2021 GCC Trial Implementation Q & A – Updated July 26, 2021

(Also see June 17, Volunteer WebEx Recording for Additional Information)

General

Input 1 - Schedule 1

Q1a How are insurance agencies categorized in the GCC?

A. Insurance Agencies do not meet the definition of a Financial Entity as described on page 6 of the Trial instructions in the definitions section. So nonfinancial / non-insurance is indicated. Generally speaking, such entities should be treated as posing material risk based on 2 criteria: First they conduct activities consistent with the first paragraph under the definition of material risk on page 8 (i.e., they could impact the insurance operations) and second because the intent of the GCC is to treat such entities similarly whether owned by insurers or outside of the insurers. In this case the entities in question may be owned by insurers or entities outside of the insurers in the group.

Q1b. How are entities that hold property, but are not owned by an insurer categorized in the GCC?

A. These are non-insurance / non-financial entities. Property held by insurers receive an RBC equity charge via Schedules A or BA. However, when owned outside the insurers in the group, the criteria listed in the definition of material risk on page 8 should serve as a guide for a determination as to whether material risk to the insurance group is present.

Q1c. How are insurance receivable companies categorized in the GCC?

A. The answer depends on the activity that they conduct. Entities that conduct premium collection or factoring activities for the insurers may be considered non-financial entities similar to insurance agencies as noted in the response to Q1a, above. However, if the entity is offering a type of insurance coverage or financial guaranty for the receivables, then it could meet the definition of an insurer or other financial entity without a capital requirement as described on page 6 of the Trial instructions.

Q2. Where one insurance company (or any other included entity) is held at 60% by one company and 40% by another company within the organization, is it necessary to list the company twice to break out the "% owned by parent"?

A. Just list the insurance company (or other jointly owned entity) once. That is, indicate 60% for "% owned by Parent" in column 12 and 100% for "% owned within group structure" in col 13. Given it's fully owned within group, then the entity's own line should then show 100% of the carrying value and capital calculation in Column 2 of Inventory B and Inventory C respectively, and the parents should report investments in subsidiary of 60% and 40% respectively listed in Column 1 ("Parent Regime

Value") of Inventory B and Inventory C and report those same percentages of the total in Column 3 ("Investment in Subsidiary) in both Inventory B and C.

Q3. Please confirm our understanding that Schedule A and Schedule BA affiliates (per the SSAP No. 25 definition) which are not insurers or financial entities are not required to be reported on either the Schedule 1 or Inventory tabs.

A. For purposes of the data input on the Schedule 1 and Inventory tabs, only include Schedule A and Schedule BA affiliates which are insurers or other financial entities reported as, or owned indirectly through, Schedule A or Schedule BA affiliates. In addition, any insurer or financial entities that would otherwise qualify as Schedule BA affiliates if owned by a U.S. insurer, but which are owned by a foreign insurer should be reported in the Schedule 1 and Inventory tabs. All other Schedule A and Schedule BA investments will remain as investments of a Parent insurer and will be reported as part of the value and capital calculation of the Parent insurer. A full list of Schedule A and BA entities shall be reported in the Input 6 – Questions and Other Information tab.

Q4. We would like clarification regarding data input for entities which are excluded from the GCC (i.e., labeled as "Excluded" in columns 1 and 2 of the Schedule 1 tab).

A. In Schedule 1, the filer may request such entities not posing material risk be excluded per Paragraph 29 (also See instructions for Schedule 1B, Columns 1, 2, and 3). If exclusion Is agreed to by lead-State, the entities must be listed, but no data other than Schedule 1B and the corresponding pre-filled columns in the Inventory Schedule are required

Q5. If filer is not requesting exclusion of Schedule D affiliates that are non-financial, noninsurance entities that do not pose material risk, do such entities need to be included in the Schedule 1B, 1C and 1D sections, as well as the Inventory 1B and 1C sections?

A. The reference to Schedule D implies that these entities are owned by a U.S. (typically RBC filing) insurer. Every Schedule D non-insurance / non-financial entity must be listed in Schedule 1B and the corresponding columns in the Inventory Tab. No entries are required in Schedules 1C or 1D and zeroes will be reported for those entities in Inventory B and Inventory C since they are not de-stacked from the parent insurer.

