National Association of Insurance Commissioners

NAIC GROUP CAPITAL CALCULATION INSTRUCTIONS

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National Association of Insurance Commissioners

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I. Background

A. Work Performed Up Through 12/31/15

1. In 2015, the NAIC ComFrame Development and Analysis (G) Working Group (CDAWG) held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.

2. More specifically, the GCC and related reporting provides more transparency to insurance regulators regarding the insurance group and make risks more identifiable and more easily quantified. In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting~~bsidizing~~ the operations of non-insurance entities, potentially ~~undermining~~ adversely impacting the insurance company's financial condition ~~and/~~or ~~placing upward pressure on premiums~~ ~~to the detriment of insurance~~ policyholders. This calculation provides an additional analytical view ~~early warning signal~~ to regulators so they can begin working with a group~~company~~ to resolve any concerns in a manner that will ensure that policyholders will be protected. The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide lead-State regulators with further insights to allow them to reach~~make~~ informed conclusions~~decisions~~ on the financial condition of the group ~~both~~ and the need for further -information or discussion~~action, and the type of action to take.~~

3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted prior to development that a consistent method of calculating group capital for typical group risks would provide a very useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a group capital calculation could serve as a baseline quantitative measure to be used by regulators in to compliment~~conjunction with~~ the view of group-specific risks and stresses provided by~~identified in~~ the Own Risk and Solvency Assessment (ORSA) Summary Report filings and ~~as well as risks identified~~ in Form F filings that may not be captured in legal entity RBC filings. ~~Finally, it's important to understand that regulators believed that a group capital calculation would be another valuable tool to complement the states' legal entity focused solvency assessments.~~

4. During the course of several open meetings and exposure periods, CDAWG considered a discussion draft which included three high level methodologies for the group capital calculation: an RBC aggregation approach, a Statutory Accounting Principles (SAP) consolidated approach, and a Generally Accepted Accounting Principles (GAAP) consolidated approach. On September

11, 2015, the CDAWG members unanimously approved a motion to move forward with developing a recommendation for a group capital calculation and directed an appropriate high-level methodology for the recommendation.

5. At a CDAWG meeting on September 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC aggregation approach if a group capital calculation were to be developed. The NAIC Executive/Plenary ultimately adopted the following charge for the Financial Condition (E) Committee:

   "***Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.***"

6. The RBC aggregation approach is intended build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions' existing capital regimes. In order to capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.

7. In early 2016, the Financial Condition (E) Committee formed the Group Capital Calculation (E) Working Group (Working Group), who began to address its charge and various details of the items suggested by the CDAWG. The instructions included herein represent the data, factors, and approaches that the Working Group believed were appropriate for achieving such an objective. The GCC instructions and template are intended to be modified, improved and maintained by the NAIC in the future similar ~~such as existing tools such~~ as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and *Risk-Based Capital formula and Instructions*. This includes but is not limited to future disclosure of additional items, such as stress testing, which was originally supported by the CDAWG but has not yet been considered.

II. Definitions

8. **Broader Group:** The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When consider the use of this term, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as "included" in the Schedule 1 will be considered in the actual group capital calculation.

9. **Financial Entity:** A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits, or making loans, managing, or holding investments, etc.). Such entities may or may not be subject to specified regulatory capital requirements of other sectoral supervisory authorities. The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group's aggregate ~~investment interest~~ ownership in such entities, whether or not~~without regard to~~ any member of the Broader Group ~~'~~is involved in~~general~~ that entity's management responsibilities (e.g., via investment advisory or broker/dealer duties) for those entities. For purposes of this definition, a subsidiary or subsidiaries of an insurance company whose predominant purpose, in the aggregate for all such subsidiaries is to manage or hold investments or act as a broker / dealer for those investments on behalf of the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' ~~the investment subsidiary's~~ assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity. In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through products or transactions such as a mortgage, other credit offering, a derivative, and intra-group cross support mechanisms (as defined below).

Commented [FL1]: Reviewing meaning of this phrase.

DRAFTING NOTE: ANY ADDITIONAL ACTIVIES PER REGULATORS AND IPS?

10. **Insurance Group:** For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all of the insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s), i.e. a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures. An Insurance Group may include entities which facilitate, finance or service the group's insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control, and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance, or service the insurance operations.

An Insurance Group could be headed by:

- an insurance legal entity;
- a holding company; or
- a mutual holding company.

An Insurance Group may be:

- a subset/part of bank-led or securities-led financial conglomerate; or
- a subset of a wider group.

An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

11. **Lead State Regulator:** as defined in the NAIC's Financial Analysis Handbook, i.e., generally considered to be the one state that "takes the lead" with respect to conducting group-wide supervision within the U.S. solvency system.

12. **Reciprocal Jurisdiction:** as defined in the Model Law for Credit for Reinsurance.

13. **Entity not Subject to A Regulatory Capital Requirement:** This is a financial entity other than an entity that is subject to a specified regulatory capital requirement.

14. **Scope of Application:** Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s). Please note, U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting.

~~14.~~15. **Material Risk:** Risk emanating from a non-insurance / non-financial entity not owned by an insurer that is of a magnitude that would adversely impact a group's ability, to pay policyholder claims or make other policy related payments (e.g. policy loan requests or annuity distributions).

To determine whether an entity within the Broader Group poses material risks to the Insurance Group, the totality of the facts and circumstances must be considered. The determination of whether risk posed by an entity is material requires analysis of various aspects pertaining to the subject entity. A determination that a non-insurance / non-financial entity does not pose material risk allows the filer to request exclusion of that entity from the calculation of the GCC ratio in the Inventory Tab. A number of items as listed below should be considered in making such a determination, to the extent they apply Caution is necessary, however. The fact that one or more of these items may apply does not necessarily indicate risk to the Insurance Group is, or is not, material. The group should be able to support its determination of material risk if requested by the lead-State regulator. This should not be used as a checklist or as a scorecard. Rather, the list is intended to illuminate relevant facts and circumstances about a subject entity, the risk it poses, how the Insurance Group might be exposed to that risk and means to mitigate that risk."

Primary Considerations:

- Past experience (i.e., the extent to which risk from the entity has impacted the Insurance Group over prior years/cycles).
- The degree to which capital management across the Broader Group has historically relied on funding by the Insurance Group to cover losses of the subject entity.
- The existence of cross support mechanisms between the entity and the Insurance Group (e.g., guarantees).
- The means by which risk can be transmitted, i.e., the existence of sufficient capital within the entity itself to absorb losses under stress and/or if adequate capital is designated elsewhere in the Broader Group for that purpose.
- The degree of risk correlation or diversification between the subject entity and the Insurance Group. (e.g., where risks of one or more entities outside the Insurance Group are potentially offset (or exacerbated) by risks of other entities) and whether the corporate structure or agreements allow for the benefits of such diversification to protect the Insurance Group.
- The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk to the Insurance Group (e.g., whether the corporate shell can be broken).

Secondary Considerations (If primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions):

- The location of the entity in relation to the Insurance Group within the Broader Group's corporate structure and how direct or indirect the linkage, if any, to the Insurance Group may be.
- The activities of the entity and the degree of losses that the entity could pose to the group under the current economic environment or economic outlook
- Whether the entity (or grouping of similar entities) comprises less than either 5% of the broader group-wide equity or broader groupwide revenue.

Commented [FL2]: Retain or delete?

The guidance above recognizes that there are diverse structures and business models of insurers that make it impracticable to apply a one-size-fits-all checklist that would work for materiality determinations across all groups. Strict or formulaic quantitative measures based on size of the entity or its operations of a non-insurance affiliate are an insufficient proxy for materiality of risk to the insurance operations. The GCC Instructions thus consider the unique circumstances of the relevant entity and group and uses an interactive process whereby the group brings forward its suggestions as to entities that should be excluded from the scope of application for a discussion with the lead state, ultimately culminating in an agreement on the scope of application. The guidance in this section helps to facilitate that process and discussion with criteria for cross support mechanisms that can potentially transmit material risk, as defined, to the insurance group as well as safeguards that can mitigate such risk or its transfer.

~~15.~~16. **Ultimate Controlling Person:** As used in the NAIC's Insurance Holding Company System Regulatory Act (Model #440). This the entity that exercises control directly or indirectly over all entities within the broader group.

~~16.~~17. **Control:** As used in the NAIC's Insurance Holding Company System Regulatory Act., the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K of Model #440 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

~~17.~~18. **Affiliate:** As used in the NAIC's Insurance Holding Company System Regulatory Act., an "affiliate" of, or person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. For purposes of the GCC, affiliates will NOT include those affiliates reported on Schedule A or Schedule BA, EXCEPT in cases where there are financial entities reported as or owned indirectly through Schedule A or Schedule BA affiliates~~or where a non-financial, non-insurance Schedule A or Schedule BA affiliate represents greater than X percent of the insurance entity's adjusted available capital~~. In general Schedule A and Schedule BA affiliates will otherwise remain as investments of a parent insurer will be reported as parent of the value and capital calculation of the parent insurer. Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g. foreign insurers or other type of Parent entity) should be treated in the same way.

~~**DRAFTING NOTE:** Initial suggestion is to set "X" threshold for material non-financial entities no higher than 5%.~~

~~18.~~19. **Person:** As used in the NAIC's Insurance Holding Company System Regulatory Act., a "person" is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert, but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

~~19.~~20. **Cross Support Mechanism:** For purposes of evaluating material risk, depending on the nature of the transaction and the specific circumstances, these may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group.

III. Exemptions & Scope

A. Groups Exempted from the GCC

~~20.~~21. These instructions do not address groups that are exempt from completing the GCC; those matters are addressed instead within proposed changes to the *Insurance Holding Company System Regulatory Act* (Model #440).

