

Date: 10/10/2024

Virtual Meeting

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

Tuesday, October 22, 2024

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

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

Philip Barlow, Chair	District of Columbia	William Leung/Debbie Doggett	Missouri
Thomas Reedy, Vice Chair	California	Tadd Wegner	Nebraska
Wanchin Chou	Connecticut	Jennifer Li	New Hampshire
Ray Spudeck/Carolyn Morgan	Florida	Bob Kasinow/Bill Carmello	New York
Vincent Tsang	Illinois	Dale Bruggeman/Tom Botsko	Ohio
Roy Eft	Indiana	Rachel Hemphill	Texas
Carrie Mears/Kevin Clark	Iowa	Doug Stolte	Virginia
Fred Andersen	Minnesota	Steve Drutz/Katy Bardsley	Washington
		Amy Malm	Wisconsin

NAIC Support Staff: Dave Fleming/Julie Gann

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes —*Philip Barlow (DC)* Attachment 1
2. Receive Updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group—*Philip Barlow (DC)*
3. Hear an update from the American Academy of Actuaries (Academy) on Structured Securities RBC project—*Philip Barlow (DC)*
4. Consider Adoption of its Working Agenda—*Philip Barlow (DC)* Attachment 2
5. Discuss Status of the Fund Review Project —*Philip Barlow (DC)*
6. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*
7. Adjournment

Draft Pending Adoption

Attachment **XX**
 Capital Adequacy (E) Task Force
 8/14/24

Draft: 8/20/24

Risk-Based Capital Investment Risk and Evaluation (E) Working Group
 Chicago, Illinois
 August 14, 2024

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force met in Chicago, IL, Aug. 14, 2024. The following Working Group members participated: Philip Barlow, Chair (DC); Thomas Reedy, Vice Chair (CA); Wanchin Chou (CT); Carolyn Morgan and Nicole Crockett (FL); Carrie Mears and Kevin Clark (IA); Vincent Tsang (IL); Roy Eft (IN); Fred Andersen (MN); Debbie Doggett (MO); Tadd Wegner (NE); Jennifer Li (NH); Bob Kasinow and Bill Carmello (NY); Dale Bruggeman and Tom Botsko (OH); Jamie Walker and Rachel Hemphill (TX); Doug Stolte (VA); Steve Drutz and Katy Bardsley (WA); and Amy Malm (WI).

1. Adopted its June 21, May 22, April 12, and Spring National Meeting Minutes

The Working Group met June 21, May 22, and April 12. During these meetings, the Working Group took the following action: 1) discussed a review of year-end 2023 data reported for residual tranches; 2) heard a presentation from the Structured Securities Group (SSG); 3) discussed comment letters received on Oliver Wyman's residual tranche risk analysis; 4) discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% risk-based capital (RBC) factor for residual tranches; 5) discussed comment letters received on proposal 2024-19-I and other potential alternative proposals; 6) discussed the American Council of Life Insurers' (ACLI's) survey data on residual ownerships by life insurers; and 7) voted to retain the original adoption of the 45% charge to be applied to all residuals for life companies.

Chou made a motion, seconded by Drutz, to adopt the Working Group's June 21 (Attachment **A**), May 22 (Attachment **B**), April 12 (Attachment **C**), and March 17 (*see NAIC Proceedings – Spring 2024, Capital Adequacy (E) Task Force, Attachment XX*) minutes. The motion passed unanimously.

2. Received Updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group

Mears said the Valuation of Securities (E) Task Force met Aug. 13 and adopted an updated definition of an NAIC designation. The significant changes included: 1) the addition of "Regulatory Objective;" and 2) broadening the scope from credit risk-oriented to investment risk assessment to allow a broader application (e.g., designations for funds, certain types of non-filing-exempt [FE] assets, and bonds that no longer meet the definition of a bond and get moved to Schedule BA). The Task Force also adopted a process to permit its discretion over NAIC designations assigned through the FE process. Lastly, Mears provided an update on the collateralized loan obligation (CLO) modeling project led by the SSG.

