



Date: 4/17/23

Virtual Meeting

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

Thursday, April 20, 2023

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

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/Charles Therriault/Linda Phelps/Peter Kelly

AGENDA

1. Discuss Comment Letters—*Philip Barlow (DC)* Attachments 1&2
2. Consider Adoption of the Residual Tranche Structure Change—*Philip Barlow (DC)* Attachment 3
3. Consider Adoption of the Sensitivity Test—*Philip Barlow (DC)* Attachment 4
4. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*
5. Adjournment

Submitted via email.

RBC Investment Risk & Evaluation Working Group,

The proposed changes made available for comment are applicable to the Life/Fraternal RBC only, which is understandable since they were developed by the ACLI. However, residual tranche investments are not solely held by Life/Fraternal companies. Both Property/Casualty and Health companies may hold investments in residual tranches.

The changes adopted for both the accounting and statement reporting of residual tranches apply to all reporting entities, not just the Life/Fraternal companies. Shouldn't all of the RBC formulas address residual tranches?

The proposed changes are not valid for the Property/Casualty and Health formulas, as they have no AVR. Amounts for those formulas can be pulled from Schedule BA, as Schedule BA is a uniform schedule between the different statements. Therefore both a structural change and a sensitivity test could be developed for those formulas.

Connie

Connie Jasper Woodroof
CJW Associates

Submitted via email.

Attached to this email, please find a copy of the company's submission on the RBC Investment Risk and Evaluation Working Group's Interim RBC Residual Factors Exposure. In addition, we would like to reiterate our position on sensitivity testing from our February 3, 2023 letter to the working group in relation to the sensitivity testing exposure:

“While sensitivity testing or impact analysis can provide regulators with valuable information on materiality and solvency of the residual tranches, sensitivity testing alone will not provide data on what appropriate RBC factors should be nor will it meet the regulators' goals of reducing RBC arbitrage while more refined charges are developed. As such, should the regulators decide to employ sensitivity testing, the companies believe a higher factor for residual tranches is also needed.”

Please let us know if you or the working group have any questions.

Thank you.

Lauren Eardensohn Sarper

Vice President, U.S. Financial and Macprudential Regulation Lead | External Affairs

April 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

Via email: dfleming@naic.org

RE: Structured securities - Interim RBC factor for residual tranches

Dear Mr. Barlow,

On behalf of the undersigned life insurance companies (“the companies”), we are writing to express our continued strong support for developing an interim RBC factor for the residual tranches of structured securities.

As we stated in our February 3, 2023 letter to the Working Group, aligning RBC with the underlying investment risk of the residual tranches is critical for achieving the broader objective of minimizing RBC arbitrage in securitized assets. The companies endorse the approach taken in the Revised Residuals Structure exposed by the Working Group of applying a single RBC factor to the residual tranches, and reaffirm our recommendation for that interim factor to be at least 45%.

There is no theoretical foundation for the use of a 30% capital charge on residual tranches of structured finance securities. The 30% factor was developed in the 1990s based on public equity losses between 1960 and 1991¹. Residual tranches were not contemplated in the development of this factor and no analysis has been exposed to equate the risk of this asset class to the established public equity asset class.

We believe that an interim factor of at least 45% is directionally supported by historical data and addresses regulatory objectives. Further support of these points is shared below.

1) Residual tranches and public equities have materially different risk profiles:

Residual tranches provide first-loss protection for bond tranches which have the risk of principal loss in stress scenarios used for Risk-Based Capital. Therefore, both theoretically and empirically, a portfolio of residual tranches can lose close to their full value in stress scenarios.² In contrast, a portfolio of public equities (like the S&P 500) simply represents equity ownership in those companies. If the S&P 500 experienced loss close to 100%, it would indicate a market worse than the Great Depression. *There is no justification for treating these two asset classes as the same risk.*

¹ For each month from 1960-1991, calculated as the worst cumulative monthly loss over the next two years.

² Losses to the bond tranches require close to a total loss to the residual tranche. A framework that assumes only 30% capital for residual tranches implies that the first-loss protection is typically not depleted in a capital level shock and all debt tranches are essentially risk-free.