B. Scope of the Broader Group & Scope of Application

~~21.~~22. When considering the scope of application, preparers of the GCC must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the preparers of the GCC shall complete Schedule 1, which requests data for all of the entities directly or indirectly owned by the Ultimate Controlling Person (including the Ultimate controlling Person) that are listed in the insurer's most recent Schedule Y or in relevant Holding Company Filings. This will require the preparers of the GCC to complete basic information about each such entity in Schedule 1, including its total assets, and total revenue and net income for this specific year identified, and the initial filing will require the same information for the prior year. The primary purpose of the Schedule 1 is to 1) assist the lead-state in making an assessment on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. This valuable information produces various ratios and other financial metrics that will be used in the analysis of the GCC and the group by the lead state for their holding company analysis.

~~22.~~23. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the Inventory Tab of the template will be completed by each preparer to provide information and certain financial data on all the entities in the group. Each preparer will also use the include / exclude column in Schedule 1 to request its own set of entities to be excluded from the calculation after applying ~~its~~ criteria for material risk (as defined in Paragraph 15 herein) which will be described in the template and evaluated by the Lead State Regulator. A second column will be used by the regulator to reflect entities that the regulator agrees should be excluded.

~~23.~~24. Although all entities must be listed in Schedule 1 and in the Inventory tab, the preparer is allowed to group data for certain financial entities not subject to a regulatory capital requirement and certain non-insurance and non-financial entities. Thus, while the Schedule 1 would include the full combined financial results/key financial information (for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based upon major groupings of entities to maximize its usefulness and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Prior to completing the GCC annually, the Insurance Group should determine if the proposed grouping is satisfactory to the lead state or if there are certain non-insurance and non-financial entities (such entities are required to be broken out and reported separately) that should be broken out and reported separately.

C. General Process for Determining the Scope of Application

~~24.~~25. The starting point for "Scope of Application" (i.e., for purposes of the GCC specifically) is the entire group. However, in the case of groups with material diverse non-insurance / non-financial activities isolated from the financial / insurance group and without cross support mechanisms as defined in Paragraph 20, the preparer may request a narrower scope starting at the entity that controls all insurance and financial entities within the group, (i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group)). However, the adjustments as to the Scope of Application suggested by the preparer in consultation and in agreement with the Lead State Regulator should include consideration of guidance in Paragraph 9 ("Identify and **Include** all Financial Entities") the totality of the facts and circumstances, as described in paragraph 15 ("Definition of Material Risk"). ~~rationale~~The rationale and criteria applied in allowing the reduced scope should be documented and made available to non-lead states if requested. ~~No financial entities may be excluded from scope of application using this method.~~

The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators. ~~Consistent with sound regulation, the benefits of the quantitative analysis facilitated by the GCC should exceed the cost of implementation~~.

D. Guiding Principles and Steps to Determine the Scope of Application

~~25.~~26. For most groups, the Scope of Application is initially determined by the preparer in a series of steps, listed here and then further explained as necessary in the text that follows:

- Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1)
- Denote in Schedule 1 for each non-financial entity whether it is to be "included in or excluded from" the Scope of Application" using the criteria below in the section "Identify Risks from the Broader Group"
- All entities, whether to be included in or excluded from the Scope of Application are to be reported in the Inventory Tab of the template. Information for excluded entities will be limited to Schedule 1B and the corresponding columns in the Inventory Tab.
- Non-financial entities may qualify for grouping on this Inventory Tab as described elsewhere in these instructions.

E. Steps for Determining the Scope of Application

~~26.~~27. Identify and Include all Entities in the Insurance Group

Include in the Scope of Application all entities that meet the definition of an affiliate, below and that that fit the criteria identified in the definition of the Insurance Group, below, and denote as such (i.e., included in the Scope of Application) in the Schedule 1 and Inventory of the Group template. Said differently, all insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application.

~~27.~~28. Identify and Include all Financial Entities

Financial Entities (as defined in Paragraph 9, herein) within the Inventory of the Group template shall be included in (i.e. may not be designated as "excluded from") the Scope of Application regardless of where they reside within the Broader Group.

As learned from the 2008 financial crisis, U.S. insurers were not materially impacted by their larger group issues; however, materiality of either equity or revenue of an entity might not be an adequate determinant of potential for risk transmission within the group. Furthermore, risks embedded in financial entities are not often mitigated by the activities of the insurers in the group and may amplify their (the insurers') risks.

Any discretion in evaluating the ultimate risk generated by a defined financial entity that is not subject to a regulatory capital requirement should be applied via review of the material risk definitions/ principles included in Paragraph 15 to set the level of risk as low, medium or high and **not** to exclude such entities from the calculation. The rationale should be documented, and all data required in Schedule 1 must be provided for the entity for purposes of analysis and trending.

~~28.~~29. Identify Risks from the Broader Group

An Insurance Group may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, financial entities, and non-financial entities. In considering the risks to which the Insurance Group is exposed, it is important to take account of those material risks (as defined in Paragraph 15) to the Insurance Group from the Broader Group within which the Insurance Group operates. All non-insurance / non-financial entities included within the Insurance Group that pose material risk to the insurers in the group should be included within (i.e. may not be designated as "excluded from") the Scope of the Application. Non-financial entities within the Broader Group but outside the Insurance Group that pose material risks to the Insurance Group should be included within (i.e. may not be designated as "excluded from") the Scope of Application; non-material non-insurance / non-financial entities within the Broader Group or within the Insurance Group (as both terms are defined in Section II, herein) other~~s~~ than those entities owned by entities subject to a specified regulatory capital requirement ~~may~~should be reported as "excluded". When determining which non-financial entities from the broader group to include in the Scope of Application, the preparer must include any entity that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims or provide services to policyholders consistent with the primary focus of insurance regulators.

~~29.~~30. Review of Submission

The Lead State Regulator should review the Inventory of the Group template to determine if there are entities excluded by the preparer using the criteria above that the Lead State Regulator agrees do not pose material risk to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. For entities where the lead-state regulator agrees with the request to exclude, the group capital calculation may exclude the data for such entities. Ultimately, the decision to include or exclude entities from the GCC will occur based on the Lead-State regulator's knowledge of the group and related information or filings available to the Lead-State and whether they believe an applicable entity would not adversely impact the entities within the Scope of Application to pay policyholder claims.

DRAFTING NOTE: A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested, but not approved for exclusion by the lead-State.

~~30.~~31. The preparer, together with the Lead State Regulator , would use the above steps, which includes considering the Lead State Regulator's understanding of the group, including inputs such as Form F, ORSA, and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

~~31.~~32. Updating the Scope of Application

The Scope of Application could be re-assessed by the preparer and the Lead State Regulator each successive annual filing of the GCC provided there has been substantial changes in corporate structure or other material changes from the previous year's filing. Any updates should be driven by the assessment of material risk and changes in group structure as they impact the exclusion or inclusion of entities within the Scope of Application based on material risk considerations.

IV. General Instructions

~~32.~~33. The NAIC Group Capital Calculation Template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs. IV.

~~33.~~34. **Attestation:** This tab is intended to work similar to the Annual Statement and RBC attestations, which are both intended to give the regulator greater comfort that the company has completed in accordance with its (these) instructions.

~~34.~~35. **Input 1-Schedule 1:** This tab is intended to provide a full inventory of the group, including the designation by the filer of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (See Schedule A and Schedule BA exception~~s~~) within the group so as to allow for analyzing multiple options for scope, grouping and sensitivity criteria, as well as, allowing the lead state regulator ~~and template reviewer~~ to make a determination as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group as a whole, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.

~~35.~~36. Except as noted in on the Inventory tab, equity method investments that are accounted for based upon SSAP. No. 48 (Joint Ventures, Partnerships, and Limited Liability Companies) are not required to be de-stacked (separately listed) in Schedule 1, i.e. their value would be included in amounts reported by the parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire group capital calculation which is to produce an expected level of capital and a corresponding actual level of available capital. The available capital for such Joint Ventures, Partnerships, and Limited Liability Companies is already considered in Schedule 1 but its inclusion in its parent's financial statements amounts and can thus be excluded from an inventory (not separately listed) since the parent already receives a corresponding capital charge within its RBC.

~~36.~~37. **Input 2-Inventory:** This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de-stacking of the entities. While some of this information is designed to "pull" information from Schedule 1, other cells (blue cells) require input from the group. This tab will include the adjustments for investment in subsidiary other than were an exception is described in these instructions and adjust for intra group arrangements. This tab is set up to subtract those adjustments from capital and therefore should be entered as a 1) positive figure if the adjustment currently has a positive impact on the available capital or the capital calculation; or as a 2) negative figure if the adjustment currently has a negative impact on the available capital or the capital calculation. It will also be used to add relevant entities included as equity investments in Schedules A and BA and to aggregate the resulting adjusted values for use in the actual group capital calculation.

~~37.~~38. **Input 3-Capital Instruments:** This tab is intended to be used to gather necessary information to that will be used to calculate an allowance for additional available capital based on the concept of structural subordination applied to senior or other subordinated debt issued by a holding company. It will also provide information on all Debt issued within the group

~~38.~~39. **Input 4 – Analytics:** In recognizing a primary purpose of the GCC is to enhance group-wide financial analysis, this tab includes or draws from entity-category-level inputs reported in the Tab or elsewhere in the GCC template to be used in GCC analytics. Separate guidance for lead-State regulators to reference in analysing the data provided in the GCC Template (reference applicable location of the guidance - e.g. Financial Analysis Handbook).

~~39.~~40. **Input 5 – Sensitivity Analysis and Inputs:** This tab includes inputs and / or describes informational sensitivity analysis for XXX / AXXX business, captives, permitted & prescribed practices, debt designated as "Other", unscaled foreign insurer values and other designated sensitivity analysis. The inputs are intended to simply be a disclosure, similar to the disclosure required under Note 1 of the statutory financial statements. The analysis will be applied in the Summary 2 Tab.

~~40.~~41. **Input 6 – Questions and Other Information:** This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intra group debt and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the Inventory Tab.

~~41.~~42. **Calc 1 – Scaling (Ins):** This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to a comparable basis relative to the US Risk-based Capital figures. It also allows for set scaling options (that vary by insurance segment such as life, P/C, and health).

