Date: 6/11/23

Virtual Meeting

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP
Wednesday, June 14, 2023
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

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

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/Carolyn Morgan	Florida	Dale Bruggeman/Tom Botsko	Ohio
Vincent Tsang	Illinois	Rachel Hemphill	Texas
Roy Eft	Indiana	Doug Stolte	Virginia
Carrie Mears/Kevin Clark	Iowa	Steve Drutz/Tim Hays	Washington
Fred Andersen	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Dave Fleming/Julie Gann

AGENDA

1. Discuss Comment Letters Received on Residual Factor and Sensitivity Test Factor—*Philip Barlow (DC)*

    - Iowa/Connecticut — Attachment 1
    - Texas — Attachment 2
    - Global Atlantic Financial Group — Attachment 3
    - Athene — Attachment 4

2. Consider Adoption of Residual Tranche Base Factor—*Philip Barlow (DC)* — Attachment 5

3. Consider Adoption of Sensitivity Test Factor—*Philip Barlow (DC)* — Attachment 6

4. Discuss Any Other Matters Brought Before the Task Force and Working Group —*Philip Barlow (DC)*

5. Adjournment

June 9, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Connecticut Insurance Department ("CID") and Iowa Insurance Division ("IID") are jointly submitting this letter to supplement those comments discussed in our previous letters dated May 12, 2023. Both letters are attached as appendices for ease of reference and should be read together with this letter in order to understand the basis for our position. As a brief summary of the points made in our previous letters:

- Absent a material and pressing solvency concern requiring immediate action, changes in RBC factors should be supported by fulsome, data-driven analysis.
- Changes that lack such analysis may not be warranted and therefore risk unforeseen and unintended consequences.
- The reported level of insurer investment in residual tranches does not reflect a material and pressing solvency concern, either in the aggregate, or for individual insurers.
- The basis for the proposed factor is based on a singular example of a subset of the asset-backed security ("ABS") population, though it is intended to apply broadly to the entire population. No analysis has been performed to assess whether this subset is representative of other types of ABS.
- There is an alternative option ("Alternative Interim Proposal") that would fully address the noted concerns without the risk of unintended consequences, as described again at the end of this letter.

In addition to expressing our joint support for the Alternative Interim Proposal, we would also provide the following comments in regards to remarks made on the May 17, 2023 Working Group call:

- In response to concerns raised by several Working Group members around the lack of analytical support for a change in factor, a comment was made that "we have better support for the 45% than the 30%". Presumably, the support being referred to is the example of a broadly-syndicated CLO ("BSL CLO") which shows a 2/3 reduction in capital pre- and post- securitization.
- We would like to reiterate, to the extent that this example serves as adequate support for an increase in factor, **it only provides support for BSL CLOs**. No analysis has been done to determine whether it is reasonable to extrapolate this singular observation to all types of ABS, which the 45% factor is proposed to apply to.
- Likewise, the sole comment letter received in support of the 45% factor continued to focus on the same example showing the reduction in RBC for BSL CLOs pre- and post-securitization, noting non-CLO holdings as "outliers".

- Another comment made was that RBC is always blunt and imperfect and that it should generally be assumed that factors are off by at least 10%.
- Based on the information we have, we believe that the population of ABS that are not BSL CLOs makes up a significant portion of the residual tranche population. We do not believe they constitute outliers or merely 10% of the population.

Alternative Interim Step

In order to address the regulatory concerns raised around residual tranches, without the risk of unintended consequences of a temporary increase in RBC charge, the CID and IID support the following alternative:

- Set the previously-adopted sensitivity disclosure factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test, by company. This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.
- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

The CID and IID believe the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

Thank you for your consideration,

Wanchin W. Chou
Chief Insurance Actuary and Asst. Deputy Commissioner
Connecticut Insurance Department

Kevin Clark
Chief Accounting Specialist
Iowa Insurance Division

Carrie Mears
Chief Investment Specialist
Iowa Insurance Division

Cc: Andrew N. Mais, Insurance Commissioner, Connecticut Insurance Department
Doug Ommen, Insurance Commissioner, Iowa Insurance Division

