|  |  |  |
| --- | --- | --- |
|  | **BBA – Based on September 2019 Notice of Proposed Rulemaking (NPR)** | **GCC Exposure – Pending Comments Due July 19, 2020** |
| **Purpose** | Group-wide capital requirement | Group-wide analytical tool |
| |  | | --- | | **What groups will be required to submit the completed template?** | | |  | | --- | | **Insurance groups supervised the Federal Reserve due to the control of a depository institution.**  A depository institution holding company would be subject to the BBA in place of consolidated bank capital rules if 25% of its consolidated assets are in insurance subsidiaries or the top-tier company is an insurance underwriting company.  The Fed also retains authority to apply to the BBA to other institutions it regulates. | | **To be determined based on final version of amendment to the Holding Company Model Act.** |
| |  | | --- | | **What is the scope of application of the calculation?** | | |  | | --- | | **Include all entities that are owned or controlled by a top-tier depository institution (DI) hold co**   * A top-tier DI hold co is a company that controls a depository institution and is not controlled by another company * Use NAIC Schedule Y, FR Y-6, FR Y-10 to create the inventory, plus any company, SPV, variable interest entity or similar entity that (i) enters into 1 or more reinsurance or derivative transactions with an inventory company; (ii) is material; (iii) is engaged in activities such that 1 or more of the inventory companies identified are expected to absorb more than 50% of its expected losses. * The Fed has discretion to add other companies | | **Starting point is Ultimate Controlling Person (UCP).**   * All insurers, banks and other financial entities within the group must be included. * All entities within the defined insurance group must be included. * Non-financial entities in the broader group may be excluded. |
| **Exclusions** | **Generally, none.**  However, the Fed retains broad discretion to modify the calculation based on a vote of the Board. The Fed has indicated that this discretion may be exercised to exclude a parent company if the parent company has significant non-financial commercial activities and the parent company owns a mid-tier company that conducts the group’s financial operations | **Non-financial entities may be excluded upon either:**   * Request in the template for any non-insurance / non-financial entity outside the defined insurance group without material risk. Such entity will be excluded from the GCC if lead-State regulator agrees. * For large diverse groups upon agreement with lead-State to exclude non-financial entities outside the defined insurance group from template. |
| **Grouping / De-stacking** | **The BBA’s groupings result from its de-stacking rules.** These rules result in the identification of “Building Block Parents,” which are top entities within building blocks. Building Block Parents are aggregated to calculate the group’s capital ratio. Companies that are not Building Block Parents are not separately aggregated.  Entities would typically be de-stacked only if they are capital regulated in a framework that differs from their upstream parent companies or they are an unregulated material financial entity. | **Grouping applies post de-stacking and applies as follows:**   * For financial entities without regulatory capital requirement with similar business purposes and same accounting basis. * For non-financial entities with similar business purposes and same accounting basis.   Entities that are included in the GCC are generally de-stacked. Exceptions include:   * Non-financial subsidiaries of RBC filing Insurers * Any subsidiary without a stand-alone regulatory capital requirement that is owned by a Parent entity that is subject to a regulatory capital requirement (e.g. foreign insurers or banks) that includes the subsidiary. |
| **Entity Categories / Building Blocks** | * Depository Institution Holding Companies * Capital-Regulated Companies (differentiated by whether a scalar is specified for the capital framework or not) * Material Financial Entities (MFE) | * Banks * US RBC Filing Life, P/C and Health insurers: * Non- RBC filing U.S insurers * Non-US insurers – (many jurisdiction subcategories) * Financial entities with Regulatory Capital * Financial entities w/o Regulatory Capital * Material non-financial entities * Non-operating holding companies * Captives |