~~42.~~43. **Calc 2 – Scaling (Non-Insurance):** This tab is used to determine calculated capital for non-insurance entities.

~~43.~~44. **Summary 1 - Entity Category Level:** This tab provides a summary of ~~base~~ available capital and calculated capital for each entity category before the application of capital instruments.

~~44.~~45. **Summary 2 - Top Level:** This tab calculates various informational GCC ratios resulting from applying "on top" and entity level adjustments to adjusted carrying value and adjusted calculated capital and are described in the Sensitivity Inputs and Analysis Tab section. These "what if" scenario analysis will not be part of the ~~base~~ GCC ratio.

~~45.~~46. **Summary 3 – Analytics:** Provides a summary of various GCC analytics.

~~46.~~47. **Summary 4 - Grouping Alternatives:** This tab currently calculates and displays a grouping option that was submitted by an interested party.

~~47.~~48. All cells in the template are color-coded based on the chart below Inputs should only be made in blue cells. Do not add/delete rows, columns, cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

The following set of colors is used to identify cells:	Colors used
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	

VI. Detailed Instructions

Input 1 – Schedule 1

~~48.~~49. 'Schedule 1A' is a small table at the top for identification of the filer. Enter the 'Name of Group', name of the person the Template is 'Completed by' and the 'Date Completed.' Indicate the version number of the template if there are updates or multiple persons completing the template. All figures (in all tabs) should be converted to $'000s. For example, a book value of $123,450 should be entered as 123.45in the template.

~~49.~~50. More detailed information on each legal entity should be reported in Schedule 1B-1E. The order of the entries in Schedule 1 should match that in the Inventory Tab. The first entity listed should be the ultimate controlling party.

~~50.~~51. U.S. Branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S insurance regulator. They should be reported under the appropriate entity category in [Sch1B Col 6].

~~51.~~52. Entries are required for every entity within the scope of the group. However, while recognizing that lead-State regulators retain the discretion to ask for greater detail, the following simplifications **may** be applied as long as information for every entity is entity is listed in Schedule 1B:

- A single numerical entry for like Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an "Entity Category" in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g. an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager). Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included".

- In addition, a single numerical entry would be allowed for all non-insurance / non-financial entities at the intermediate holding company level assuming that the intermediate holding company owns only non-insurance / non-financial entities and would include any positive residual value of the holding company itself. Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included".

DRAFTING NOTE: A grouping option similar to what is applied to financial entities as described in the first bullet, is suggested.

- Values for, non-insurance / non-financial subsidiaries of U.S. RBC filers may remain with their Parent insurers and will not be de-stacked. Entries for these individual entities in the grouping will be reported in Schedule 1B only as "included".
- Mutual Insurance Groups may use the amount of required capital from the top-level Insurer's RBC Report adjusted to 300% x ACL RBC and further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-thru basis) via RBC filing subsidiaries. Such foreign insurance subsidiaries or other financial subsidiaries shall be reported at the carrying values and capital calculations as described later herein.
- Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values, and capital requirements of a foreign insurer.

These simplifications will be treated in a similar manner in Input 2 – Inventory.

~~52.~~53. Any financial entity owned by a Parent insurer and listed in Schedule A or Schedule BA, any insurance or financial entity that is owned indirectly through a Schedule BA affiliate~~, or any Schedule A or BA affiliate that represents greater that X% of total group adjusted capital~~ should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information (See also the instructions for Part B of the Inventory). These entities will be de-stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they owned by a foreign insurer or other non-insurance entities.

~~53.~~54. Schedule 1B contains descriptions of each entity. Make selections from drop down menu where available.

- **[Sch1B Col 1] Include / Exclude (Company) –** This column is to select entities where a request is made for exclusion. The filer will indicate which non-insurance / non-financial entities not owned directly or indirectly by an insurer that should be excluded from the GCC as not posing material risk to the group. The filers definition of material risk will be reported in the Other Information Tab
- **[Sch1B Col 2] Include / Exclude (Supervisor)– Column** to be filled in by supervisor. These are entities where the Supervisor agrees with the filer's assessment of material risk and these entities will be excluded from the ~~base~~ group capital calculation and may be included in a sensitivity analysis later in the template.

  DRAFTING NOTE: This Column may also be completed by the filer after advance consultation with the lead-State regulator.

- **[Sch1B Col 3] Include / Exclude (Selected)–** Formula to determine treatment of tab for later sensitivity analysis. If supervisor has made a determination of include/exclude in the prior column, that will be used. If not, company's selection will be used.

- **[Sch1B Col** 4**] Entity Grouping -**The column denotes whether this is an insurance or non-insurance / non-financial entity and is also automatically populated based on the entry in Column 8.

- **[Sch1B Col 5] Entity Identifier –** Provide a unique string for each entity. This will be used as a cross reference to other parts of the template. If possible, use a standardized entity code such as NAIC Company Code ("CoCode") or ISO Legal Entity Identifier. CoCodes should be entered as text and not number (e.g. if CoCode is 01234, then the entry should be "01234" and not "1234"). If there is a different code that is more appropriate (such as a code used for internal purposes), please use that instead. If no code is available, then input a unique string or number in each row in whatever manner is convenient (e.g. A, B, C, D, … or 1, 2, 3, 4…). Do not leave blank.

- **[Sch1B Col** 6**] Entity Identifier Type –** Enter the type of code that was entered in the 'Entity Identifier' column. Choices include "NAIC Company Code", "ISO Legal Entity Identifier", "Volunteer Defined" and "Other".

- **[Sch1B Col** 7**] Entity Name –** Provide the name of the legal entity.

- **[Sch1B Col** 8**] Entity Category –** Select the entity category that applies to the entity from the following choices (all US Life Captives shall select the option for RBC Filing Captive, complete the calculation using the Life RBC formula in accordance with instructions below regarding "Additional clarification on capital requirements where a US formula (RBC) is not required" whether the company is required by their captive state to complete the RBC formula or not):

Non-Insurer Holding Company	**U.K. Solvency II – Non- Life**	**Argentina**
RBC Filing U.S. Insurer (Life)	**U.K. Solvency II - Life**	**Colombia**
RBC Filing U.S. Insurer (P&C)	**U.K. Solvency II - Composite**	**Indonesia**
RBC Filing U.S. Insurer (Health)	**Australia - All**	**Thailand**
RBC Filing U.S. Insurer (Other)	**Switzerland - Life**	**Barbados**
U.S. Mortgage Guaranty Insurers	**Switzerland - Non-Life**	**Regime A (Participant Defined)**
U.S. Title Insurers	**Hong Kong - Life**	**Regime B (Participant Defined)**
Other Non-RBC Filing U.S. Insurers	**Hong Kong - Non-Life**	**Regime C (Participant Defined)**
RBC filing (U.S. Captive)	**Singapore - All**	**Regime D (Participant Defined)**
Canada - Life	**Chinese Taipei - All**	**Regime E (Participant Defined)**
Canadian - P&C	**South Africa - Life**	**Bank (Basel III)**
Bermuda - Other	**South Africa - Composite**	**Bank (Other)**
Bermuda - Commercial Insurers	**South Africa - Non-Life**	**Financial Entity with a Regulatory Capital Requirement**
Japan - Life	**Mexico**	**Other Financial Entity without a Regulatory Capital Requirement**
Japan - Non-Life	**China**	**Asset Manager/Registered Investment Advisor**
Japan – Health*	**South Korea**	**Other Non-Ins/Non-Fin with Material Risk**
Solvency II - Life	**Malaysia**	**Other Non-Ins/Non-Fin without Material Risk**
Solvency II -- Composite	**Chile**	**Non-operating Holding Co.**
Solvency II - Non-Life	**India**	**Schedule A and BA Directly or Indirectly Owned Financial Affiliates**
Solvency II – Non-Life	**Brazil**	~~**Schedule A and BA Directly Owned Material Non-Financial Affiliates**~~

*If the GCC group's Japanese insurer Health business (referred to as Third Sector) is greater than 60% of total Life (referred to as First Sector) and Health business combined, as reflected by annualized premium for the year reported, then that group may elect to use the Japan Health scalar set rather than the Life scalar.

All U.S. captives are required to complete the applicable RBC formula template. In addition, any insurer, other than U.S. Captive, that submits an RBC filing to either the State of domicile or the NAIC will be considered an RBC filer.

- **[Sch1B Col** 9**] Alternative Grouping –** This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line on the "Grouping Alternative Exhibit". For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called "Dental HMOs", as opposed to listing each entity separately. This is a level of granularity below 'Entity Category' but above individual entities. No entity should be put in the same 'Alternative Grouping' as its parent. It is fine to put only one entity in a grouping. If any entries are left blank then, in column 17, the 'Entity Name' will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the Inventory tab.

- **[Sch1B Col** 10**] Parent Identifier –** Provide the 'Entity Identifier' of the immediate parent legal entity for each entity, as applicable. If there are multiple parents, select the parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter "N/A".

- **[Sch1B Col** 11**] Parent Name –** This will be populated by a formula, so input is not required.

- **[Sch1B Col 12] % Owned by Parent –** Enter percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to State holding company regulation filings (Form B or equivalent).

- **[Sch1B Col 13] % Owned within Group Structure --** Enter percentage of the entity that is owned by all entities within the Group.

- **[Sch1B Col 14] State/Country of Domicile –** Enter State of domicile for US insurance entities and country of domicile for all other entities (Use reference that are consistent with those use on Schedule Y where available).

- **[Sch1B Col 15] Zero Valued and Not Admitted Entities– Report for U.S. Insurers Only.** Select the treatment of the entity from following options— 'Zero Valued for RBC or 'Non-Admitted for Accounting and RBC '(Direct or Indirect)'. Zero Valued for RBC are affiliated insurance and financial entities that are otherwise reported in the RBC filer's annual statement at their accounting value (i.e. per Statutory Accounting Principles) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers directly owned by U.S. Life RBC filers. The carrying value and capital calculation specified in these instructions for the specific insurance or financial entity type should be reported in Inventory B, Column 2 and Inventory C, Column ~~2~~2, respectively. DO NOT REPORT ZERO VALUES IN COLUMN 2 OF INVENTORY B AND INVENTORY C FOR THESE AFFILIATES. Only RBC filing entities with this type of affiliate will report in this column.