Appendix

1) Letter dated May 12, 2023 – Connecticut Insurance Department

2) Letter dated May 12, 2023 – Iowa Insurance Division

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

I understand the concerns as a regulator that some companies are investing more in the residual tranches and the RBC factor has not reflected the risk charge properly yet for the residual tranches. However, on behalf of CID I would like to propose a delay in implementing the proposed 45% interim RBC factor for residual tranches for the following reasons:

1. Most of us actuaries agree that a more detailed analysis is needed to meet our professional standards in communication per ASOP 41.
2. We have not completed the cost and benefit analysis for the proposed 45% interim RBC factor for residual tranches to clearly define the impacts to some companies, and the benefits in regulation to avoid any unexpected capital risk if incurred.
3. With many uncertainties in the current high inflation high interest rate environment and with a small probability of potential recession in the market in 2023, we should avoid any potential disruptions to the market.
4. We have discussed with companies; some of them in favor of the 45% interim proposal but some against. Although they have different views, they mostly agreed that they could deliver a better study to support their arguments within a year.

CID appreciates your attention to the issues raised in this letter and looks forward to discussing with you further.

Best Regards,

Wanchin W. Chou, FCAS, MAAA, CPCU, CSPA, CCRMP
Chief Insurance Actuary and Asst. Deputy Commissioner
State of Connecticut Insurance Department
Office Phone: 860-297-3943
Cell: 860-488-4408

Cc: Commissioner Mais,
Deputy Commissioner Kosky,

Fields of Opportunities

STATE OF IOWA

KIM REYNOLDS
GOVERNOR

ADAM GREGG
LT. GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Iowa Insurance Division appreciates the opportunity to comment on the two items related to residual tranches in securitizations which are currently exposed for comment. The majority of our comments relate to the proposal for an interim increase in the risk-based capital ("RBC") factor that applies for residual tranches from 30% to 45%, followed by an alternative interim proposal utilizing the sensitivity disclosures adopted during the April 20 meeting.

Background

Upon establishment of the Risk-Based Capital Investment Risk and Evaluation ("RBC IRE") Working Group, the Financial Condition (E) Committee charged the working group with two initial mandates. The first was to proceed with Phase II of the bond factor project to develop new factors tailored specifically to structured securities / asset backed securities ("ABS"). The second was to review the factor for residual tranches in ABS structures specifically.

For the avoidance of doubt, **the Iowa Insurance Division continues to support both of these projects in the strongest of terms**. Without question, ABS now make up a significant portion of life insurers' investment portfolios. The bond factors that are currently applied for ABS were derived from historical corporate bond data. Due to the nature by which cash flows are distributed through the capital stack of a structured asset, it would be reasonably expected that loss experience, particularly during tail stress scenarios, would be different between equivalently rated corporate bonds and ABS. This was acknowledged at the time the bond factors were reassessed as a necessary Phase II of the bond factor project. Through data-driven modeling, these differences can be quantified and tailored factors can be developed. The Working Group has kicked off efforts for such a project, leveraging assistance from the American Academy of Actuaries.

While the current bond factors are likely not sufficiently well fit-to-purpose, they are at least risk-sensitive based on the assigned NAIC Designation. The same cannot be said for the residual tranche of securitized assets. The factor that currently applies is a flat default charge of 30%, which was developed to apply to equity investments. This factor is neither risk-sensitive, nor was it developed based on any data that could reasonably be expected to correlate to the risks of residual tranches. As a result, it is likely that the current factor for residual tranches is a particularly poor fit. Similar to the debt tranches, it is possible to develop more tailored factors through data-driven modeling, which is incorporated into the working plan of the project mentioned above.

Because of the particularly poor fit of the current capital framework as it applies to residual tranches, the Working Group has been considering an interim step to increase the RBC factor temporarily, while the longer-term analytical project plays out. This step is based on the strong intuition that the charge that applies should be higher based on review of two types of ABS: Collateralized Fund Obligations ("CFOs") and Broadly-Syndicated Collateralized Loan Obligations ("BSL CLOs"). In these examples, a clear reduction in RBC is observable pre- and post-securitization.