2) Empirical data does not support a charge *less than 45%*: details in appendix

Analysis of asset class losses for various collateral types demonstrates that even long-run average losses can have a material impact on the notional value of residual tranches. Stress losses have the potential to deplete most, if not all, of the notional value of a residual tranche. Much of the securitization market only covers the past 20-25 years across multiple collateral types, which is less robust than the 40 year history used to develop the corporate bond factors; many securitization markets may not have experienced a truly distressed scenario in this time. One recent example is a fund that primarily invests in CLO equity which experienced a loss of 60% while public equities experienced a loss of only 30%.³⁴

3) Conformance with RBC regulatory objectives:

An appropriate interim RBC charge allows regulators to ensure that insurers are appropriately capitalized. A 45% interim RBC charge is consistent with the existing high-beta equity charge and directionally appropriate outcome demonstrated by the data. It would provide a rational step until a full solution is developed.

Respectfully Submitted,

Equitable

MetLife

New York Life

Northwestern Mutual

Pacific Life

Prudential Financial, Inc.

Western & Southern

³ Since equity securities are held at fair market value, capital charges are calibrated to market value shocks. In contrast, Bond tranches are held at book value and capital charges are calibrated based on permanent impairments and losses in default.

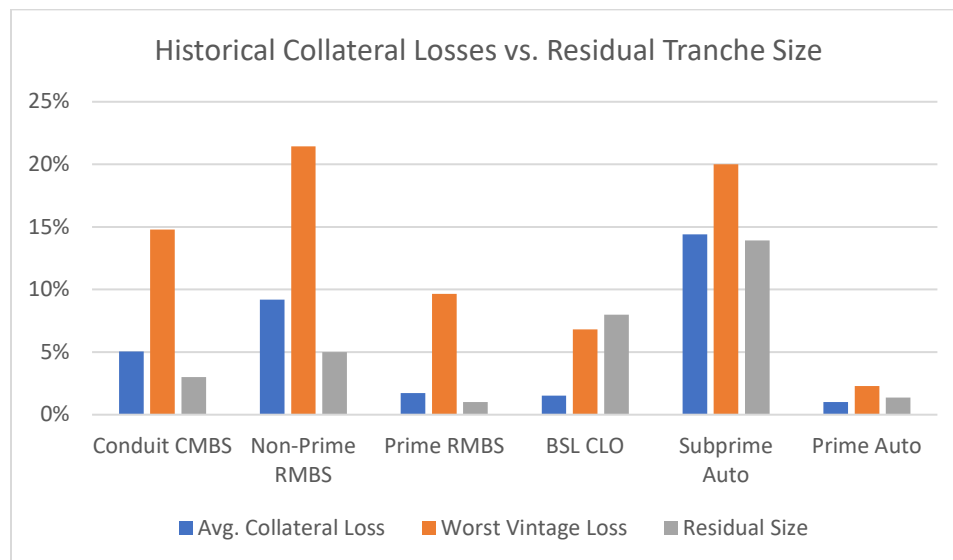
⁴ C1 Bond Factors also support these empirical results. Current factors imply leveraged loan collateral losses over 14% in a capital-level stress. This collateral loss would indicate close to 100% loss on the residual tranche. A simple expansion of the annual SVO CLO stress test to include residual tranches would generate similar results.

Appendix: Empirical Experience

Historical collateral losses across multiple securitization sectors compared:

A comparison of historical collateral losses to typical residual tranches thickness demonstrates the likelihood of a residual tranche loss in excess of 45% in stress events. Across multiple securitization sectors – mortgage, loan, auto – residual tranche losses are vulnerable to economic downturns and the magnitude of this vulnerability is high regardless of the sector analyzed. The magnitude of historically observed collateral losses relative to the tranche thickness of the residual tranche demonstrates that a 45% or higher RBC charge is entirely commensurate with the amount of capital prudently required to address potential credit losses on structured assets.

The following chart shows the relationship among average collateral losses across historical cohorts, collateral losses for the worst historical cohort, and the size of a typical residual tranche for different types of securitizations that together account for most of the market outstanding. This comparison can help inform expectations for the magnitude of the impact that collateral losses, in either a typical or distressed environment, can have on the face value of the residual tranche of a securitization.