Non-admitted for Accounting and RBC (Direct or Indirect) are insurance or other financial affiliates that owned directly indirectly by an RBC filer via a downstream non-financial entity or holding companies that are reported at zero value per SAP and are also reported at zero value and zero capital requirements for RBC purposes. Examples include U.S. insurers indirectly owned by a U.S. RBC filer thru a not-admitted holding company that has not been subject to an independent audit. The carrying values and capital calculations specified herein associated with the specific insurance or financial indirectly owned entity type should be reported Inventory B, Column 2 and Inventory C, Column 2, respectively. DO NOT REPORT ZERO VALUES IN COLUMN 2 IN INVENTORY B AND INVENTORY C FOR THESE AFFILIATES. Only RBC filing entities with this type of affiliate will report in this column. The excess value in the not-admitted Parent entity may be reported at zero value.

No entry is required in this column for any non-admitted directly or indirectly owned non-insurance / non-financial subsidiary. Report zero for these affiliates in Column 2 of Inventory B and Inventory C.

- **[Sch1B Col 16] Is Affiliates on Schedule A or Schedule BA –** This Column is meant to identify an entity with a financial ~~or a material non-financial~~ entity identifier in Col 8 that is otherwise reported on Schedules A or BA but is being moved to this Schedule. Provide a "Y' response where that is applicable. ~~Also provide a "Y" response for any identified in column 16 as a material non-financial Schedule A or BA affiliates.~~ Otherwise leave blank.

- **[Sch1B Col 17] Selected Alternative Grouping –** This will be populated by a formula, so input is not required. If there are any blank entries in Column 9 (Alternative Grouping) this column will set them equal to the name of the entity.

~~54.~~55. Schedule 1C contains financials for each entity:

- **[Sch1C Col 1] Basis of Accounting –** Enter basis of accounting used for the entity's financial reporting.

- **[Sch1C Col 2 & 3] Gross and Net Written Premium – Report for all U.S. and non-U.S. insurers** (Use applicable entity Annual Statement data source for US insurers - Life – P/C and Health). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Schedule 1C, Col 4] Reinsurance Assumed from Affiliates –** Report for all U.S and non-U.S. insurers**.** Use applicable entity Annual Statement data source for US insurers (assumed premiums from P/C Schedule F Part 1 and Life and Health Schedule S Part 1 Section 1 and 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Schedule 1C, Col 5] Reinsurance Ceded to Affiliates -** Report for all U.S and non-U.S. insurers**.** Use applicable entity Annual Statement data source for US insurers (assumed premiums from P/C Schedule F Part 3 and Life and Health Schedule S Part 3 Section 1 and 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch1C Col 6] Book Assets -** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total assets as reported in the basic financial statements before eliminations (since that is presumed to be less burdensome on the insurance holding company). Other financial data should similarly be prepared using financial data before eliminations. However, insurance holding companies are allowed to present such figures after eliminations if they do so for all figures and consistently for all years.

- **[Sch1C Col 7] Book Liabilities -** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total liabilities as reported in the basic financial statements.

- **[Col 8] Gross Paid-in and contributed Capital and Surplus – For U.S insurers report the current year end amounts from Annual Statement Page 3 as follows:**

  a. Life Insurers: lines 29, 30 and 33

  b. P&C Insurers: lines 30, 31 and 34

  c. Health Insurers: lines 26 - 28

~~55.~~56. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. The amounts reported should be the entity value on a stand-alone (fully de-stacked) or grouped basis (where applicable). This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership will be applied later if necessary, to calculate a capital charge.

- **[Sch1D Column 1] Prior Year Entity Identifier –** Report the Legal Entity Identifier, NAIC company code or other identifier used for the entity in the prior year GCC filing for the prior calendar year.

- **[Sch1D Col 2] Prior Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone Balance Sheet. This will generally be the same as what is reported in the current year column in the prior year GCC filing. Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance / non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance / non-financial entity is included in the capital charges for the Parent entity.

- **[Sch1D Col 3] Net Income - The final reported income figure from the income statement, and therefore is the figure reported after interest, taxes, extraordinary items, etc. For entities with accounting and reporting requirements that specify that dividends received will be part of "net income", report the dividends received in this column.** Report dividends to policyholders here as a reduction to net income if required by local accounting or reporting requirements.

- **[Sch1D Col 4] Dividends Paid –** All entity types report dividends paid in reporting year to a parent (or affiliate) shareholder, public shareholders, or policyholders (if not required to be a reduction in net income by local accounting or reporting requirements).

- **[Sch1D Col 5] Dividends Received -** All entity types that are subject to accounting and reporting requirements that specify that dividends received will be reported as a surplus adjustment, will report dividends received in reporting year from affiliates in this column.

- **[Sch 1D Col 6] Capital and Surplus Contributions Received from Affiliates -** All entity types. Report sum of Capital Contribution (other than via surplus notes) during the reporting year received from any affiliated entity.

- **[Sch 1D Col 7] All Other Changes in Capital and Surplus.** Include total for all adjustments not listed above. This would include any investment income not already reported in Column 3 or Column 5. Also, report all stock repurchases or redemptions in this column.

  DRAFTING NOTE: Greater detail may either be added to the template or made available on request.

- **[Column 8] Current Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone Balance Sheet for the current year. This will generally be the same as what is reported for the entity in the Inventory B, Column 2 Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance / non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance / non-financial entity is included in the capital charges for the Parent entity.

- **[Sch 1D Col 9] Capital and Surplus Contributions Paid to Affiliates -** All entity types report the total of capital contributions (other than via surplus notes) during the reporting year paid to any affiliated entity.

- **[Sch1D Col 10] Dividends Received and Not Retained –**All holding companies, insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of dividends reported in Column 5 are expected to be paid (passed thru) to a Parent company, to public shareholders, or used to repurchase or redeem shares of stock after the reporting date used for the GCC.

- **[Sch1D Col 11] Capital Contributions from Debt Proceeds -** All insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of capital contributions received were from proceeds of debt issued by a Parent or affiliate.~~;~~

Commented [FL3]: Consider deleting if Tracked Down-streamed Debt is eliminated.

Input 2 – Inventory

~~56.~~57. Columns in Inventory A are being pulled from Schedule 1:

- [Column 1] Insurance/Non-Insurance.
- [Column 2] Entity Identifier
- [Column 3] Entity Identifier Type
- [Column 4] Entity Name –
- [Column 5] Entity Category
- [Column 6] Parent Identifier
- [Column 7] Parent Name
- [Column 8] Basis of Accounting

Columns Requiring Input

~~57.~~58. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this subsection.

- **[Inv B Col 1] Carrying Value (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent the 1) the subsidiary valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then a subsidiary valuation based US GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements.

  The value in this column will include a zero value for entities not admitted per SAP or other jurisdictional regulatory rules. A single entry for all entities that qualify under the grouping exceptions described herein may be made in lieu of individual entries on the line for the affiliate that holds the qualifying entities. 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.

- **[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 US 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 2019, 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 Schedule 1B, Column 15). However, if such an entity has been listed in the **[Sch1B 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. The carrying value for affiliates that are U.S. RBC filers, the value 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 BACV. A single entry for all entities that qualify under the grouping exceptions described herein may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

DRAFTING NOTE: A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested but not approved for exclusion by the lead-State.

INVENTORY B - Accounting Valuation to be Used

Parent Entitiy	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv B, Column 3
U.S. RBC filer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
U.S. RBC filer	Other U.S. Insurer	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Financial w/o Capital Reqmt	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Non-Financial	BACV Per Statutory Accounting	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
Other U.S. Insurer	Any Other Entity	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Regulatory Accounting	BACV Per Statutory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Regulatory Accounting	RBC TAC	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Regulatory Accounting	Per Local Regulatory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Regulatory Accounting	Per Local Regulatory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Regulatory Accounting	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Per Local Public Accounting	RBC TAC	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Per Local Public Accounting	Per Statutory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Public Accounting	Per Local Regulatory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Per Local Public Accounting*	Per Local Regulatory Accounting*	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Per Local Public Accounting*	Per Local Public Accounting*	Per Local Public Accounting
	* Subject to grouping exception in GCC instruction			

Commented [FL4]: The Inv. B, Column 2 entry in the chart for cases where a U.S. insurer owns a foreign insurer is incorrect. It should say "Per Local Regulatory Accounting" rather than "BACV Per Statutory Accounting". 6-30-2020

In cases where a U.S. Life RBC filer owns a foreign insurer and the BACV value reported for the foreign insurer in the Parent U.S insurers financial statement is adjusted to zero for RBC purposes, then report zero in Inventory B Column 1, and Column 3 for that foreign insurance entity.

- **[Inv B Col 3] Investment in Subsidiary –** Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from parent's carrying value. This is intended to prevent from double counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e. the value in Column 1 in Inventory

Section B adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent. Where entities are owned partially by entities outside of the group, then the Parent's percentage of ownership will be calculated based on the value owned within the group. Generally, all non-financial affiliates, Schedule A and Schedule BA assets will remain in the value of the Parent insurer and not entered in this column unless they meet the exceptions described herein~~. If a value for a non-financial affiliate, Schedule A or BA asset must be reported, the carrying value of that entity listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule affiliate so that the parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone non-financial, Schedule A or BA affiliate listed in the inventory~~. For indirectly owned Schedule A or BA financial entities, only the value of that entity will be included in this column and the remaining value of the downstream BA Parent will remain with the Parent insurer. Similarly the carrying value of U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory. The 'Sum of Subsidiaries' column may provide a useful check against this entry, but it will not necessarily be equal.