Several unknowns have existed throughout Working Group discussions. These include 1) what factor should apply based on the risk of the investment, 2) whether the observations from the two ABS examples referenced above are representative of all ABS, and 3) whether insurers hold material amounts of residual tranches. With the exception of #3, the answers to these questions remain unknown.

Beginning with the filing of the 2022 Annual statement, residual tranches became separately reported for the first time. Upon NAIC staff's review of the reported data as summarized in the public materials, Life insurers hold approximately $4.7B of residual tranches as of 12/31/22, in aggregate. This makes up approximately 0.06% of the $8.5T+ of life industry assets. Larger concentrations in individual insurers exist, with no single insurer investing greater than 3% of their total assets in residual tranches. From an RBC perspective, some high-level analysis of insurers with the largest holdings indicates no individual insurer would have an RBC ratio reduction of greater than 8% (e.g. 400% CAL RBC to 368% CAL RBC) using a 45% factor. Two insurers would have their RBC impacted by 4-8%, while four others would be impacted 1-3%. All others were under 1%.

The proposal to apply an interim charge applies to residual tranches of all types of ABS and is currently exposed using a 45% factor.

<u>45% Interim Factor</u>

The Iowa Insurance Division does not support an interim increase in the RBC charge at this time for the following reasons:

- It is our view that changes in capital requirements should be developed and supported through data-driven, analytical processes. This allows all stakeholders an opportunity to provide input into the methodology and assumptions used in developing capital requirements, and provides a process for surfacing the direct and indirect consequences of proposed changes.
- As this process is often long, it has the drawback of being slow to respond to pressing regulatory concerns. For this reason, rare circumstances may require temporary action without the usual amount of analytical support. While we believe that certain circumstances may warrant a temporary approach, we also believe such an approach should be limited to situations that present a material and pressing solvency concern. Absent these infrequent, urgent situations, we believe that changes in capital requirements should follow the usual analytical process.
- Based on our review of the current data as referenced above, we do not believe the level of investment in residual tranches constitutes a material and pressing solvency concern, currently or in the near-term future, in the aggregate or for individual insurers. No individual company would have

its RBC ratio in relation to Company Action Level meaningfully impacted by increasing the charge to 45%.

- Taking a temporary step in situations where there is no material and pressing solvency concern risks unforeseen consequences which have the potential to negatively impact financial markets, insurers, and policyholders.
- The proposal to apply an interim charge applies to residual tranches of all types of ABS. The view that a higher charge is warranted is primarily informed by a review of CFOs and BSL CLOs where a clear reduction in RBC is observable pre- and post-securitization. However, it remains unknown whether the same applies to all types of ABS, and many of the reported residual tranches appear to fall into this "other" category
- Various types of ABS have varying thicknesses or sizes of the residual tranche. A fixed charge will result in a higher RBC requirement for thicker tranches. Larger, thicker tranches are by definition less leveraged than smaller, thinner ones. While more analysis would be needed to understand the impact of this dynamic on the various types of ABS, it is possible that the RBC reduction observed for BSL CLOs would be not be observed to the same extent in other types of ABS. If this is the case, increasing the factor to 45% for any such investments may be not be warranted.
- We believe alternative regulatory tools exist that would be effective in mitigating the risks that are of concern, without the potential for unintended consequences, as detailed in the next section.

<u>Alternative Interim Step</u>

As an alternative interim step to increasing the RBC charge for residual tranches at this time, we would propose the following:

- Set the sensitivity factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test.
- This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around the remaining unknowns mentioned earlier in

this letter: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.

- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

Iowa believes the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

Closing

The ongoing work to address the capital treatment of ABS is among the most important initiatives currently in process at the NAIC. Iowa offers its full support of these ongoing efforts, including the potential outcome of higher RBC factors for certain assets, when supported by deliberative, data-driven analysis.