Bruggeman said the Statutory Accounting Principles (E) Working Group adopted the principle-based bond definition to become effective Jan. 1, 2025. A corresponding adoption by the Blanks (E) Working Group may impact the Working Group as the Schedule D, Part 1 Bond Schedule will be broken into two schedules, one for issuer credit obligations and one for asset-backed securities (ABS). Bruggeman highlighted revisions adopted for Schedule BA that allow non-bond debt securities held by life insurers to receive bond factors if the investments have a designation assigned by the Securities Valuation Office (SVO). Non-bond debt securities without an SVO-

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assigned designation or those held by property and casualty (P/C) or health insurers are not afforded bond factors. Bruggeman said no further RBC proposal is anticipated to effect the changes described, but the Capital Adequacy (E) Task Force and its working groups have full purview over RBC and can further assess the RBC framework for non-bond debt securities.

Bruggeman said another project adopted by the Statutory Accounting Principles (E) Working Group with an effective date of Jan. 1, 2025, is the revision to state and federal tax credit and tax credit investment guidance in *Statement of Statutory Accounting Principle (SSAP) No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. Broadly, the accounting guidance was revised to remove the specific guidance for low-income housing tax credits (LIHTCs) and instead establish guidance for all qualifying investments in state and federal tax credits, regardless of tax credit program or if they are in the form of debt or equity. Related blanks changes were also adopted. One key reporting change was the removal of the guaranteed federal tax credit reporting line. It was removed, as the concept of a yield-guaranteed federal tax credit investment is no longer permitted under the Internal Revenue Service’s (IRS’s) tax credit rules. Bruggeman said the following feedback received from the comment process may impact RBC working groups: 1) industry commented that if the investments do not meet the criteria for reporting under the qualifying tax credit investment reporting lines, the current RBC factors may be too high and not commensurate with risk; and 2) with the broadening of the scope of SSAP No. 93 and No. 94 to encompass all types of tax credit investments, the current RBC factors may not be appropriate, as they were developed using real estate historical data.

Bruggeman said the Statutory Accounting Principles (E) Working Group exposed a proposal to effect changes to the reinsurance schedules such that more details are disclosed for assets involved in funds withheld and modified coinsurance (modco) arrangements. Such revisions, if adopted, facilitate the direct pull of data from the annual statement and will enhance transparency.

Finally, Bruggeman said that the Statutory Accounting Principles (E) Working Group exposed a proposal to have more granular reporting of collateral loans based on the underlying collaterals, with an anticipated effective date of Jan. 1, 2026. The Capital Adequacy (E) Task Force and its working groups have been encouraged to look into any potential instruction and/or factor changes resulting from this revision.

3. Heard an Update from the Academy on a CLO Risk Bucketing Proposal

Steve Smith (American Academy of Actuaries—Academy) said the timeline for a proposal developed for identifying which comparable attributes would be used for CLO risk bucketing needs to be revised from the upcoming Fall National Meeting into early 2025. The Academy is working through some issues in accessing the data needed. Smith said there was great collaboration with the SSG; therefore, the Academy should be able to use the NAIC’s software license to perform runs once all the permissions and legal formalities are ironed out.

Botsko asked if the Academy plans to provide a status update during the Fall National Meeting. Smith responded that a status update will be provided, including information such as the nature of the data received and the work performed by the Academy up to that point.

4. Discussed Referrals Related to Funds

Barlow said several items on the Working Group’s working agenda related to funds and he would like to tackle them holistically. He said NAIC staff developed and shared a memorandum with Working Group members prior

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to the meeting. NAIC staff will continue to refine the document until it is ready for broader circulation and can be used to guide the Working Group's discussions. Barlow then asked if any interested parties were willing to work with NAIC staff to compile a comprehensive list of all funds that should be subjected to the Working Group's review. Brian Bayerle (ACLI) volunteered to work with NAIC staff on this project.

Chou referred to page two of Attachment E and asked where the Working Group stands regarding investments in exchange-traded funds (ETFs) that are not captured in the SVO listing. He said ETFs are different from common stocks and may warrant further deliberation. Barlow responded that this topic could be a candidate for the funds review project discussed earlier.

5. Adopted its 2024 Working Agenda

Barlow said that apart from several updates on dates, the main update to the working agenda is the addition of IR9: Develop a structure and factors proposal to reflect the split of the Annual Statement Schedule D, Part 1 into two schedules for all lines of business.