| |  | | --- | | **Applicable capital regime** | | |  | | --- | | **Banks:** U.S. bank capital rules  **US Life & P/C insurers and Captives:** NAIC RBC  **Non-US insurers** – apply jurisdictional regime if the operations are material and the regime is scalar compatible. If the framework is not scalar compatible and the operations are material, restate to NAIC SAP and RBC. If the operations are immaterial, then the insurer is not de-stacked.  **Non-insurance MFEs:** The Fed’s bank capital rules  **Asset Managers**: Due to an exclusion in the MFE rules, asset managers would generally be assessed using the framework of their building block parent (i.e. a book value charge if owned by an insurance company or consolidated under BHC rules). |   **XXX/AXXX Business:** Adjust to eliminate the impact of grandfathering and transitional measures that have not been approved by the Board.  As proposed, insurers would need to apply PBR retroactively to XXX/AXXX reserves. | **Same**  **Same (also apply appropriate RBC formula to all Captives)**  **Same principle but different scaling methodology (see below).**  **Basel Op Risk Factor x 3yr average revenue.**  **Basel Op Risk Factor x 3yr average revenue (includes investment advisors).**  **No adjustments to XXX /AXXX assets or reserves**  **Apply equity charge to non-financial entities (7% or tailored to industry average)** |
| **Base Capital Level & Qualifying Capital** | * 1. **ACL RBC** is used as the base for the BBA’s rollup of U.S. Life and P/C insurers and referred to as the common capital framework. The BBA specifies as 250% ACL RBC minimum requirement.   Tier 2 capital instruments, including non-grandfathered SN, cannot exceed more than 62.5% of the BBA’s denominator (ACL RBC). At least 187.5% of the 250% min CR must be composed of common equity tier 1 capital such as unassigned surplus\retained earnings. Grandfathered surplus notes are not subject to the 62.5% tier 2 limit. | **300% x ACL RBC** (Trend Test Level) is used for U.S. RBC filers.  All surplus notes count as available capital subject to double counting adjustment for intragroup surplus notes. No more than 50% of available capital without counting capital instruments is allowed as additional capital for qualifying capital instruments.  No tiering of capital |
| **Capital Buffer & Qualifying Capital** | **235% “capital conservation buffer” applied on top of the 250% min requirement (485% total)**.   * Capital composition limits apply – 235% ACL RBC must be composed of tier 1 available capital (e.g., equity, retained surplus). Cannot count tier 2 instruments towards meeting the 235% threshold. * A top-tier DI hold co that does not meet the buffer requirement would face limits on capital distributions such as dividend payments. These limits would become more stringent as the insurer approached the 250% minimum. | **Not Applicable** |
| **Domestic scalars** | **Scales US Bank Capital Rules to RBC:** Uses available and required capital scalars based on historical probability of default analysis. The same scalars are applied to L&H and P&C RBC.  NAIC ACL RBC = 0.0106\*RWA  NAIC TAC = Banking Rule Total Capital – 0.063\*RWA  Risk Weighted Assets (RWA) = 94.3\*NAIC ACL RBC  Banking Rule Total Capital = NAIC TAC + 5.9\* NAIC ACL RBC | **Option to apply scalar to asset managers based on aggregate average RBC ratio of Life insurers (TBD).** |
| **International scalars** | **Currently no foreign insurers would be building block parents and require scaling.**  The BBA specifies a provisional scaling method that would be used until the Fed specifies the scalar for a framework. This provisional methodology would adjust required capital based on adjusted jurisdictional intervention points. The jurisdictional intervention point is the capital level at which the supervisory authority would first have authority to take action against a company based on its capital level. In countries with more country risk (based on OECD ratings), this jurisdictional intervention adjusted upward for scaling. | **Pure Relative Ratio approach** applies scalar based on aggregate average RBC ratio at 300% x ACL RBC (trend test level) compared to average aggregate jurisdictional capital ratio (where data is available) at first intervention level (PCR).  For other jurisdictions with risk-based capital formulas use 100% of jurisdictional capital requirement at first intervention level. Considering an equity-based charge for others.  Available capital is not adjusted. |
| **Capital Instruments** | These instruments may count as available capital if they meet the following requirements, but the amount included in available capital cannot > 62.5% of the min BBA capital requirement.  