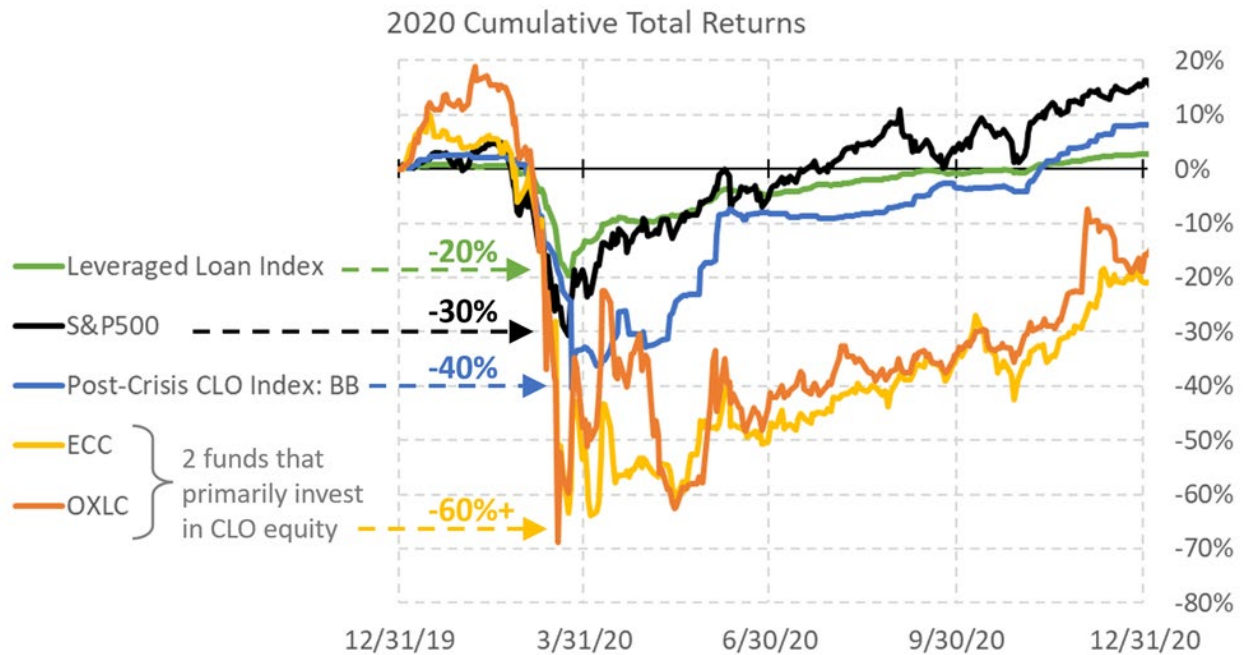
Sources: BAML, LCD, Morgan Stanley, MIM

From this chart we can interpret that in a distressed economic environment collateral losses have the potential to deplete most, if not all, of the face value of a residual tranche. Equity tranches are priced to provide a reasonable expected-loss-adjusted yield (losses likely more akin to historical averages), but the tail losses are significantly greater (orange bars vs. blue bars in the chart). It's worth noting that the historical data on most securitization sectors only covers the last 20 to 25 years or so, and that many of these sectors are too young to have experienced a truly severe distressed scenario. It also will not fully incorporate trends in collateral quality.

The volatility and loss potential of structured security residuals is greater than public equities, as observed in CLO residuals in 2020 that experienced a loss of >60%:

Total returns during the Covid-related stress provides an opportunity to compare the performance of public equities versus that of CLO residual tranches from current CLO structures in times of market stress. The public equity loss on the S&P 500 in early 2020 was in line with the 30% capital charge used in RBC, while the available data for CLO equity would indicate an appropriate capital charge of more than 60%.

2020 Cumulative Total Returns (Source: JP Morgan CLOIE, Bloomberg)



Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>3/23/23</u></p> <p>CONTACT PERSON: <u>Dave Fleming</u></p> <p>TELEPHONE: <u>816-783-8121</u></p> <p>EMAIL ADDRESS: <u>dfleming@naic.org</u></p> <p>ON BEHALF OF: <u>RBC Inv. Risk & Eval. (E) Working Group</u></p> <p>NAME: <u>Philip Barlow</u></p> <p>TITLE: <u>Associate Commissioner for Insurance</u></p> <p>AFFILIATION: <u>District of Columbia</u></p> <p>ADDRESS: <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2023-03-IRE</u> Year <u>2023</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Add a line to isolate residual tranches reported on Schedule BA and the asset valuation reserve.