Thank you for your consideration,

Kevin Clark, Chief Accounting Specialist, Iowa Insurance Division

Carrie Mears, Chief Investment Specialist, Iowa Insurance Division

Cc: Doug Ommen, Insurance Commissioner, Iowa Insurance Division

TDI | Texas Department of Insurance

PO Box 12030 | Austin, TX 78711 | 800-578-4677 | tdi.texas.gov

June 9, 2023

Mr. Phillip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street
Kansas City, MO 64106-2107

RE: Residual tranche base and sensitivity test factors

Dear Mr. Barlow,

The Texas Department of Insurance appreciates the opportunity to comment on the residual tranche factors currently exposed by the working group. Texas would like to offer a way forward regarding the residual tranche factors that we feel accomplishes the following:

- Addresses the direction from the Financial Condition (E) Committee to develop an RBC factor for residual tranches;
- Acknowledges that the factor established for traditional equity investments did not anticipate residual tranche investments, which have a different risk profile;
- Allows time for companies to address any investment changes needed in their asset mix; and
- Provides for the most efficient use of regulatory tools.

TDI supports a compromise that would set the residual tranche base factor at 30% and a sensitivity test factor at 15% for the 2023 risk-based capital formula. Then, in 2024 the base factor would move to 45% and the sensitivity test factor would drop to 0%.

This approach would give companies time to evaluate or divest assets in a manner that preserves surplus to meet future obligations. It would also provide additional information to the regulators in 2023 regarding the potential impact of each company's residual tranche holdings with the additional capital being required in 2024 so that there is a seamless consideration of this risk within the risk-focused solvency surveillance framework adopted for the U.S. state-based system of insurance regulation. This approach would also reduce any financial market disruption because the base rate is modified with more than a year's notice.

Most importantly, this approach will conclude the consideration of the interim solution for residual tranches so that the work on the charges for all tranches can start.

Thank you for consideration of our comments.

Sincerely,

Jamie Walker

Jamie Walker
Deputy Commissioner

Global Atlantic FINANCIAL GROUP

June 9, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Global Atlantic Response to 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Global Atlantic[1] appreciates another opportunity to comment on **2023-09-IRE Residual Factor ("Interim Solution")**, which proposes to set the Risk Based Capital ("RBC") charge at 45% for all residual tranches on an interim basis.

We stand by the principles from our prior letter, but the purpose of this letter is to explain why the proposed 45% factor is not appropriate for many residual tranches. The Interim Solution with the proposed increase in capital charges for residual tranches was originally designed to address the perceived regulatory capital "arbitrage" associated with Broadly Syndicated Collateralized Loan Obligations ("BSL CLOs"). The concern expressed with insurance company ownership of BSL CLO residuals is that the weighted average capital charge of the underlying collateral is much higher than the blended capital charge of the rated notes. Thus, a higher charge on the residual tranche was proposed to close the gap between the capital charge on the underlying assets and the notes.

To date, the proponents for adoption of the Interim Solution have sought to conflate concerns around the perceived "capital arbitrage" in BSL CLOs with residuals related to other asset classes without any credible justification or analysis. These other asset classes include those that are a meaningful portion of insurance company assets, potentially more so than BSL CLOs, and for which there is no evidence of "arbitrage."

We urge the RBCIRE to consider adoption of the Iowa proposal that would apply a sensitivity test to residual tranches, and targeted regulatory company review for 2023. This would allow regulators the time to determine, based on appropriate data and analysis, which asset classes should be in scope for an adjustment to capital charges, and what those new capital charges should be.

[1] Global Atlantic Financial Group is a leading insurance company meeting the retirement and life insurance needs of individuals and institutions. With a strong financial foundation and risk and investment management expertise, the company delivers tailored solutions to create more secure financial futures. The company's performance has been driven by its culture and core values focused on integrity, teamwork, and the importance of building long-term client relationships. Global Atlantic is a majority-owned subsidiary of KKR, a leading global investment firm. Through its relationship, the company leverages KKR's investment capabilities, scale, and access to capital markets to enhance the value it offers clients. KKR's parent company is KKR & Co. Inc. (NYSE: KKR).

Data and analysis were provided to the RBCIRE in an attempt to demonstrate that a 45% capital charge on all residuals is appropriate. We believe that analysis is flawed. However, even if this analysis were free of criticism, conflating BSL CLOs with the high-quality assets that we highlighted in our prior letter (e.g., student loans to prime consumers and financing for core US commercial and industrial infrastructure, such as railcar leases) is inappropriate.

