12:00 p.m. MT / 10:00 a.m. – 11:00 a.m. PT

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung/Debbie Doggett	Missouri
Thomas Reedy	California	Lindsay Crawford	Nebraska
Wanchin Chou	Connecticut	Bob Kasinow/Bill Carmello	New York
Ray Spudeck	Florida	Dale Bruggeman/Tom Botsko	Ohio
Vincent Tsang	Illinois	Mike Boerner/Rachel Hemphill	Texas
Carrie Mears	Iowa	Steve Drutz/Tim Hays	Washington
Fred Andersen	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Jane Barr/Dave Fleming/Julie Gann/Charles Therriault/Linda Phelps/Peter Kelly

AGENDA

1. Discuss Formation / Charges / E Committee Direction—*Philip Barlow (DC)* Attachment A-1
Attachment A-2
2. Discuss Desired Outcomes for RBC, VOSTF and SAPWG—*Philip Barlow (DC), Carrie Mears (IA) and Dale Bruggeman (OH)*
3. Hear High-Level Overview of Investment Development—*Charles Therriault (NAIC SVO)* Attachment B
4. Discuss Investment Reporting Perspectives—*Philip Barlow (DC), Carrie Mears (IA) and Dale Bruggeman (OH)*
5. Discuss Next Steps—*Philip Barlow (DC)* Attachment C
6. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*
7. Adjournment

[RBC IRE 2/28/22 Agenda.docx](#)



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Scott A. White (VA), Chair of the Financial Condition (E) Committee
Michael Conway (CO), Vice Chair of the Financial Condition (E) Committee

FROM: Tom Botsko (OH), Chair of the Capital Adequacy (E) Task Force

DATE: Nov. 1, 2021

RE: Request for a New Working Group

In recent years, there have been a significant number of investment-focused proposals that have been received by the Financial Condition (E) Committee or initiated or received by one of its task forces or working groups. Regardless of which group initially vets the proposal, these proposals may have risk-based capital (RBC) impacts, and in many of these proposals, the RBC impact is the driving force. The Capital Adequacy (E) Task Force, along with the RBC working groups, are requesting a new working group be formed to review these investment-related proposals that affect many different areas of the annual statement and financial reporting. When necessary, other groups will be contacted for their expertise. This new working group (RBC Investment Risk and Evaluation (E) Working Group) would be charged with performing a comprehensive review of the RBC investment framework for all business types, which could include: 1) identifying and acknowledging uses that extend beyond the purpose of the *Risk-Based Capital (RBC) for Insurers Model Act* (#312); 2) assessing the impact and effectiveness of potential changes in contributing to the identification of weakly capitalized companies (i.e., those companies at action level); and 3) documenting the modifications made over time to the formulas, including, but not limited to an analysis of the costs in:

- Study and development.
- Implementation (internal and external).
- Assimilation.
- Verification.
- Analysis and review of the desired change to the RBC formulas and facilitate the appropriate allocation of resources.

This request recognizes the Committee's recent request for the chairs, vice chairs, and supporting NAIC staff of the Capital Adequacy (E) Task Force, Statutory Accounting Principles (E) Working Group, and Valuation of Securities (E) Task Force to meet on a routine basis to discuss topics pertaining to the bond project that have cross-functional implications. While those meetings may be informative to our pursuit, this is a more holistic endeavor to review appropriate NAIC consideration not limited to one investment area but with a focus on process to maximize efficiency in achieving the NAIC's collective goals.

Since the inception of the RBC formulas in the early 1990s, many of the risk factors have not been evaluated/updated for the appropriateness of the initial risk charge.

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We believe that having a regularly scheduled analysis of these investment risk charges is necessary to maintain accuracy of the formula and to stay current with economic conditions. We also understand that the Insurance Core Principles (ICPs) speak to the periodic review of the solvency framework. This proposed working group would work in parallel with these principles to review and maintain appropriate RBC charges.

One other important aspect of this working group would be to maintain documentation of the analysis and the background of the charge. At various times, the RBC working groups have reached out to the original members of the group that created the RBC formulas to better understand the thought process/reasons for some of the original charges.

As the insurance environment evolves both domestically and internationally, it is imperative that our organization stays current. The development of group capital within the NAIC is an indicator that our organization needs to maintain appropriate and current methodology.