See the response to Q4, above for cases where the non-financial, noninsurance entities that do not pose material risk are owned by non-insurers in the group.

Q6. Should non-insurance / non-financial Schedule BA entities and their non-insurance / non-financial subsidiaries be listed in Schedule 1 and in the Inventory Tab?

A. Non-insurance / non-financial Schedule A and BA entities are excluded from the definition of an affiliate in the instructions and later they are noted as an exception to the full inventory in paragraph 39. Finally reporting in the Other Information tab is described in several places, most notably the final bullet (subparagraph c) in paragraph 80 references noninsurance / non-financial subs of Schedule A / BA entities (need not be reported).

The issue of the term affiliate vs. entity as applies to these entities will be considered for clarification in the instructions. It is also noted that the current instructions are at odds with the scope of the group being all entities listed in Schedule Y. The GCCWG will need to consider whether to require listing the noninsurance / non-financial subs of Schedule A / BA entities with zero values so as to achieve a complete cross reference to Schedule Y.

I do see the confusion that could result from omitting the reference to the Schedule A / BA exception in Section 3A

Input 2 - Inventory

1. Based on several questions received regarding the instructions for Inventory B, Column 2 of the instructions on Page 24 and Inventory C, column 2 on Page 27, the following clarifications will be suggested to the GCC Working Group Members at the end of the Trial Implementation

- **[Inv B Col 2] Carrying Value (Local Regime) –** Record the carrying value recognized by the legal entity's jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g., U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, then U.S. GAAP equity (including OCI) or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If an agreed-upon change in local carrying value should become effective by 2021, Volunteer Groups are expected to report on that basis. If the group is comprised entirely of U.S.-based entities under a U.S.-based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted (or otherwise zero valued financial affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column). (See instructions for **[Sch 1B Col 15]**.) However, if such an entity has been listed in the **[Sch 1B Col 2] Include/Exclude(Supervisor)** column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then a value will be reported here, but the ultimate calculation will show the results without the excluded entity's value. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column. The carrying value for affiliates that are U.S. RBC filers will be the amount reported TAC on entity's RBC report. This column will include double counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 1, except where TAC for RBC filers differs from their BACV. A single entry for all entities that qualify under the grouping criteria described exceptions described herein under Paragraph 55 in the Input 1 section, above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

- **[Inv C Col 2] Entity Required Capital (Local Regime) –** Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing Parent the amounts will be the same in both the Parent and Local Regime columns, except where the RBC filing subsidiary is subject to an operational risk charge. In such cased the amount reported in this column for the subsidiary will include the operational risk charge while the amount reported in Column 1 will exclude the subsidiary's operational risk charge. For some entity types his will result in entries for the entities under a U.S.-based insurance Parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted (or otherwise zero valued) financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in **[Sch1B Col 2] Include/Exclude (Supervisor)** column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then report the capital calculation in accordance with entity instructions in paragraph 63 below, but the ultimate calculation will show the results without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column. A single entry for all entities that qualify under the grouping criteria described herein under Paragraph 55 in the Input 1 section, above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

Q2a. Please clarify exactly which columns in the Inventory tab must be completed for non-insurance/non-financial Schedule D affiliates (per the SSAP No. 25 definition) of U.S. insurers.

A. In the case of non-financial / non-insurance Schedule D entities, paragraph 67 requires full inclusion in Schedule 1 and Inventory Schedule for all such entities determined to pose material risk to the insurance group. In schedule 1, the filer may request such entities not posing material risk be excluded per Paragraph 29 (also See instructions for Schedule 1B, Columns 1, 2, and 3). If exclusion Is agreed to by lead-State, the entities must be listed, but no data other than Schedule 1B and the corresponding pre-filled columns in the Inventory Schedule are required. Per the simplification described in the third bullet point in Paragraph 55 of the instructions, the carrying value and associated RBC charges for non-insurance / non- financial entities owned by any RBC filer within the group will remain in the values reported by the RBC filer in the Inventory tab.