Additional Staff Comments:

**** This section must be completed on all forms.**

Revised 2-2023

OTHER LONG-TERM ASSETS (CONTINUED)

	<u>Annual Statement Source</u>	(1) Book / Adjusted Carrying Value	(2) Unrated Items ‡	(3) RBC Subtotal †	(4) Factor	Attachment 3 (5) RBC Requirement
<u>Schedule BA - Unaffiliated Common Stock</u>						
(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)				
<u>Schedule BA - All Other</u>						
(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 Interests	AVR Equity Component Column 1 Line 93			X	TBD =
(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.

CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

#REF!

		Source	(1) RBC Amount		Tax Factor	=	(2) RBC Tax Effect
(102)	Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)		X	0.1575	=	
(103)	Reinsurance	LR016 Reinsurance Column (4) Line (17)		X	0.2100	=	
(104)	Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)		X	0.2100	=	
(105)	Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)		X	0.2100	=	
(106)	Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)		X	0.2100	=	
(107)	Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)		X	0.2100	=	
(108)	Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)		X	0.2100	=	
(109)	Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)				=	
<u>C-0 Affiliated Common Stock</u>							
(110)	Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)		X	0.1575	=	
(111)	Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)		X	0.2100	=	†
(112)	Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)		X	0.2100	=	
(113)	Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)		X	0.2100	=	
(114)	Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)		X	0.2100	=	
(115)	Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)		X	0.2100	=	
(116)	Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)		X	0.2100	=	
(117)	Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)		X	0.2100	=	
(118)	Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)		X	0.2100	=	
(119)	Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)		X	0.0000	=	
(120)	Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)				=	
<u>Common Stock</u>							
(121)	Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)		X	0.2100	=	
(122)	Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)		X	0.2100	=	†
(123)	Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)		X	0.2100	=	†
(124)	Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)		X	0.2100	=	
(125)	BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)		X	0.2100	=	
(126)	BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) Lines (49.2) + (51)		X	0.2100	=	
(127)	Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)		X	0.2100	=	
(128)	NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.1)		X	0.1575	=	
(129)	NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (52.2)		X	0.1575	=	
(130)	Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)		X	0.2100	=	
(131)	Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)		X	0.2100	=	
(132)	Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)				=	

† Denotes lines that are deducted from the total rather than added.

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

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

	<u>Source</u>	<u>(1) RBC Requirement</u>
<u>Asset Risk – Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(12) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	_____
(13) Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	_____
(14) Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) lines (49.2) + (51)	_____
(15) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	_____
(16) Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	_____
(17) Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	_____
(18) Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	_____
(19) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	_____
(20) Net (C-1cs) - Post-Tax	Line (18) - Line (19)	=====
<u>Asset Risk - All Other (C-1o)</u>		
(21) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	_____
(22) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	_____
(23) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	_____
(24) Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	_____
(25) Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	_____
(26) Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	_____
(27) Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	_____
(28) Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	_____
(29) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	_____
<u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u>		
(73) Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	=====
<u>Tax Sensitivity Test</u>		
(74) Tax Sensitivity Test: Total Risk-Based Capital After Covariance	$L(9)+L(61) + \text{Square Root of } [(L(40) + L(50))^2 + (L(18) + L(56))^2 + L(47)^2 + L(53)^2 + L(64)^2]$	_____
(75) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	_____

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

Capital Adequacy (E) Task Force

RBC Proposal Form

- | | | |
|---|--|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force | <input type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>3/23/23</u></p> <p>CONTACT PERSON: <u>Steve Clayburn</u></p> <p>TELEPHONE: <u>(202)624-2197</u></p> <p>EMAIL ADDRESS: <u>steveclayburn@acli.com</u></p> <p>ON BEHALF OF: <u>American Council of Life Insurers (ACLI)</u></p> <p>NAME: <u>Steve Clayburn</u></p> <p>TITLE: _____</p> <p>AFFILIATION: _____</p> <p>ADDRESS: _____</p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <hr/> <p>Agenda Item # <u>2023-04-IRE</u></p> <p>Year <u>2023</u></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>ADOPTED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>EXPOSED:</p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p>REJECTED:</p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p>OTHER:</p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- | | | |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks | <input type="checkbox"/> Property/Casualty RBC Blanks | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula | <input type="checkbox"/> Property/Casualty RBC Formula | <input type="checkbox"/> Life and Fraternal RBC Formula |
| <input type="checkbox"/> OTHER _____ | | |

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The additional lines are to add residual tranches to the sensitivity testing exhibits for RBC.