Thank you for taking the time to review this request. We are available to discuss this with you at your convenience.

Please contact Jane Barr, NAIC staff support for the Capital Adequacy (E) Task Force, at jbarr@naic.org with any questions.

Cc: Dan Daveline; Eva Yeung; Crystal Brown; Dave Fleming; Julie Gann

Draft: 1/13/22

Financial Condition (E) Committee and the
Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
Virtual Meeting
January 12, 2022

The Financial Condition (E) Committee met Jan. 12, 2022, in joint session with the RBC Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force. The following Committee members participated: Scott A. White, Chair, represented by Doug Stolte (VA); Michael Conway, Vice Chair, represented by Rolf Kaumann (CO); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Eric A. Cioppa represented by Vanessa Sullivan (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Russell Toal and Leatrice Geckler (NM); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tom Botsko and Dale Bruggeman (OH); Raymond G. Farmer (SC); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek (WI); and Jeff Rude (WY). The following Working Group members participated: Philip Barlow, Chair (DC); Wanchin Chou (CT); Ray Spudeck (FL); Kevin Clark and Carrie Mears (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung and Debbie Doggett (MO); Lindsay Crawford (NE); Bob Kasinow and Bill Carmello (NY); Tom Botsko and Dale Bruggeman (OH); Mike Boerner and Rachel Hemphill (TX); Steve Drutz and Tim Hays (WA); and Amy Malm (WI).

1. Discussed Phase II of a Bond Factor Proposal for Structured and Asset-Backed Securities

Mr. Stolte discussed his objectives for the conference call: 1) officially handoff the two projects Commissioner White spoke about at the 2021 Fall National Meeting related to asset-backed securities RBC changes and residual interest securities to the new Working Group; and 2) give some direction to the Working Group on the first of those issues. He provided a recap of some of the items Commissioner White spoke about at the 2021 Fall National Meeting to address the first part of the first objective.

Mr. Stolte stated that in 2021, the Life Risk-Based Capital (E) Working Group received a proposal from Moody's Investors Service (Moody's) and the American Council of Life Insurers (ACLI) that ultimately included the new bond factors adopted for the life RBC formula for year-end 2021. Most importantly, within that proposal, it was suggested that in the future, the NAIC should consider a second phase to such work to look at other asset classes of fixed income securities. Mr. Stolte noted that the life insurance industry has been challenged with the continued low interest rate issues, but the Committee and its task forces and working groups have also spent a great deal of time talking about the industry's search of yield and a shift away from corporate debt holdings towards structured securities and other asset-backed securities, particularly collateralized loan obligations (CLOs). He noted that these types of securities tend to carry more tail risk than a typical corporate debt offering, and state insurance regulators need to start thinking about that tail risk more explicitly in the RBC formula for such types of assets. He stated that there were basically two ways the NAIC could take on this work: 1) use the model used for variable annuities and mortgage guaranty insurance a few years ago where the NAIC issues a request for proposal (RFP) on a project and then hires a consultant that the NAIC controls, but it gets reimbursement commitments from members of the industry before doing so; and 2) use the approach the ACLI used during the bond factor proposal last year where the state insurance regulators control the scope of work before the ACLI puts out a bid, and the ACLI funds the project. He noted that either approach could work, but one of the reasons he wanted to have this call in early January was in case there was a strong sentiment to have the NAIC contract this work since that would require the commissioner to take such a proposal to the Executive (EX) Committee, perhaps during the Commissioners' Conference in early February. He discussed how Mr. Barlow and Dan Daveline (NAIC) have experience with both and can help to facilitate either approach.

Mr. Stolte suggested that before moving into this idea of hiring a consultant, Commissioner White wanted to suggest the release of a 45-day public comment period after the call. The purpose of such a request would be to solicit if members of the industry, and perhaps consultants that follow the NAIC work, have views on possible methodologies that could achieve the objective of capturing the tail risk on CLOs and other structured securities and asset-backed securities. Mr. Stolte noted that Commissioner White's suggestion was that ultimately, it will be up to the RBC Investment Risk and Evaluation (E) Working Group to determine which of the recommended methodologies are chosen, as well as other various details. He described how Commissioner White envisioned how the NAIC data on CLO stress tests could be used to back into a factor, or how other methods, such as that used for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), could be used. He added that for other asset classes, perhaps some form of ratings is used where the consultant can prove the effectiveness of some ratings, or perhaps some ratings with adjustments. He noted his hope that the Working Group and Securities Valuation Office (SVO) staff could possibly review the proposals in March and select a methodology(ies) before the Spring National Meeting to where a consultant could be hired after the Spring National Meeting and possibly come back to the Working Group with specific proposed factors by the Summer National Meeting; then, perhaps the Working Group could adopt something by the end of the year. He noted that Commissioner White knows that this is an aggressive timetable, but he believes an aggressive goal should be set.