To demonstrate that point, we have provided two examples of transactions completed in the securitization market where we attempted to provide a capital charge on the underlying assets of (1) a securitization of railcar leases[2] and (2) a securitization of student loans[3]. In contrast to BSL collateral of a CLO, neither of these assets have a native capital charge. Yet, we have attempted to lay out a simplistic framework to demonstrate that assets outside of BSL CLOs do not present the same "arbitrage" concern that has been used to justify the 45% charge.

In the first example, we show that an insurer would hold more capital under a securitization of railcar leases than holding underlying railcar leases directly, based on the imputed ratings of the lessee.

Example 1: Securitization of railcar leases

Underlying Lessee Rating

Lessee Rating (S&P)	Railcars	% of Total	c1
AAA	223	5.0%	0.2%
AA-	1,099	24.5%	0.5%
A+	124	2.8%	0.7%
A	128	2.9%	0.8%
A-	250	5.6%	1.0%
BBB+	538	12.0%	1.3%
BBB	861	19.2%	1.5%
BBB-	257	5.7%	2.2%
BB-	74	1.7%	6.0%
B	100	2.2%	9.5%
B-	10	0.2%	12.4%
C+	100	2.2%	30.0%
Not Rated	479	10.7%	30.0%
Off Lease	246	5.5%	30.0%
Blended C1			6.70%

Securitization Structure

30% Residual Charge

Class Rating	Rating	Balance	c1
Class A	A	302,560,000	0.8%
Class B	BBB	20,720,000	1.5%
Class C	NR	89,382,752	30.0%
Blended C1			7.17%

On the left of the chart, we show what the capital charge would be if each railcar in a sample securitization were capitalized based on the rating of the lessee. Note that the RBC framework does not permit an investor to use a lessee's rating for capital purposes and, as noted previously, railcars have no native capital charge (which is what makes securitization necessary). Of course, a lessee's rating is not the same as a rating on the underlying asset, but the ratings of relevant lessees do provide a measure for the level of risk inherent in a securitization of leased assets.

On the right of the chart, we show the resulting capital charges associated with a securitization of rail car leases, including the residual tranche. Both the ratings on the left and the ratings on the right were assigned by S&P. Note that the capital charge for the securitization structure (including the residual tranche) is already higher than the implied rating of the "underliers," in this case developed using the rating of each lessee (obligor). This example does not appear to present an "arbitrage" opportunity for insurance company investors. However, it seems to be inappropriately subject to the Interim Solution.

[2] Sources: GBX Leasing 2022-1, LLC Series 2022-1 KBRA New Issue Report, February 9, 2022; Intex; GBX Leasing 2022-1, LLC Final Offering Circular, February 1, 2022

[3] Sources: SMB Private Education Loan Trust 2023-A DBRS Morningstar Presale Report, March 2, 2023; Intex; SMB Private Education Loan Trust 2023-A Offering Memorandum, March 8, 2023

The second example to demonstrate this point is the private student loan market. While again there is no native capital charge for this asset, the closest proxy in the existing RBC framework for student loans issued to, or guaranteed by, prime (750+ FICO) borrowers could be the 0.68% charge for residential mortgage loans[4]. The below bullets attempt to calibrate the residential mortgage charge to student loans based on historical performance of worst performing crisis vintage collateral.

Example 2: Securitization of student loans

<table>
<tr><th>Asset Charge Proxy</th><th>Securitization Structure</th></tr>
<tr><td>

Peak cumulative defaults of prime student loan collateral reached 18.5% for the 2008 vintage which is slightly higher than peak prime mortgage defaults of 14.5% for the 2007[5] vintage
Comparing mortgage loans and student loans, one must acknowledge that mortgage loans are secured by real estate and will have lower loss once a default occurs than a student loan
Cumulative loss for 2007 prime vintage mortgage loans was 7.9%[5]
Assuming that there was no recovery on all defaulted student loans that would mean student loan losses were 18.5% - 2.3x higher than the losses of the worst performing mortgage vintage
Based on the above a proxy capital charge for student loans would be 1.59% which is 2.3x the mortgage loan charge of 0.68%