As regulators develop designations for asset back securities to then be assigned appropriate C-1 RBC factors, the updated sensitivity testing could be an additional tool to help regulators in reviewing companies and there investments in residual tranches.

Additional Staff Comments:

** This section must be completed on all forms.

Revised 2-2023

ADDITIONAL INFORMATION REQUIRED

(1)

	<u>Source</u>	<u>Statement Value</u>
(1.2) Other Affiliates: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR042 Summary for Affiliated Investments Column (1) Line (13); Property and Casualty Risk-Based Capital PR005 Summary For Subsidiary, Controlled and Affiliated Investments for Cross-Checking Statement Values Column (1) Line (8) and Line (17)	
(2.2) Noncontrolled Assets: Subsidiaries	Subsidiaries' Life and Fraternal Risk-Based Capital LR017 Off-Balance Sheet and Other Items Column (1) Line (15); Property and Casualty PR014 Miscellaneous Off-Balance Sheet Items Column (1) Line (15)	
(3.2) Guarantees for Affiliates: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A3c1; Property and Casualty Notes to Financial Statements #14A3c1	
(4.2) Contingent Liabilities: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #14A1; Property and Casualty Notes to Financial Statements #14A1	
(5.2) Long Term Leases: Subsidiaries	Subsidiaries' Life Notes to Financial Statements #15A2a1; Property and Casualty Notes to Financial Statements #15A2a1	
(7.11) Total Affiliated Investments: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 50	
(7.12) Less Affiliated Common Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 46	
(7.13) Less Affiliated Preferred Stock: Company	Company's Annual Statement Five-Year Historical Data Column 1 Line 45	
(7.14) Net Affiliated Investments: Company	Lines (7.11) - (7.12) - (7.13)	
(7.2) Affiliated Investments: Subsidiaries	Subsidiaries' Life Annual Statement Five-Year Historical Data Column 1 Line 50 Less Lines 45 and 46; Property and Casualty Annual Statement Five-Year Historical Data Column 1 Line 48 Less Lines 43 and 44	
(9.1) Surplus Notes: Company	Company's Annual Statement Page 3 Column 1 Line 32	
(9.2) Surplus Notes: Subsidiaries	Subsidiaries' Life Annual Statement Page 3 Column 1 Line 32; Property and Casualty Annual Statement Page 3 Column 1 Line 33	
(10.11) Capital Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 50.1	
(10.12) Surplus Paid In: Company	Company's Annual Statement Page 4 Column 1 Line 51.1	
(10.13) Total Current Year's Capital Contributions: Company	Line (10.11) + Line (10.12)	
(10.2) Current Year's Capital Contributions: Subsidiaries	Subsidiaries' Life Annual Statement Page 4 Column 1 Lines 50.1 + 51.1; Property and Casualty Annual Statement Page 4 Column 1 Lines 32.1 + 33.1	
(11.1) Total Residual Tranches or Interests	Company's Annual Statement Asset Valuation Reserve, Equity and Other Invested Asset Component, Column 1, Line 93	

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

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.

SENSITIVITY TESTS - TOTAL ADJUSTED CAPITAL

Sensitivity Tests Affecting <u>Total Adjusted Capital</u>		<u>Source</u>	(1) <u>Statement Value</u>	Additional Sensitivity <u>Factor</u>	(2) <u>Change to Total Adjusted Capital</u>	(3) <u>Total Adjusted Capital Before Test</u>	(4) <u>Total Adjusted Capital After Test</u>
(9.1)	Dividend Liability: Company	LR033 Calculation of Total Adjusted Capital Column (1) Line (3) + Line (4)		-0.250			
(9.2)	Dividend Liability: Subsidiaries	LR033 Calculation of Total Adjusted Capital Column (1) Line (7)		-0.250			
(9.99)	Total Dividend Liability			-0.250			
(10.1)	Surplus Notes: Company	LR038 Additional Information Required Column (1) Line (9.1)		-1.000			
(10.2)	Surplus Notes: Subsidiaries	LR038 Additional Information Required Column (1) Line (9.2)		-1.000			
(10.99)	Total Surplus Notes			-1.000			
(11.1)	Current Year Capital Contribution: Company	LR038 Additional Information Required Column (1) Line (10.13)		-1.000			
(11.2)	Current Year Capital Contribution: Subsidiaries	LR038 Additional Information Required Column (1) Line (10.2)		-1.000			
(11.99)	Total Current Year Capital Contributions			-1.000			

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