Botsko asked about the status of the asset concentration referral from the Capital Adequacy (E) Task Force to the Working Group. Barlow responded that the topic would be added to the Working Group's working agenda during its next meeting.

Botsko made a motion, seconded by Chou, to adopt its 2024 working agenda (Attachment XX). The motion passed unanimously.

Having no further business, the Risk-Based Capital Investment Risk and Evaluation (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2024-2-Summer/RBC Investment Risk 08-14-24 Minutes TPR'd.docx

Priority 1 – High Priority
 Priority 2 – Medium Priority
 Priority 3 – Low Priority

**CAPITAL ADEQUACY (E) TASK FORCE
 WORKING AGENDA ITEMS FOR CALENDAR YEAR 2024**

2024 #	Owner	2024 Priority	Expected Completion Date	Working Agenda Item	Source	Comments	Date Added to Agenda
Ongoing Items – RBC IR & E							
Carryover Items Currently being Addressed – RBC IR & E							
IR1	RBC IRE	2	2024 or later	Supplementarily Investment Risks Interrogatories (SIRI)	Referred from CADTF Referral from Blackrock and IL DOI	The Task Force received the referral on Oct. 27. This referral will be tabled until the bond factors have been adopted and the TF will conduct a holistic review all investment referrals.	1/12/2022 11/19/2020
IR2	RBC IRE	2	2024 or later	NAIC Designation for Schedule D, Part 2 Section 2 - Common Stocks Equity investments that have an underlying bond characteristic should have a lower RBC charge. Similar to existing guidance for SVO-identified ETFs reported on Schedule D-1, are treated as bonds.	Referred from CADTF Referral from SAPWG 8/13/2018	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	1/12/2022 10/11/2018
IR3	RBC IRE	2	2024 or later	Structured Notes - defined as an investment that is structured to resemble a debt instrument, where 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. Structured notes reflect derivative instruments (i.e., put option or forward contract) that are wrapped by a debt structure.	Referred from CADTF Referral from SAPWG April 16, 2019	10/8/19 - Exposed for a 30-day Comment period ending 11/8/2019 3-22-20 - Tabled discussion pending adoption of the bond structure and factors.	1/12/2022 8/4/2019
IR4	RBC IRE	2	2024 or later	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2	Referred from CADTF Referral from VOSTF 9/21/2018	Discussed during Spring Mtg. NAIC staff to do analysis. 10/8/19 - Exposed for a 30-day comment period ending 11/8/19 3-22-20 - Tabled discussion pending	1/12/2022 11/16/2018

							adoption of the bond structure and factors.	
IR5	RBC IRE	<u>1</u>	2024 or later	Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets).	Request from E Committee, SAPWG, VOSTF		Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR6	RBC IRE	<u>1</u>	2024 or later	Evaluate the appropriate RBC treatment of Residual Tranches.	Request from E Committee, SAPWG, VOSTF		Per the request of E Committee comments were solicited asking if these types of assets should be considered a part of the RBC framework.	1/12/2022
IR7	RBC IRE	<u>1</u>	2025 or later	Phase 2 Bond analysis - evaluate and develop an approach to map other ABS to current bond factors following the established principles from Phase I where the collateral has an assigned RBC. This project will likely require an outside consultant and the timeline could exceed 2-3 years.	Request from E Committee		Per the request of E Committee comments were solicited requesting the need for outside review.	1/12/2022
IR8	RBC IRE	<u>1</u>	2024 or later	Address the tail risk concerns not captured by reserves for privately structured securities.	Referral from the Macroprudential (E) Working Group			8/11/2022
New Items – RBC IR & E								
IR9	RBC IRE		2024 or later	Develop a structure and factors proposal to reflect the split of the Annual Statement, Schedule D, Part 1 into two schedules for all lines of business.	CATF			
<u>IR9</u>	<u>RBC IRE</u>	<u>2</u>	<u>2025 or later</u>	<u>Evaluate asset concentration related issues and the potential changes to the risk-based capital formulas to address the risk.</u>	<u>Referral from CADTF</u>		<u>4/30/24 – Task Force referred to the Working Group.</u>	<u>10/22/2024</u>