</td><td>
<table>
<tr><th>Rating</th><th>Tranche Size</th><th>Residual at 30%</th><th>Residual at 45%</th></tr>
<tr><td>AAA</td><td>82%</td><td>0.16%</td><td>0.16%</td></tr>
<tr><td>AA</td><td>7%</td><td>0.42%</td><td>0.42%</td></tr>
<tr><td>Residual</td><td>11%</td><td>30.00%</td><td>45.00%</td></tr>
<tr><td>Blended c1 Charge</td><td></td><td>3.46%</td><td>5.11%</td></tr>
<tr><td>Residential Mortgage Charge</td><td></td><td>0.68%</td><td>0.68%</td></tr>
<tr><td>Multiple of Mortgage</td><td></td><td>5.1x</td><td>7.5x</td></tr>
</table>
</td></tr>
</table>

The table on the right again demonstrates that the securitization charge is higher than the underlying asset charge assuming the residual capital charge stays at 30%. Adopting the Interim Solution would exacerbate this impact even further. Given the comparable peak cumulative defaults between student loans and mortgage loans, it is difficult to support the premise that capital "arbitrage" exists and represents a material risk that requires the Interim Solution.

We recognize that residual tranches are complex and would require detailed modeling and analysis to arrive at a new capital framework. This is exactly why we believe rushing to impose an arbitrary capital charge derived without the benefit of any credible data, analysis, or field testing is inappropriate and will result in unintended consequences.

We reiterate our strong support of the Iowa proposal which would allow the NAIC to spend the appropriate time defining these assets and evaluating their risks. The sooner that proposal is adopted,

[4] Under the RBC framework, a 0.68% charge applies to all residential mortgage loans, regardless of credit quality of the borrower.
[5] Bank of America Securities, Sectors-Historical loss rates, March 2023

the sooner regulators partnering with industry can begin gathering the necessary data and performing the required analysis to ensure appropriate capital charges and "equal capital for equal risk".

Thank you very much for your consideration and we look forward to participating on the NAIC's June 14th RBCIRE call and working on this important issue going forward.

Sincerely,

Lauren Scott

Lauren Scott
Global Atlantic Financial Group
SVP and Head of Regulatory & Government Affairs

ATHENE

June 9, 2023

Mr. Philip Barlow
Chair, RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: IRE Residual Factor (the "Proposal")

Dear Mr. Barlow:

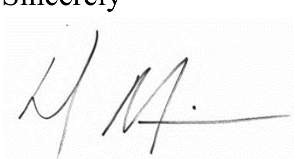
We write again to reiterate concerns regarding the Proposal and the need for an overarching system that leads to comprehensive and consistent capital calibration across all asset classes and investments.

We believe the NAIC should use the same careful and considered approach it has historically taken as it considers residuals for asset backed securities and the several parallel NAIC workstreams concerning structured securities. We are concerned that the NAIC has rapidly begun to make systemic changes to many aspects of the regulatory capital model without comprehensive empirical analyses to ensure statistical consistency across asset classes.

Consumers are facing a retirement income crisis with fewer available options. Honorably, the NAIC has been addressing this issue as a top priority. Inconsistent and punitive capital frameworks will necessarily impede insurers' offering of products that address this crisis, and may ultimately result in market disruptions similar to those that resulted from the European Union's adoption of Solvency II in 2016. To date, the NAIC has refrained from adopting similar measures to avoid these negative impacts.

We recommend that the Working Group and the NAIC more broadly step back and conduct a fair, data-driven, holistic review of the capital framework, including with respect to designations and capital charges, for all asset classes before making decisions that could influence competition and harm consumers, insurers, and investors.

Sincerely



Doug Niemann
Executive Vice President and Chief Risk Officer

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: 4/20/23	**FOR NAIC USE ONLY**
CONTACT PERSON:	**Dave Fleming**	Agenda Item # 2023-09-IRE Year 2023
TELEPHONE:	**816-783-8121**	**DISPOSITION**
EMAIL ADDRESS:	**dfleming@naic.org**	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
ON BEHALF OF:	**RBC Inv. Risk & Eval. (E) Working Group**	
NAME:	**Philip Barlow**	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
TITLE:	**Associate Commissioner for Insurance**	
AFFILIATION:	**District of Columbia**	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
ADDRESS:	**1050 First Street, NE Suite 801** **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 applies a .45 base RBC factor in the life RBC formula for residual tranches..