Criteria for inclusion as a qualifying capital instrument:  1. The instrument is issued and paid-in;  2. The instrument is subordinated to depositors and general creditors of the building block parent;  3. The instrument is not secured, not covered by a guarantee of the building block parent or of an affiliate of the building block parent, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument in relation to more senior claims;  4. The instrument has a minimum original maturity of at least five years. At the beginning of each of the last five years of the life of the instrument, the amount that is eligible to be included in a building block parent company available capital building block available capital ’s or is reduced by 20 percent of the original amount of the instrument (net of redemptions) and is excluded from regulatory capital when the remaining maturity is less than one year. In addition, the instrument must not have any term or features that require, or create significant incentives for the building block parent to redeem the instrument prior to maturity; and  5. The instrument, by its terms, may be called by the building block parent only after a minimum of five years following issuance, except that the terms of the instrument may allow it to be called sooner upon the occurrence of an event that would preclude the instrument from being included in a building block parent’s company available capital or building block available capital, a tax  event, or if the issuing entity is required to register as an investment company pursuant to the Investment Company Act of 1940.  6. The holder of the instrument must have no contractual right to accelerate payment of principal or interest on the instrument, except in the event of receivership, insolvency, liquidation, or similar proceeding of the building block parent or of a major subsidiary of the building block parent.  7. The instrument has no credit-sensitive feature, such as a dividend or interest rate that is reset periodically based in whole or in part on the building block parent’s credit standing, but may have a dividend rate that is adjusted periodically independent of the building block parent’s credit standing, in relation to general market interest rates or similar adjustments.  8. The building block parent, or any entity that the building block parent controls, has not purchased and has not directly or indirectly funded the purchase of the instrument.  9. If the instrument is not issued by the building block parent or by a subsidiary of the building block parent that is an operating entity, the only asset of the issuing entity is its investment in the capital of the building block parent, and proceeds must be immediately available without limitation to the building block parent or the building block parent’s top-tier holding company in a form that meet or exceeds all of the other criteria in this definition. | These instruments count as available capital if they meet the following requirements but the amount included in available capital cannot > 50% of total available capital without the debt allowance included.  Criteria for inclusion as a qualifying capital instrument:   1. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options). 2. Supervisory approval is required for any extraordinary dividend or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. There shall be no expectation, either implied or through the terms of the instrument, that approval will be granted without supervisory review.   The amount allowed is based on a two part calculation that compares paid-in and contributed capital reported by the insurers in the group to a proxy value that allows 30% of available capital + qualifying debt for senior debt + 15% of available capital + qualifying debt for hybrid debt. The greater of the two parts is the additional capital allowance.  The allowance is currently applied as an on top adjustment but an alternative approach of adding the amounts to the adjusted carrying value of the issuer is under consideration.  If a qualifying debt issuer is excluded from the scope of application of the GCC, no allowance for additional capital will be calculated for that issuer. |
| **Prescribed and Permitted Practices** | **Reverse permitted and prescribed practices that affect capital requirements and available capital.** | **Base GCC includes values of prescribed and permitted practices in available capital and where applicable in capital requirements.**  A separate sensitivity analysis reverses the permitted and prescribed practices. |
| **Materiality** | **Yes, when assessing potentially de-stacking financial operations** **that are not otherwise subject to capital regulation and insurance operations subject to frameworks for which scalars have not been specified**. A subsidiary is material if it can cause losses to the top-tier DI hold co that exceed one percent of the group’s assets. | **Yes, based on Lead-State discretion when evaluating requested entity exclusions**.  Potential for guidance around materiality under discussion |
| **Other Data collected** | **Additional information collected to support BBA ratio calculation:**   * Intercompany transactions * Internal reinsurance * Prescribed / permitted practices * Capital instruments * Reinsurance pools * Liquidity Pools | **Quantitative financial data collected in Schedule 1, Inventory Tab and Capital Instruments Tab used to support analytics and trending (including the GCC ratio itself).**  Data includes or expands upon the first 4 bullets in BBA box + additional data on differences in accounting basis, operating results, balance sheet data, and capital movement. |