Superintendent Toal stated that he believes Commissioner White's proposal is logical, and he supports it and his proposed timeline. Mr. Barlow stated his appreciation for the background information and thinking, and he noted that he looks forward to chairing the Working Group. He stated his support for considering more granular investment factors on certain investments, at least for the life RBC formula, but there would need to be more discussion at the Working Group or the Capital Adequacy (E) Task Force on whether the same is needed for the property/casualty (P/C) formula and the health formula. He also stated that he strongly supports not having the NAIC contract a consultant but instead having the Working Group direct the engagement by the industry of such a consultant, noting that the latter worked well for the life RBC bond factors adopted in 2021. He stated that he has some concerns with the proposed timeline, and he stated that while a similar timeline worked for the 2021 bond factors, a lot of leg work was done by the American Academy of Actuaries (Academy) that does not exist for this proposal. He also discussed the need for the project to complete a proper risk analysis to determine the appropriate factors, noting the potential for a lack of data on newer types of securities. Mr. Stolte responded that he would be certain to communicate Mr. Barlow's concerns to Commissioner White. Superintendent Toal indicated that he respectfully disagrees with Mr. Barlow's comments about the reasonableness of the timeline, as well as how he believes it would be better if the NAIC controlled the consultant simply for objectivity. Mr. Stolte responded that he would be certain to communicate Superintendent's Toal's concerns to Commissioner White. Mr. Spudeck stated that he supports the comments made by Mr. Barlow related to the process to use, noting that under that process, the state insurance regulators would still be in control of the work. He also noted that he believes the proposed timeline is not just aggressive but aspirational. He noted that the work could begin, but depending upon the depth and granularity chosen, it could be very labor intensive. He also suggested avoiding applying it to health companies, at least initially. Mr. Botsko stated his support for Mr. Barlow's comments, and he noted the importance of how this as well as future work is coordinated with the Task Force. Mr. Stolte responded that his comments would be noted.

2. Discussed SSAP No. 43 Residual Interests

Mr. Stolte noted that the next issues deal with residual interests where the underlying issue affects the Statutory Accounting Principles (E) Working Group, the Valuation of Securities (E) Task Force, and the various RBC formulas and RBC groups. He noted that Commissioner White was made aware that there had already been some informal coordination among the chairs of these groups. He asked if some of the key members of those groups—Mr. Barlow, Mr. Bruggeman, and Ms. Mears—could briefly discuss each of their views on plans to coordinate activities on this work, as well as perhaps some of the informal discussions that may have already taken place on the issue.

Mr. Barlow noted his support for this work, bearing in mind the incentives for this type of change, and he noted his goal to make RBC not be the issue for investments in these types of structures. He looks forward to working with the other groups, but like the first issue, consideration will need to be given to whether such changes are needed for the health and P/C formulas. Mr. Bruggeman stated his agreement with Mr. Barlow from the sense that development of a factor will be a challenge. He discussed how these will be reported within Schedule BA, but currently, there is no detailed reporting to capture these. However, he hopes that with a new blanks proposal, the NAIC can at least capture the impact on the asset valuation reserve (AVR). He stated that he also agrees with Mr. Barlow with respect to whether this need for health and P/C remains to be seen. Ms. Mears stated her agreement with Mr. Barlow and Mr. Bruggeman, and she noted that materiality is something else she wants to look at. She also questions if there could be some overlap between this issue and the issue discussed within the first agenda item. She suggested that the request for comments be revised to solicit information on the availability of data on residual interests, and she wonders about how the availability of collateral may need to be considered as well.

Having no further business, the Financial Condition (E) Committee and RBC Investment Risk and Evaluation (E) Working Group adjourned.