When utilizing public accounting (e.g. GAAP) equity values that differ from regulatory values (e.g. SAP), it is **the GAAP equity** of the insurers must be eliminated from the GAAP Parent in this column, not the SAP (regulated capital). This is necessary in order to allow the calculation to appropriately represent SAP capital of regulated entities and GAAP equity of non-regulated entities. Data on the accounting differences between Parent and Local carrying values will be collected in Column 9 and further detail provided in the Questions and Other Information Tab.

Note: Values for Schedule A and Schedule BA affiliates that are required to be reported in the Inventory Tab will be adjusted out of the value reported by the U.S. insurer in this column

- **[Inv B Col 4] Intra-group Capital Instruments –** This column is automatically calculated from inputs to the 'Capital Instruments' Tab. It reflects an adjustment to remove carrying value for intra-group financial instruments that that are treated as capital by the issuer and consequently create additional capital within the group upon issuance (most notably U.S. Surplus Notes). Example for Surplus Notes – In both intra-group and unaffiliated transactions, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser's capital charge (e.g. RBC charge) on the Surplus note investment in the corresponding adjustment column for the capital calculation. No adjustments are made for any intragroup capital instrument that is treated as a liability by the issuer.
- **[Inv B Col 5] Reported Intra-group Guarantees, LOCs and Other –** Enter an adjustment to reflect the notional value for reported intra-group guarantees, letters of credit, or other intra-group financial support mechanisms. Explain each intra-group arrangement in the Questions and Other Information Tab

- **[Inv B Col 6] Other Intra-group Assets –** Enter the amounts to adjust for and to remove double counting of carrying value for other intra-group assets, which could include intercompany balances, such as (provide an explanation of each entry in the Questions and Other Information Tab):

  a. loans, receivables, and arrangements to centralize the management of assets or cash;

  b. derivative transactions;

  c. purchase, sale, or lease of assets; and

  d. other (describe).

- **[Inv B Col 7] All Other Adjustments –**Include a brief explanation in the "Description of 'Other Adjustments'" in the Other Information Tab.

- **[Inv B Col 8] Adjusted Carrying Value** - Stand-alone value of each entity per the calculation to eliminate double counting. This value includes permitted and prescribed practices.

- **[Inv B Col 9] Accounting Adjustments (e.g. GAAP to SAP) –** Report the total difference between the carrying value reported in Column 1 (and Column 3) and the value reported in Column 2. This column will apply to Regulated entities where the stand-alone carrying value is based on regulatory accounting (e.g. SAP) while the value reported for that entity by the Parent is carried at a financial accounting (e.g. GAAP) value. Further detail is reported in the Questions and Other Information Tab.

- **[Inv B Column 10] Gross Revenue 2nd Prior Year (Financial Entities without Regulatory Capital Requirements and Non-financial Entities)** - Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Column 11] Gross Revenue Prior Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** - Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **Inv B, Col 12] Gross Revenue Current Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities) -** Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 13] Average Revenue over 3-years (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities –** This column is populated from data in Columns 10, 11 and 12.

  DRAFTING NOTE: This column will support the capital calculation for Financial Entities without Regulatory Capital Requirements only.

~~58.~~59. 'Adjusted Capital Calculation' is reported in a similar manner to the 'Adjusted Carrying Value above'. The columns are in the same order though it is likely that fewer entries will be needed for Columns 4 -7. Further guidance is below.

- **[Inv C Col 1] Entity Required Capital (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, entity required capital should represents the capital requirements of the Parent's insurance or other sectoral regulator. 1) for subsidiaries of foreign insurers or other non- U.S. financial entities, the unscaled capital required by the Parent's regulator of the regulated entity based upon the equivalent of a Prescribed Capital Requirement (PCR) level; 2) for subsidiaries, including applicable Schedule A and Schedule BA subsidiaries, of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent's RBC, adjusted for covariance where applicable (calculated by the preparer) reported at a level of one and a half times company action level RBC (or 3 times authorized control level RBC) for that entity (i.e. 1.5 times the RBC requirements included in the Parent's RBC report on a post-covariance basis). Where the subsidiary is also an RBC filer, then the amount reported will be at one and a half times company action level RBC (or 3 times authorized control level RBC) AFTER COVARIANCE; 3) for subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent's capital requirement (if any) for the subsidiary entity: 4) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double counting. The values recorded for all subsidiaries should be the 100% of the specified 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. A single entry for all entities that qualify under the grouping exceptions described herein may be made on 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. However, 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, 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, may be carried at zero value in this column. A single entry for all entities that qualify under the grouping exceptions described herein 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.

~~59.~~60. For financial entities without a regulatory capital requirement and for non-insurance / non-financial entity types where additional options are noted below, the options are shown here for informational purposes only and the calculations are described in the tabs where the relevant data and calculations reside

Additional clarification on capital requirements where a formula is required:

- U.S. RBC filing Insurers – Report RBC at Company Action Level (300% x ACL)

- Foreign Insurance Entities – The local capital requirement as specified below for each jurisdiction should be reported, by legal entity, at a Prescribed Capital Requirement (PCR) level, or the equivalent of one and a half times company action level RBC (or 3 times authorized control level RBC) The amounts reported will be subject to scaling later in the calculation. Scaled values will be included in the GCC capital calculation (see Scaling Tab). This treatment is different than what U.S. Risk-based Capital (RBC) would require and recognizes other regulators view of adequate capital for insurers within another jurisdiction. It is more reflective of risk within the group context. ~~.~~ A sensitivity analysis will be included in the Sensitivity Analysis Tab using 100% of the jurisdictional PCR (i.e. unscaled) for insurers in foreign jurisdictions that are subject to scaling.

- Subsidiaries based in the European Union should use the Solvency II Solo SCR (Solvency Capital Requirement) as the PCR.

- For US subsidiaries, the RBC Company Action Level of each insurer should be re-calibrated to the point at which regulatory action can be taken in any state based on RBC alone, i.e., the point at which the trend test begins, which is one and a half times company action level.

- For Australian subsidiaries, the PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP". PCR is not a set multiple of MCR.

- For Bermudian subsidiaries, the Legal Entity PCR in Bermuda for medium and large commercial insurers is called the “Enhanced Capital Requirement” (ECR) and is calibrated to TailVaR at 99% confidence level over a one-year time horizon.

- For Hong Kong subsidiaries, under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.

- For Japanese subsidiaries, the PCR is the solvency margin ratio of 200%.

- For Korean subsidiaries, the PCR is 100% of risk-based solvency margin ratio.

- For Singaporean subsidiaries, the PCR is 120% of total risk requirement (i.e. capital requirement).

Commented [FL5]: Delete or revise if 100% is used as placeholder.

- For Chinese Taipei subsidiaries, the PCR is 200% of RBC ratio.

- For Canadian life entities, the baseline PCR should be stated to be "100% of the LICAT Base Solvency Buffer". Carrying value should include surplus allowances and eligible deposits. For property/casualty entities, the PCR should be the MCT capital requirement at the target level.

- For South Africa subsidiaries, the PCR is 100% of the SAM SCR.

- For any entities that cannot be mapped to the above categories, scaling will be at 100%

~~60.~~61. Additional clarification on capital requirements where a US formula (RBC) is not required:

- For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the group capital calculation. This may differ from what U.S. Risk-based Capital (RBC) would require. It is more reflective of the regulatory view of risk in the group context. The following requirements should be used in other specified situations where an RBC does not exist:

- **Mortgage Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Mortgage Guaranty Insurance Model Act (#630).

- **Financial Guaranty Insurers:** The minimum capital requirement shall be based upon the NAIC's requirements set forth in the Financial Guaranty Insurance Guideline (Guideline 1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g. specific limits).

- **Title Companies:** The minimum capital requirement shall represent 300% of the required level of reserves carried by the insurance company.

- **Other Companies:** A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank

- **Captives**- US insurers that have captives should complete the applicable RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based upon the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self-insurance (either by US life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive the same charge as a non-regulated entity.

~~61.~~62. Non-insurance Financial Entities Subject to a Specified Regulatory Capital Requirement:

- All banks and other depository institutions – the unscaled minimum required by their regulator. For U.S. Banks that is the OCC Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.

- Any other financial entity that is subject to a specified regulatory capital requirement will bring that requirement in the GCC at the first level of regulator intervention (if applicable).

- This differs from what U.S. Risk-based Capital (RBC) would require. It recognizes the sectoral regulator's view of risk for a particular financial entity type. It is more reflective of risk in the group context.

~~62.~~63. Non-insurance Financial Entities NOT Subject to a Specified Regulatory Capital Requirement:

- All asset managers and registered investment advisors and all other financial entities as defined in paragraph 9.- Capital required by their sectoral regulator ~~(not scaled)~~. If no specified capital requirement, then use the capital calculation specified below ~~for asset managers and registered investment advisors (i.e. 12% of the three-year average revenue)~~ based the level of risk assigned to the entity. ~~Other financial entities without a regulatory capital requirement include those which create financial risks through products or transactions such as a mortgage, other credit offering, a derivative, corporate guarantees, intercompany indebtedness, operational interdependence, materiality to the application of credit rating methodologies to the overall group rating and other financial links. Because these entities can pose more risk of a material adverse impact on the group's insurance entities and operations than other non-regulated entities, apply 12% of the three-year average revenue.~~In certain cases, these entities may be subject to a layer of regulation (e.g. S.E.C.) but are not generally subject to a specified capital requirement.

  PLACEHOLDER FOR LOW / MEDIUM / HIGH RISK CRITERIA

  High Risk: 15% x 3-year average revenue

  DRAFTING NOTE: a Basel Charge of 15% will be used for the IAIS ICS

  Medium Risk: TBD – Suggest 6.0% x 3-year average revenue. This represents Basel charged scaled to combined industry average RBC ratios at 300% x ACL

  Low Risk: TBD – Suggest 3% x -year average revenue

DRAFTING NOTE: Medium risk could be used as a starting point while the stratified methodology is further developed.