Additional Staff Comments:

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

OTHER LONG-TERM ASSETS (CONTINUED)

		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) ~~+ AVR Equity Component Column 1 Line 93~~				X 0.3000 =	
(50)	Schedule BA Collateral Loans	Schedule BA Part 1 Column 12 Line 2999999 + Line 3099999				X 0.0680 =	
(51)	**Total Residual Tranches or Insterests**	**AVR Equity Component Column 1 Line 93**				**X 0.4500 =**	
(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.

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: 4/20/23	**FOR NAIC USE ONLY**
CONTACT PERSON: Steve Clayburn	Agenda Item # 2023-10-IRE Year 2023
TELEPHONE: (202)624-2197	**DISPOSITION**
EMAIL ADDRESS: steveclayburn@acli.com	**ADOPTED:** ☐ TASK FORCE (TF) ______ ☐ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
ON BEHALF OF: American Council of Life Insurers (ACLI)	**EXPOSED:** ☐ TASK FORCE (TF) ______ ☒ WORKING GROUP (WG) ______ ☐ SUBGROUP (SG) ______
NAME: Steve Clayburn	**REJECTED:** ☐ TF ☐ WG ☐ SG ______
TITLE:	**OTHER:** ☐ DEFERRED TO ______ ☐ REFERRED TO OTHER NAIC GROUP ☐ (SPECIFY) ______
AFFILIATION:	
ADDRESS:	

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

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☐ OTHER ______

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The adoption by the Working Group of proposal 2023-04-IRE provides the structure for this sensitivity test. This proposal is to address the factor to be applied in that test. .

Additional Staff Comments:

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

SENSITIVITY TESTS - AUTHORIZED CONTROL LEVEL

	Sensitivity Tests Affecting Authorized Control Level Risk-Based Capital	Source	(1) Statement Value	Additional Sensitivity Factor	(2) Additional RBC	(3) Authorized Control Level Before Test	(4) Authorized Control Level After Test
(1.1)	Other Affiliates: Company	LR042 Summary for Affiliated Investments Column (1) Line (13)		0.700			
(1.2)	Other Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (1.2)		0.700			
(1.99)	Total Other Affiliates			0.700			
(2.1)	Noncontrolled Assets - Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (15)		0.020			
(2.2)	Noncontrolled Assets - Subsidiaries	LR038 Additional Information Required Column (1) Line (2.2)		0.020			
(2.99)	Total Noncontrolled Assets			0.020			
(3.1)	Guarantees for Affiliates: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (24)		0.020			
(3.2)	Guarantees for Affiliates: Subsidiaries	LR038 Additional Information Required Column (1) Line (3.2)		0.020			
(3.99)	Total Guarantees for Affiliates			0.020			
(4.1)	Contingent Liabilities: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (25)		0.020			
(4.2)	Contingent Liabilities: Subsidiaries	LR038 Additional Information Required Column (1) Line (4.2)		0.020			
(4.99)	Total Contingent Liabilities			0.020			
(5.1)	Long-Term Leases: Company	LR017 Off-Balance Sheet and Other Items Column (1) Line (26)		0.030			
(5.2)	Long-Term Leases: Subsidiaries	LR038 Additional Information Required Column (1) Line (5.2)		0.030			
(5.99)	Total Long-Term Leases			0.030			
(7.1)	Affiliated Investments†: Company	LR038 Additional Information Required Column (1) Line (7.14)		0.100			
(7.2)	Affiliated Investments†: Subsidiaries	LR038 Additional Information Required Column (1) Line (7.2)		0.100			
(7.99)	Total Affiliated Investments			0.100			
(8.1)	**Total Residual Tranches or Interests**	**LR038 Additional Information Required Column (1) Line (11.1)**		**0.100**			

† Excluding affiliated preferred and common stock

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