[Attachment One-Joint Call January 12 E min.docx](#)



TO: Philip Barlow, Chair, Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group
Members of the Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office (SVO)
Eric Kolchinsky, Director, NAIC Structured Securities Group (SSG) and Capital Markets Bureau
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office (SVO)

CC: Julie Gann, Assistant Director, NAIC Financial Regulatory Affairs, Solvency Policy
Jane Barr, Manager I, NAIC Financial Regulatory Affairs, Solvency Policy

RE: Summary of Structured Finance Securities

DATE: February 18, 2022

Securitization is a relatively simple principle. It involves the legal isolation of defined assets or cash flows in a bankruptcy-remote entity for the purpose of collateralizing and generating principal and interest payments on debt securities. Recourse is typically limited to those defined assets and cashflows. In practice, securitization has become a tool to finance just about any asset imaginable. Securitization bonds are often divided into several classes that have different maturities and different priorities for the receipt of principal and interest. For example, in a sequential pay security structure one class receives scheduled principal payments and prepayments before any other class.

Structured finance as we know it began in 1968 when Ginnie Mae guaranteed the first mortgage pass-through security issued by a trust and allocate the cash flows from the underlying pool to the securities holders on a pro rata basis. Structured finance has evolved greatly since.

- In 1971 Freddie Mac issued its first mortgage pass-through, called a participation certificate, composed primarily of private mortgages.
- In 1981, Fannie Mae issued its first mortgage pass-through, called a mortgage-backed security.
- In 1983, Freddie Mac issued the first collateralized mortgage obligation, marking the beginning of more complex structured securities.
- In 1986, Congress passed the Tax Reform Act that included the Real Estate Mortgage Investment Conduit provisions (REMIC) which enabled greater flexibility in structuring bond classes with varying maturities and risk profiles.

The appeal of being able to package revenue-producing assets in off-balance sheet vehicles, thereby creating regulatory capital relief for financial institutions and significantly increasing capital available to fund consumer demand for housing and other consumer assets, led to the creation of other types of asset securitization in the United States and other countries. In the mid-1980s the first securitizations of automobile loans and bank credit card receivables were completed. Commercial banks developed the first asset-backed commercial paper (ABCP) conduits in the 1980s which began as vehicles to provide trade receivables financing to bank corporate customers.

During the late 1980s and the 1990s the securitization market grew rapidly. This expansion was aided in the United States by the REMIC legislation and changes to SEC rules, and fueled by the growth of money market funds, investment funds and other institutional investors, such as pension funds and insurance companies looking for product to invest in. In the 1990s commercial mortgages began to be securitized. As unregulated players entered the field, standards for lending were often also loosened. The first securitizations of sub-prime residential mortgages were completed in the early 1990s. During the next decade the volume of sub-prime mortgages that were securitized surged.

Another effect of the exponential growth of securitization as a vehicle for all forms of lending was the change in the balance of the relationships between lenders and borrowers. This became clear post-2008 in the aftermath of the financial crisis. When banks lent to businesses and people, they would lend money in return for a lien on assets, and if there were problems the borrower worked it out with the bank. Securitization and disintermediation of risk changed all of that. Banks sold the mortgages they had originated into huge pools consisting of tens of thousands of mortgage loans.

The variety and range of structured finance instruments continues to evolve well beyond the original of mortgage pass-through securities. The Securities Industry and Financial Markets Association (SIFMA) reported that in 2021 \$4.8 trillion of mortgage (\$4.3 trillion) and asset backed (\$0.5 trillion) related securities were issued, 36.8% of the U.S. fixed income securities issuance of \$13.1 trillion. Likely, there were other structured finance securities issued through a special purpose vehicle or trust that were not included in that number. The list below is a summary of several of these structures.