~~63.~~64. Other Non-Insurance, Non-Financial Entities

- Non-insurance, non-Financial Entities may not be as risky as Financial Entities. For entities not owned by RBC filers or other entities where there is a regulatory capital charge for the entity in the capital formula, u~~U~~se an equity charge of 16**%** (post tax) for predominantly life insurance groups~~[OR TAILOR BY INSURER TYPE~~ 14% for predominantly P/C insurance groups and 5% for predominantly health insurance groups~~]~~ x BACV. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero in Column 1 and the charge specified in this paragraph in Column 2. These factors are based on average after covariance RBC charges for the respective insurer types and are calibrated at 300% x ACL RBC. This is meant to be consistent with how the entity would be treated if owned by an RBC filer while recognizing that the entity may be excluded from the GCC if it does not pose material risk to the insurers in the group.

Non-insurance / non-financial entities owned by RBC filing insurers (or owned by other entities where a regulatory capital charge applied to the non-insurance / non-financial affiliate) is will remain in the Parent's capital charge and reported at that value in Column 1. but will be reported as zero in Column 2. These non-financial entities may not be excluded from the GCC.

One additional informational capital calculation for all non-financial entities will be applied using current year gross revenue from the Inventory B, Column 12 with the calculation occurring and results available in the Calc 2 Tab as follows:

6% of reporting year gross revenue based on a medium level risk for a financial entity ~~3% operational risk charge using a 300% x ACL RBC calibration~~.

~~**DRAFTING NOTE**: The equity OR revenue options noted above may be applied based on the operating characteristics (i.e. revenue intensive or asset intensive) of the non-financial entity.~~

Commented [FL6]: These can be combined to offer an anternative approach rather than a sensitivity analysis.

~~64.~~65. Non-operating Holding Companies

- Non-operating holding companies will be treated the same as other non-insurance / non-financial entities. Unless reported on a grouped basis (see paragraph 52, above), for purposes of applying the capital calculation, the carrying value of stand-alone positive valued and negative valued non-operating holding companies will be netted. If the net value is zero or less (floored at zero), the charge applied will be zero.

INVENTORY C - Capital Calculation to be Applied				
Parent Entitiy	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (excl. op Risk) x 3	RBC ACL x 3	RBC ACL (excl. op Risk) x 3
U.S. RBC filer	Other U.S. Insurer	Per RBC	Per GCC Entity Instructions	Per RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per RBC	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Per RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Per RBC	12% x 3-year avg revenue	Per RBC
U.S. RBC filer	Non-Financial	Per RBC	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL x 3	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	12% x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL x 3	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Requirement (Scaled)	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	12% x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

* Subject to grouping exception in GCC instruction

Capital Calculation Adjustments:

- **[Inv C Col 3] Investment in Subsidiary –** Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from parent's required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e. the value reported in Column 1 in Inventory Section C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking financial entities that are subject to diversification in a capital formula (e.g. RBC) the amount entered on the Parent line is the post-diversified capital requirement as calculated by the preparer(which is also the amount to be reported for the de-stacked entity on the entity's line. Generally the capital requirements for Schedule A and BA affiliates and other non-financial affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent's Schedule A and BA, any financial entity indirectly owned through another Schedule A or BA affiliate~~, and any other non-financial Schedule A or BA affiliate with a carrying value in excess of X% of total adjusted available group capital~~ listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule A and BA affiliate so that the parent entity may eliminate double counting of that capital requirement capital which will now be reported by the stand-alone Schedule A or BA affiliate listed in in the inventory. For indirectly owned Schedule A and BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

DRAFTING NOTE: Capital calculations for Schedule A and Schedule BA indirectly owned **financial entities** that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab affiliates and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab.

In the Questions and Other Information Tab, a capital requirement should be reported for the indirectly owned entity based on the insurers Schedule A or Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or BA entity that directly owns the financial entity.

- **[Inv C Col 4] Intra-group Capital Instruments –**This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).

- **[Inv C Col 5] Reported Intra-group Guarantees, LOCs and Other –**This column would generally be used if there is potential double counting of capital requirements (e.g. RBC charges on guarantees or LOCs.).

- **[Inv C Col 6] Other Intra-group Assets –**This column is not intended to be used for required capital but is included in case a volunteer believes ~~it's~~it is necessary from reporting an inaccurate required capital figure.

  a. loans, receivables, and arrangements to centralize the management of assets or cash.

  b. derivative transactions.

  c. purchase, sale, or lease of assets.

  d. Other (describe in "Questions and Other Information Tab")

- **[Inv C Col 7] All** Other Adjustments – Include a brief explanation in the "Description of 'Other Adjustments'" in the Questions and Other Information Tab. Use this column is for adjustments related to required capital that correspond to adjustments in Inventory B, Column 7 and in cases where a volunteer believes it's necessary to adjust an inaccurate regulatory required capital figure [Example: RBC calculation applied as a permitted practice.

DRAFTING NOTE: Consider whether this column should be used rather than Column 2 for zero value entities.

- **[Inv C Col 8]** Adjusted Capital Calculation Stand-alone capital calculation for each entity per the calculation to eliminate double counting. This value includes the impact of permitted and prescribed practices

- Inventory D is for 'Reference Calculations Checks'. These are calculations that can serve as checks on the reasonability/consistency of entries.

a. [**Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value) –** This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the 'Investment in Subsidiary' column. This sum will often, but not always, be equal to the 'Investment in Subsidiary' column.

b. [Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital) – Similar to above but for calculated capital.

c. [Inv D Col 7-8] Carrying Value / Adj Calc Cap – This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were done correctly.

Input 3 – Capital Instruments

~~65.~~66. Provide all relevant information pertaining to paid-up (i.e. any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to capture all financial instruments such as surplus notes, senior debt, hybrid instruments and other subordinated debt. Where a Volunteer Group has issued multiple instruments, the Volunteer Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). All qualifying debt should be reported as follows.

~~66.~~67. Debt issued by US led groups:

- Surplus Notes – Report the outstanding value of all surplus notes in Column 8 whether issued to purchasers within or outside the group. The outstanding value of Surplus notes issued to entities outside the group and that is already recognized by State regulators and reported 100% as capital in the carrying value of U.S insurer issuers in Section B of the **inventory tab and will not be included in the additional capital allowance.** Surplus notes issued within the group generally result in double counting and will not be included in the additional capital allowance. See instructions below.

- Subordinated Senior Debt (and Hybrid Debt) issued – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital. For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:

  a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options).

  b. 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 such approval will be granted without supervisory review.

  c. "Other" Debt - The outstanding value will be reported in Column 8 and will be further described in the Other Information Tab and will be reported in a manner that is consistent with Senior Subordinated Debt as described above. Such Debt will not initially be included in the additional capital allowance for the GCC. An additional allowance of this debt as additional capital will be calculated in this Tab and reported as a sensitivity analysis in the Summary 2 Tab, subject to future determination on whether it will become part of the GCC calculation.

~~67.~~68. Foreign debt:

- Report the outstanding value of Non-U.S. senior debt issued to entities outside the group in Column 8. Debt specifically recognized by statute, regulation or accounting rule as additional capital resources by the lead jurisdiction based on contractual subordination or where a regulatory regime proactively enforces structural subordination through appropriate regulatory / supervisory controls over distributions from insurers in the group **will not be included in the calculation of an additional capital allowance** if it is already reported as capital in the carrying value of the issuer in Section B of the **inventory tab. It will be included in the calculation of an additional capital allowance if recognized by the local jurisdiction and NOT already included in the value of the issuer** in Section B of the **inventory tab.** b. Cases where the value of debt instruments issued to purchasers outside the group has not been recognized by the legal entity's insurance or other sectoral supervisor **will not be included in the additional capital allowance.**

~~68.~~69. Please fill in columns as follows for all capital instruments–

- **[Column 1] Name of Issuer –** Name of the company that issued the capital financial instrument. [1]Will populate automatically from the 'Entity Identifier" column in this subsection'.
- **[Column 2] Entity Identifier –** Provide the reference number that was input in Schedule 1.
- **[Column 3] Type of Financial Instrument –** Select type from dropdown. Selections include Senior Debt, Surplus Notes (or similar), Hybrid Instruments and "Other" Subordinated Debt.
- **[Column 4] Instrument Identifier –** Provide a unique security identifier (such as CUSIP). ALL debt instruments must include an internal identifier if not external identifier is available.
- **[Column 5] Entity Category –** Links automatically to selection made on 'Inventory Tab' worksheet.
- **[Column 6] Year of Issue –** Provide the year in which the financial instrument was issued or refinanced.
- **[Column 7] Year of Maturity –** Enter the year in which the financial instrument will mature.
- **[Column 8] Balance as of Reporting Date –** Enter the principal balance outstanding as reported in the general-purpose financial statements of the issuer.
- **[Column 9] Intragroup Issuance –** Select whether the instrument was issued on an intra-group basis (that is, issued to a related entity within the group). This column will be used to remove "double counting". This column is a dropdown box with options "Y" and "N"
- **[Column 10] Treatment in Inventory B –** Select option that applies:

  a. **Capital - This instrument is recognized or credited as capital in local regulatory regime and reported as part of the adjusted carrying value of the issuer and was not purchased by an affiliate–** This includes the value of qualifying senior and hybrid debt instruments (if recognized as capital) and U.S. surplus notes (or similar local regime instruments) that are issued to entities outside the group recognized in the Inventory B Tab The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital.

b. **Liability – This instrument is reflected by the issuer as a liability in the adjusted carrying value in the Inventory B Tab and was not purchased by an affiliate.** ~~-~~ This would apply to all qualifying senior and hybrid debt issued to purchasers outside the group that is not recognized as capital by the local regulator that are issued to entities outside the group recognized in the Inventory B Tab. The value will be included in the calculation of a proxy allowance for additional capital.

c. **Liability designation** would also apply to all non-qualifying senior and hybrid instruments and all debt categorized as "Other" issued to purchasers outside the group that is not recognized as capital by the local regulator. The value of these instruments will **NOT** be included the calculation for the in the calculation of a proxy allowance for additional capital.

d. **Intragroup –** This would apply to all qualifying instruments purchased by an affiliate within the group. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital. If the financial instrument is recognized or credited as part of the issuer's available capital in Inventory B, then an adjustment for intra-group capital instruments is made in Inventory B, Column 4 and Inventory C adjustments(if necessary to eliminate an associated capital requirement). If the financial instrument is treated as a liability by the issuer, then no intra-group capital instrument adjustment is required in Inventory B or Inventory C.

e. The outstanding value of all non-qualifying senior and hybrid instruments and financial instruments categorized as "Other Debt" whether issued to purchasers inside or outside the group will not be included in the calculation of a proxy allowance for additional capital and no other adjustments are required in the template. However, in the unlikely event that the instrument is treated as available capital to the issuer in Inventory B, an adjustment in Inventory B, Column 4 to remove the available capital would be required.