Q2b. Please indicate what entities must have entries in columns 10, 11 and 12, in Inventory B as the note in the Instructions for those columns state: "This column will support the capital calculation for asset managers, broker-dealers and other Financial Entities without Regulatory Capital Requirements." The aforementioned instruction appears to indicate that column 10, 11 and 12 input is limited to non-insurance financial entities and input is not required for any non-insurance/non-financial Schedule D affiliates.

A. Only report values for asset managers, broker-dealers, and other Financial Entities without Regulatory Capital Requirements in these columns.

Q3. Our question is related to the tab labeled Input 2 – Inventory, specifically the instructions require Total Adjusted Capital in Inventory B, column 2 for insurers whose parent is an RBC filer. Do the column 8 values double count the AVR of the insurance subsidiaries owned by other insurers. We were wondering of this situation was intended or was not contemplated and we should try to adjust for it somehow.

A. A mutual group (i.e., not a group where the top mutual insurer directly or indirectly owns every entity in the group) only needs to report the RBC of the UCP insurer with de-stacking limited to foreign insurers and other financial entities

For non-mutual groups, each RBC filer needs to be de-stacked from its Parent (including where a downstream Parent is an RBC filer) and listed separately on its own entity line. What is intended is that each stand -alone RBC filer is reported at its TAC value in Column 2. However, each RBC filer's Book Adjusted Carrying Value (BACV), <u>not</u> TAC, is what is reported in Column 1 (Value carried by

Immediate Parent). That BACV of the subsidiary RBC filer is then removed from the Parent's value on the Parent's entity line in Column 3.
The result is intended to be that Parent RBC filer caries no value or RBC requirement for the subsidiary RBC filer, and each RBC filer stands on its own TAC and RBC requirement which would not include the AVR of a de-stacked RBC filing subsidiary.

If most RBC filers in a non-mutual group structure are owned by a single RBC filer the lead-State may consider a limited simplification similar to what a mutual group would have available under the fourth bullet in paragraph 55 of the instructions.

Q4. Please confirm that the intention is to exclude entities classified as "Other Non-Ins/Non-Fin without Material Risk" from the aggregated group capital ratio calculation but include such entities in the sensitivity analysis.

A. That is correct. A Non-Ins/Non-Fin entity without Material Risk may be excluded per the instructions for the first three columns in Schedule 1B in paragraph 55. For such entities **not** owned by an RBC filer or other entity that carries a capital charge for the entity, a value must be reported for the entity in Column 2 on Inventory B (See paragraph 61 of instructions) and Column 2 on inventory C (See paragraph 62 of instructions). These values, though reported, will not be brought into the GCC Ratio calculation

However, the sensitivity analysis will calculate the impact of entities for which the filer has requested exclusion in Schedule 1B, Column 1, but the lead-State has not indicated agreement Schedule 1B Column 2, hence a value will appear on Line 2 in the Sensitivity Analysis. Paragraphs 67 and 75 (Analysis 2 bullet) of the Trial GCC instructions may be helpful as well in understanding this part of the sensitivity analysis.

Input 3 - Capital Instruments

Q1a. Is the 5-year call provision requirement (Section 3A, Column 13) referring to the 1st five years since the year the debt was issued? Or is it referring to in the 1st five years after this current year's filing of GCC (which is 12/31/2020)?

A. The five years runs from the later of original issue date or last refinance date of the debt.

Q1b. The last sentence of the instructions for Sec 3A Col 13 says "X" is an input option in the template, but the template does not allow for X as a choice….there is only Y, N or blank. Is the blank in the template the same as the "X" in the instructions? And is the X only if there is a call provision?

A. The purpose of the responses ("Y", "N", or "X") in this column is to determine if the debt meets the minimum 5-year duration in order to qualify for treatment as additional capital.

We will review the issue of why an "X" entry is not available in the template.

Input 4 - Analytics

Input 5 – Sensitivity Analysis

Input 6 - Questions and Other information

Template Technical / Formula Issues