- Asset-backed securities (ABS) are debt securities for which payments of principal and interest are made to the holders from revenue generated by an underlying pool of assets, such as mortgages, credit card receivables, commercial loans or other loans, derivatives, or a combination of these.
 - The pools underlying an ABS can include assets such as auto loans, auto leases, credit card receivables, home equity loans, student loans, equipment leases, aircraft financing and leases, rail car leases, recreational vehicles, rental fleets, dealer floorplan, manufactured housing, etc.
 - New versions of asset-backed securities have been created based on cash flows from movie revenues, royalty payments, aircraft landing slots, toll roads, oil reserves and solar photovoltaics.
 - Just about any cash-producing vehicle or situation can be securitized into an ABS.
- Mortgage-backed securities are a sub-set of ABS for which payments of principal and interest are made to the holders from revenue generated by an underlying pool of mortgage loans.
 - Residential mortgage-backed securities are backed by mortgages on residential homes, usually single family.
 - Commercial mortgage-backed securities are backed by mortgages on commercial real estate, such as malls or office complexes.
 - Collateralized mortgage obligations are securitizations of mortgage-backed securities, typically involving multiple classes with differing levels of seniority.
- Collateralized debt obligations are backed by a pool of fixed-income assets, such as high-yield debt or asset-backed securities. Many CDOs are collateralized by types of mortgage-backed securities and other mortgage-related assets. An extension of these CDOs are "synthetic" CDOs which are collateralized by credit default swaps and other derivatives.
- Collateralized bond obligations are debt securities backed primarily by high-yield corporate bonds.
- Collateralized loan obligations are debt securities backed primarily by bank loans to non-investment grade corporations.
- Collateralized fund obligations are securitizations of interests in private equity and hedge funds.
- Insurance linked risk transfer securities, or catastrophe bonds, are risk transfer instruments linked to insurance losses due to catastrophic events, which are generally seen as uncorrelated to traditional financial markets.

- Future flow securitizations in which the debt security is backed by receivables yet to be generated (future receivables) and the investor is dependent on the originator's ability to generate new receivables.
- Revolving credit financings (property or traded goods), where inventory is the collateral.
- Credit tenant lease (CTL) financing is a method of financing real estate in which the landlord / owner borrows money to finance the development or purchase of a property and pledges as security the rent to be received from the tenant and a mortgage on the property.
- Ground lease financing (GLF) is a method of financing real estate in which the owner of land leases it to a tenant for the purpose of improving the land and repays its debt securities from the revenue generated by the improvements.
- Early buyout bonds are debt securities which re-securitize loans that servicers have bought out of government programs due to Pandemic Relief forbearance and which have started paying again. (This has become more prevalent following the government mortgage loan forbearance program.)
- Payment-in-Lieu-of-Taxes (PILOT), is a securitization of anticipated revenues. Municipalities use PILOTs to encourage development projects that might not otherwise be financially viable by giving developers property tax breaks.
- Military housing administration fee securitization is a security backed by the excess fees paid for the maintenance and care of military housing facilities.
- Whole business securitization, is a type of securitization where cash flows are derived not from any receivables or debts (such as mortgage loans), which are generally foreseeable, but from the entire range of operating revenues generated by a whole business, which are potentially future, contingent and unpredictable in nature.
- Bespoke structured securities, are customized transactions not intended for the public securities market but rather intended for only one or a few, possibly related, investors.

The list is not intended to be all encompassing but rather shows the range and diversity of structured finance securities. There can be countless subtle variations in each specific transaction which alters the financial risk and cash flows of the actual security issued. Almost any asset or cash flow can now be securitized, and thereby monetized, as a structured finance security.

Ratings play an important role in structured finance as most of these securities are filing exempt, meaning ratings are used to assign an NAIC Designation. There is no universal standard for assessing their risk or any consistency in the methodologies across credit rating agencies to provide a uniform credit rating or risk assessment. Some NRSROs will use a structured finance methodology, a fund methodology, a loan-to-value approach, a combination thereof, or a different approach all together. The specific criteria and depth of analysis will vary greatly between rating agencies. Many industry participants are of the opinion that structured finance instruments may have effects which are different than those of traditional corporate debt. Recognizing this, in 2009 European regulators required that credit rating agencies clearly differentiate ratings of structured finance instruments from other ratings. This regulation lead rating agencies to add identifiers, such as '(sf)', to the ratings on structured finance instruments.

As mentioned in the IAO's Nov. 29, 2021, memo to the Valuation of Securities (E) Task Force, through the filing exempt process, the NAIC relies upon credit rating provider (CRP) ratings for the vast majority of insurer investments with no oversight as to the analytical basis for those ratings, the applicability or strength of the methodology or the consistency of the resulting risk assessment across CRPs. Additionally, the SVO has not been charged with monitoring CRP ratings or authorized to use its judgement or discretion to determine how, when and if a CRP rating should be used for NAIC purposes. The Credit Rating Agency Reform Act of 2006 (CRARA) was intended to foster accountability, transparency, and competition in the credit ratings industry. It did so by requiring rating agencies which want recognition as NRSROs to make information about their methodologies public. Congress' aim was not to create uniform rating agencies with fungible methodologies but rather to expose the differences between rating agencies and their methodologies to enable users of ratings, like the NAIC, to make informed decisions about the strengths and weaknesses of individual rating agencies' methodologies and, thereby, their ratings.