Additional information on instruments categorized as "Other Debt" in the Type of Financial Instrument Column will require additional information to be provided in the Questions and Other Information Tab.

- **[Column 11] Intragroup Purchaser Identifier –** Enter the entity identify for the affiliate entity that purchased the instrument.

- **[Column 12] Description of Other Debt Instruments –** Provide a description of instruments designated as "Other"

- **[Column 13] Base–** This column is calculated automatically using data ON THE ENTRIES IN Columns 3, 8 and 10. It represents the amount of qualifying debt that will be used for in the calculation of a proxy allowance for additional capital.

  For intra-group surplus notes, the adjustment will impact the carrying value and associated capital calculation of the purchasing affiliated entity.

- **[Column 14] Tracked Amount Down-streamed –** Enter amount of debt proceeds that was infused into the regulated entities' surplus at issuance or refinance of qualifying debt. Evidence of such infusion should be provided to the Lead-State. In addition, where a "N" response was entered in Schedule 1D, Column 11, or where a "Y" responses was entered in Schedule 1D, Column 11 and the amount entered here is greater than the current year capital contribution reported in Schedule 1D, Column 71 , an explanation and description of the method used for tracking the proceeds should be provided in the Questions and Other Information Tab.

DRAFTING NOTE: Additional criteria will be provided for purposes of determining qualification of debt as "down-streamed". Consideration should be given to eliminating the "down-streamed" category in favor of using paid-in and contributed capital and surplus alone.

Commented [FL7]: Delete this Column and consider adding a sensitivity analysis for APCIA approach.

- **[Column 14~~5~~] Amount Down-streamed -** The total ~~reported as tracked down-streamed will be compared to the total~~ amount of gross paid-in or contributed capital and surplus reported by the insurance entities within the group as reported in Schedule 1. This~~e greater~~ value will be carried into the calculation for an additional capital allowance. No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

Commented [FL8]: If Column 14, above is deleted make these revisions.

~~69.~~70. **Proxy Calculation for Additional Capital Allowance** – A calculation will be made in this Tab that will apply 30% of available capital plus the value of all qualifying debt to become part of the proxy allowance for additional capital for qualifying senior subordinated. An additional amount of 15% of available capital plus the value of all qualifying debt will be calculated to become part of a proxy allowance for additional capital be for hybrid debt.

No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

~~70.~~71. The greater of the proxy calculation ~~and the downstream (~~or paid in capital~~)~~ calculation will be allowed as additional capital. However, an overall limit of no more than ~~50~~75% of the total adjusted carrying value in Inventory B will be applied. Adjustments to increase available capital will be calculated from data on this page. The summary results of the components of the calculation (paid in capital and surplus, ~~tracked downstream,~~ proxy calculation and limitations) are populated as titled in the calculation columns beyond Column 14~~5~~. The additional capital allowance calculated for capital instruments will be shown as an "on-top" adjustment in the Summary 1 – Entity Level

Commented [FL9]: Delete reference to down-stream if deleted.

~~71.~~72. **Informational Proxy calculation for "Other Subordinated Debt"** – A sensitivity analysis will be applied in a designated calculation column on this Tab and carried into the Summary 2 Tab to adjust the amount of additional capital in the proxy calculation by the amount of "Other Debt" reported in Column **8** of this Tab issued to purchasers outside the group. This informational sensitivity analysis will include an additional allowance for such debt up to 15% of available capital plus the value of all qualifying debt including qualifying "Other" Debt subject to the same limitations noted for the proxy allowance in general.

Input 4 – Analytics

~~72.~~73. The entity type information supporting analytics summarized in Summary 3 - Analytics are pulled into this tab from data or information reported in other Tabs in the GCC template. That data is exported into summaries in the Summary 3 – Analytics Tab. Only 2020 data is currently to be populated. However, it is contemplated that going forwards, data for prior years will also be populated such that it will provide the lead-State regulator with metrics to identify trends over time.

Input 5 - Sensitivity Analysis and Inputs

~~73.~~74. The sensitivity analysis is calculated in the Summary 2 Tab. Most inputs for the analysis are populated from other Tabs as described below and carried into the analysis which are reported in the Summary 2 Tab. However certain analysis requires inputs from this Tab. Inputs are required in this Tab for Analysis 2, 3, 8, 9 and 10. Sensitivity Analysis are intended to provide the lead-state regulator additional information that helps them better understand the financial condition of the group. Similar to the sensitivity analysis included in the legal entity RBC, it provides the regulator with additional information and allows them to consider "what-if" scenarios to better understand the impact of such items. The results of these analysis will not impact the ~~base~~ GCC ratio.

- **[Analysis 1]: Excluded non-insurance / non-financial entities without material risk –** No additional data is needed in the Tab. The data for entities where exclusion has been requested and the lead-State does not agree will be populated based on entries in Schedule 1B, Column 3 and data in Inventory B, Column 2 and Inventory C, Column 2. This analysis will be applied and reported in the Summary 2 Tab. It will provide the regulator with the impact of excluding non-agreed upon entities on the GCC ratio**.**

- **[Analysis 2 and 3]: Permitted practices –** This information shows the amount of US permitted practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio.

- **Prescribed practices –** This information to be entered on this Tab shows the amount of US prescribed and prescribed practices as described in the Preamble of the NAIC Accounting Practices & Procedures Manual and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio. This analysis will be applied and reported in the Summary 2 Tab.

  Permitted and Prescribed Practices - Report Values from Annual Statement Note 1

  a. Entity Identifier
  b. Value of permitted practice
  c. Capital Requirement attributable to permitted practice (if any)
  d. Description of permitted practice
  e. Value of prescribed practice

f. Capital requirement attributable to permitted practice (if any)

g. Description of prescribed practice

- **[Analysis 4]: Foreign Insurer Capital Requirements ~~Uns~~Scaled** – No additional data is needed in the Tab. This information shows the amount of foreign insurer capital calculations scaled by applying scalars using the Excess Relative Ratio approach at a 300% x ACL RBC calibration level~~at 100% of full value~~ for all non-U.S. jurisdictions where scalar data is available (See Appendix 1). The sensitivity analysis allows the state to understand the impact of scaling on the GCC ratio. This information is populated from the Scalar Tab. This analysis will be applied and reported in the Summary 2 Tab.

- **[Analysis 5]: Debt Classified as "Other" –** No additional data is needed in the Tab. The analysis data will be populated from the Capital Instruments Tab and the analysis and will be applied and reported in the Summary 2 Tab.

- **[Analysis 6]: Alternative capital Calculation for Financial Entities without Regulatory Capital Requirements** – No additional data is needed in the Tab. The values reported will represent the alternative values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reports in the Scaling Non – Insurance Tab (Calc 2)

- **[Analysis 7]: Alternative capital Calculation for Non-Financial Entities -** No additional data is needed in the Tab. The values reported will represent the alternative values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reported in Scaling Non – Insurance Tab (Calc 2).

Commented [FL10]: Change this sensitivity to collect information on the Excess Relative Ratio approach

Commented [FL11]: May consider deleting if consensus is reached on treatment of these entities

~~74.~~75. **[[Analysis 8]** For Captives other than XXX/AXXX, all other US captives shall 1) make an asset adjustment similar to that described below;

Asset Impact

~~75.~~76. For the asset impact, it is ONLY required for the assets included in a captive or an entity not required to follow the statutory accounting guidance in the NAIC *Accounting Practices & Procedures Manual*. It is not required for assets for those groups that retain such business in a non-captive traditional insurance company(ies) that is already required to follow the *NAIC Accounting Practices & Procedures Manual*. Please note, variations for state prescribed and permitted practices are captured in the separate sensitivity analysis.

~~76.~~77. The asset impact amount shall be determined based upon a valuation that is equivalent to what is required by the *NAIC Accounting Practices & Procedures Manual* (NAIC SAP). For this purpose, "equivalent" means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the *NAIC Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g. mark-to market bonds used by some captives under US GAAP, vs full SAP that considers NAIC designations). To be more specific, the asset impact shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraphs 79 and 80 combined. Please note that Letters of Credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either NAIC SAP or US GAAP and are required to be adjusted out of the available assets (i.e. the asset reduction is recorded as a negative figure in the template).

~~77.~~78. To achieve the above, accumulate the effect of making the following impact and record as a negative figure in the template, an asset adjustment for all the following explicit assets not allowed to be admitted under NAIC SAP:

~~78.~~79. Assets specifically not allowed under NAIC *Accounting Practices and Procedures Manual in accordance with paragraph 9 of Statement of Statutory Accounting Principles No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:

- *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
- *SSAP No. 20—Nonadmitted Assets*
- *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP)
- *SSAP No. 29—Prepaid Expenses*
- *SSAP No. 105—Working Capital Finance Investments*
- *Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the Accounting Practices and Procedures Manual (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.);*
- *Depreciation for certain assets in accordance with the following statutory accounting principles:*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*
- *SSAP No. 68—Business Combinations and Goodwill*
- *The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements*
- *The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.*
- *Any surplus notes held by the SCA issued by the reporting entity*

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~~79.~~80. In addition, record as a negative figure, an asset impact for any assets that are not recognized as an admitted asset under the principles of SSAP No. 4—*Assets and Nonadmitted including*:

- *Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and therefore do not meet the definition of an asset as required under paragraph 2.*
- *Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third-party interests should not be recognized on the balance sheet and are therefore considered nonadmitted.*
- *Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.*

- **[Analysis 9]: Other Regulator Discretion –** This analysis is designed to reflect other regulator adjustments including for transactions other than XXX / AXXX reinsurance where there are differences in regulatory regimes exist and there is a desire to fully reflect U.S. Statutory Accounting treatment. This will be a post-submission item completed by the lead-state regulator. Enter the following information here:

  a. Entity Identifier

  b. Amount of adjustment

  c. Description of regulatory issue

DRAFTING NOTE: This Column may also be completed by the filer after advance consultation with the lead-State regulator.