The IAO staff believe the Task Force's adoption of one or more of its recommendations would help to lessen the variability in the assessment of investment risk reflected in NAIC Designations. Greater risk assessment variation rewards risk taking without the commensurate Risk Based Capital (RBC). There can be potentially significant distortions of an insurer's RBC ratio if the underlying rating used to set an NAIC Designation is not derived in a manner that is comparable to or consistent with the risk assessment used in determining those RBC factors. Ratings are not interchangeable and the NAIC's use of them in its regulatory processes needs to be able to efficiently and effectively reflect those differences

Information in this summary was compiled from multiple internet sources deemed reasonable for this purpose along with the IAO's own experience and opinions.

- [WhosWholegal.com - Securitisation a brief history and the road ahead](#)
- [Investopedia.com - What are some historical examples debt securitization](#)
- [Wikipedia.org - Securitization](#)
- [Wikipedia.org - Mortgage backed security](#)
- [Lexology.com - Non-traditional securitisation: Whole business securitisation \(WBS\)](#)

**RBC Investment Risk and Evaluation (E) Working Group
Project Listing
2/28/2022**

	Topic	Source	Date
1.	Phase II Bond Factors	Financial Condition (E) Committee	Jan. 12, 2022
	<p><i>Request:</i> Consider a second phase of the bond factor proposal for structured securities and other asset-backed securities, including collateralized loan obligations. This request recognizes the shift away from corporate debt due to industry's search for yield.</p> <p><i>Timeline:</i> Committee requested an aggressive timetable, with the potential use of consultants to propose specific factors by the 2022 Summer National Meeting. Initial concerns on timeline and consultant use were noted during the initial Jan. 12 joint meeting with the Committee.</p> <p><i>Current Status:</i> Current exposure ending Feb. 28 on proposal / consultant use.</p>		
2.	Residual Interest Securities	Financial Condition (E) Committee	Jan. 12, 2022
	<p><i>Request:</i> Consider specific charges for residual interests to ensure the concentrated risk within these investments is properly reflected. Consideration may occur initially for the life formula, with separate assessment for the p/c and health formulas.</p> <p><i>Timeline:</i> No specific timeline noted. Representatives from VOSTF and SAPWG support this project moving forward timely to ensure that the risk is properly reflected and to eliminate the RBC arbitrage that exists as companies structure investments to maximize RBC. These items were identified as part of the Bond Proposal project underway at the SAPWG and industry participants have noted agreement with addressing this RBC issue.</p> <p><i>Current Status:</i> Revisions adopted by the Statutory Accounting Principles (E) Working Group in Nov. 2021 will require all residual interests to be reported on Schedule BA for year-end 2022. Revisions exposed at the Blanks (E) Working Group will have separate reporting lines on Schedule BA, as well as separate category in the AVR schedule to identify these items and permit individual RBC assessment through a direct AVR pull for life companies.</p>		
3.	SVO-Identified Bond Funds on Schedule D-2-2 (SEC Registered Funds)	Statutory Accounting Principles (E) Working Group and Valuation of Securities (E) Task Force	Aug. 13, 2018 Sept. 21, 2018
	<p><i>Request:</i> Permit RBC factors to correspond to NAIC designations on Schedule D-2-2. This would permit qualifying SVO-Identified Bond ETFs (reported on D-1), qualifying SVO-Identified Bond Funds (reported on D-2-2) and fixed-income private equity funds with SVO-assigned designations (reported on Schedule BA) to all have RBC impact by SVO-assigned designations. Currently, registration status with the SEC as an open, closed or unit investment trust precludes a bond fund from receiving improved RBC although they may receive an SVO NAIC designation after a structural assessment (fixed income like) and credit quality analysis.</p> <p><i>Timeline:</i> No specific timeline noted. Item tabled March 2020 pending adoption of bond factors.</p> <p><i>Current Status:</i> Previous discussion with CATF representatives have noted desire to study the SEC-registered bond funds that receive SVO-assigned designations prior to making this change. With the current reporting structure, SVO-Identified Bond ETFs on D-1 and private equity fixed-income funds reported on BA have an RBC impact based on SVO-assigned NAIC designation.</p>		

4.	Comprehensive Fund Review – Bond and Preferred Stock Funds	Valuation of Securities (E) Task Force	May 10, 2019
<p><i>Request:</i> Requests that the bond RBC factors be attributed to all bond and preferred stock funds. Although this request may seem similar to the ‘SVO-Identified Bond Fund on Schedule D-2-2’ item, this item is specifically requesting use of the current bond factors for those funds.</p> <p>SVO-Identified Bond ETFs (D-1) – Uses 2021 Bond Factors SVO-Identified Preferred Stock ETFs (D-2-1) – Uses Pre-2021 Bond Factors SEC Registered Bond Funds – Equity Charge / No RBC Impact from SVO Designations Non-Registered Fixed-Income Funds – Uses Pre-2021 Bond Factors</p> <p><i>Timeline:</i> No specific timeline noted. Item tabled March 2020 pending adoption of bond factors.</p> <p><i>Current Status:</i> No recent discussions / information.</p>			
5.	Structured Notes	Statutory Accounting Principles (E) Working Group	April 16, 2019
<p><i>Request:</i> This referral informed the Capital Adequacy (E) Task Force of the statutory accounting guidance for structured notes. (A structured note is an investment that is structured to resemble a debt instrument, but the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due. Structures notes are essentially derivative instruments wrapped by a debt structure.) The adopted revisions excluded structured notes from SSAP No. 26R—Bonds and required these investments to be captured as derivatives. Since a structured note likely does not qualify as a hedging, income generation or replication derivative, it will be classified as an “other derivative”. The referral identified that the IMR/AVR guidance for derivatives does not encompass ‘other derivatives’ and suggested a review of RBC (and the use of BACV in determining the RBC impact), as well as a review of how gains and losses on these derivatives should be reported through AVR/IMR.</p> <p><i>Timeline:</i> No specific timeline noted. Item tabled March 2020 pending adoption of bond factors.</p> <p><i>Current Status:</i> Subsequent to the adoption of the structured note guidance (Dec. 2019), the SAPWG adopted revisions to SSAP No. 86 to clarify that “other” derivatives shall be accounted for at fair value, with changes recorded in unrealized gains and losses. Revisions were also adopted to identify that “other derivatives” do not qualify as admitted assets. Ultimately, there could still be a question on whether gains/losses from structured notes should go through IMR or AVR.</p>			

6.	Supplemental Investment Risk Interrogatory (SIRI) – Aggregating Exposures	Statutory Accounting Principles (E) Working Group	Nov. 19, 2020
<p><i>Request:</i> This referral informed the Capital Adequacy (E) Task Force of statutory accounting adopted revisions involving the aggregation of exposures (Line 2) and an exposure on the aggregation of exposures for equity interests (Line 13) in the Supplemental Investment Risk Interrogatory. The SIRI guidance was clarified to ensure consistent application with how funds were aggregated and reported as exposures. Previously, some companies were aggregating funds based on the fund manager (e.g., BlackRock) although the reporting entity would not have actual exposure to BlackRock, but to the investments held within a fund. The revised guidance provides that reporting entities do not need to “look-through” funds that are diversified in accordance with the Investment Company Act of 1940 and aggregate the investments within a fund with other holdings. However, for non-diversified funds, reporting entities would be required to “look-through” the fund and aggregate exposures within the fund with other holdings to determine the overall exposure and whether it should be captured as a top ten exposure or equity interest. The SIRI revisions also excluded SVO-Identified Bond ETFs and other SVO-Identified investments with characteristics of fixed-income investments from the equity aggregation. This referral was provided to the Task Force to assess whether these changes would impact RBC as industry noted that the RBC instructions may want to consider consistent concentration risk provisions.</p> <p><i>Timeline:</i> No specific timeline noted. Item tabled pending adoption of bond factors.</p> <p><i>Current Status:</i> Subsequent to this referral (Dec. 2020), the Working Group adopted the revisions to SIRI Line 13: Largest Equity Interests. (The revisions to Line 2: 10 Largest Exposures to a Single Issuer / Borrower / Investments were adopted in Spring 2019 and in effect for year-end 2019.)</p>			