Input 6 – Questions and Other Information

~~80.~~81. This tab provides space for participants to describe or provide greater detail for specified entries in other tabs (as noted in the instructions for the columns in those tabs) or additional relevant information not captured in the template. Examples include the materiality method applied to exclude entities in Schedule 1; adjustments for intra group debt, description of permitted practices; scalars proposed / supporting information for jurisdiction without a prescribed scalar; and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the Inventory Tab. Specified items are included in the Tab. Other information that the filer believes is relevant should be added freeform in this tab.

Information or Detail for Items Not Captured in the Template

- Materiality Standard for Non-Financial entities - Describe the methodology used to "exclude" non-financial entities as not posing material risk.

- Intercompany Guarantees– Provide requested information

  a. Entity Identifier issuing the guarantee
  b. Entity Identifier of entity or entities that are covered by the guarantee
  c. Indicate the notional or fixed value of the guarantee
  d. Describe the nature of the guarantee

- Capital Maintenance Agreements – Provide requested information

  a. Entity Identifier obligated under the agreement
  b. Entity Identifier for entity or entities that are covered by the guarantee
  c. Indicate the notional or fixed value of the agreement
  d. Describe the nature of the agreement

- Alternative Scalar Approaches – Describe suggested approaches to scaling of foreign insurer capital requirements other than those currently included in the template.

Commented [FL12]: May no longer be needed. See later comments on scalar approach.

Information or Detail for Items Captured in the Template

- Value of intangible assets included in non-insurance Holding Companies – Provide the requested information for all entities designated with a holding company entity type.

  a. Entity Identifier
  b. Total value of intangible assets included in local carrying value column in Inventory B*
  c. Description and amount of each intangible asset

  *Auto populated

DRAFTING NOTE: Consider whether this information should be collected only for positive value holding companies.

- Currency Adjustments –Provide requested information only for entities where the amount reported for an entity in Inventory B Column 2 is different than the amount in Inventory B, Column 1 due to currency conversion.

    a. Entity Identifier

    b. Currency Type reported in Inventory B Column 1 and Inventory C, column 1 (Foreign currency)

    c. Conversion rate applied

    d. Source of conversion rate applied

DRAFTING NOTE: Consider whether guidance on sources of conversion rates should be provided in lieu of this information.

- Intra-group Assets - Description of Adjustments for intra-group assets reported in Inventory B, Column 7 and Inventory C, Column 7. Provide the following information:

    a. Entity Identifier

    b. Amount reported in Inventory B, Column 7*

    c. Description of adjustment

    * Auto populated

- Other Adjustments - Description of adjustments reported in Inventory B, Column 8 and Inventory C, Column 8. Provide the following information:

    a. Entity Identifier

    b. Amount reported in Inventory B, Column 7*

    c. Description of adjustment

    * Auto populated

- Accounting Adjustments– Provide requested information only for entities where the amount reported for an entity in Inventory B Column 1 is different than the amount in Inventory B, Column 2 due to differences in accounting basis

    a. Entity Identifier

    b. Value reported in Inventory B Column 1*

    c. Value reported in Inventory B Column 2*

    d. Total Amount of Adjustments related to difference in accounting basis*

    e. Nature of Adjustment (e.g. GAAP to SAP)

    f. Description and amount of the Adjustments (e.g. treatment of deferred acquisition cost; reserve valuation; treatment of intangible assets)

    *Auto populated

- Methodology for tracking / reporting down-streamed debt proceeds – Describe the approach used to report tracked down-streamed debt proceeds reported in Column 1~~40~~ in the Capital Instruments Tab (~~See instructions for~~ See instructions for Column 14 in the Capital Instruments Tab).

Commented [FL13]: Delete if Tracked Downstream is removed.

- The tab also includes a listing of all Schedule A and Schedule BA affiliates along with the following information:

  a. Parent identifier (if available) this is the same information as is included in Schedule 1 (Sch. 1B, Col 3) as would be entered for non-Schedule A / BA affiliates

  b. Parent Name – Enter the Name of the Parent

  c. Is Parent a Schedule A or BA Asset? - This column is only required for financial entities that are Directly owned by a Schedule A or BA Affiliate. No other downstream affiliates owned by Schedule A or BA entities need to be listed. These entities are not normally independently reported in Schedules A and BA so are extra entries.

  d. Financial or material non-financial? (Y/N) - if the entity meets the criteria as being a financial entity, indicate with a "yes" response. A "no" response is not required for other entities listed. "Yes" entries should correspond to "yes" entries in Schedule 1(Sch. 1B, Col 17)

  e. Carrying Value of Immediate Parent – Report the value listed in Schedule A and BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent

f. Capital Requirement for Immediate Parent - Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA parent. The capital requirement reported in this column for the immediate Schedule BA parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C.

Calc 1 – Scaling (Insurance Entities)

82. All entries in this tab are calculation cells populated using data from within the tab or using data from elsewhere in the template. Scaled values for calculated capital will become part of the ~~base~~ GCC ratio. The calculated values will be summarized by entity type in Summary 1 – Entity Level Tab. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers so as to be comparable to an RBC

based requirement. Two approaches for scaling related to foreign insurers were presented, and others are being explored and will be reviewed. A decision on the scaling methodology to be adopted into the GCC Template will be made at the end of the review. In the interim a scalar of 100% of the jurisdictional PCR will be applied to all jurisdictions where a risk sensitive capital requirement is in place.~~:~~

83. Information on the Excess Relative Ratio (ERR) scalar methodology will be collected and applied in the Sensitivity Analysis Tab

SEE APPENDIX 1 FOR MORE INFORMATION AND EXAMPLES ON HOW THE ERR SCALARS ARE CALCULATED.

~~81.~~84. . For jurisdictions without risk sensitive capital requirements a 100% charge will be applied to adjusted carrying value.

~~82.~~85. Scalars developed by volunteers for jurisdictions where there is only 100% included in the Tab or which are not listed at all should not be included in this Tab. Include the scalars in the Questions and Other Information Tab along with supporting rationale for the scalar.

Commented [FL14]: Should we keep this paragraph or delete it?

Calc 2 – Capital Calculations for Non-insurance Entities

~~83.~~86. All entries in this tab are either calculation cells using data from within the tab or using data populated from elsewhere in the template. Calculated capital for all entities except insurers will be reported in this Tab. The calculated values will be summarized by entity type in Summary 1 – Entity Level Tab.

~~84.~~87. In addition, one informational option for calculated capital for financial entities without an existing regulatory capital requirement and one informational option for calculated capital for non-financial entities will be reported in this tab. Those calculation will not be carried into the Summary 1 – Entity Level Tab and will not be part of the ~~base~~ GCC ratio.

~~85.~~88. Only amounts for entities that the filer and the lead- State regulator agree should **not** be excluded (See Schedule 1B, Column 2) will be brought into the calculation in this Tab and Summary 1 – Entity Level. Entities where the Lead-State does not agree with the filer's request to exclude an entity will be part of the ~~base~~ GCC ratio.

Summary 1 - Entity Level GCC Summary

~~86.~~89. Summarized results by entity type for the ~~Base~~ GCC ratio will be reported in this tab. An on top adjustment for debt allowed as additional capital will be added at the bottom of the table. All informational sensitivity analysis will be reported in Summary 2 and will not impact the ~~Base~~ GCC ratio.

Summary 2 – Informational Sensitivity Tests

~~87.~~90. Summary results for each informational sensitivity analysis described in the Sensitivity Analysis Inputs Tab will be shown here. Each sensitivity analysis will be shown on a stand-alone basis. It is expected that each informational sensitivity analysis will run automatically in the background and the results for each displayed in this Tab. The results for the informational sensitivity analysis will not be included in **Summary 1 - Entity Level**.

Summary 3 – Analytics

~~88.~~91. Summary results for metrics described in the Analytics Guidance **[insert attachment or appendix reference]** and utilizing data collected in the Input 4 – Analytics Tab or other Tabs in the GCC will be calculated and presented here.

Summary 4 - Alternative Grouping Option(s) (a.k.a. Cigna Illustration)

~~89.~~92. One sample alternative structure for grouping entities in the GCC calculation is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining of data from **Schedule 1 and the Inventory** in to be defined ways**.**

This tab is intended to be an additional analytical tool. The tool summarizes the GCC based upon how a reporting entity views its organization, and provides regulators that view, to align it with regulatory information, other than what is reported elsewhere in the GCC Template, that the reporting entity has submitted such as current filings, communications, etc. In this summary view, entities are organized into like regimes and multiple entities may be grouped together, in order to create a view of capital that is easy to review and analyze within each grouping. The intent of this approach is to provide an additional analytical tool designed to enhance dialogue between the lead regulator and the company contemplated by the GCC filing. This view is transparent (no scalers, no adjustments, no de-stacking) so that financial information may be cross-walked to other financial submissions such as RBC filings.

~~90.~~93. The results are dependent on how the reporting entity populated. Input 1 - Schedule 1, Column H, [7] Alternative Grouping. For example, if you have a dozen small dental HMO businesses, you may wish to collapse the results to a single line called "Dental HMOs", by populating Input 1 - Schedule 1, Column H, [7] Alternative Grouping for each dental HMO as "Dental HMOs". Then "Right-click" and select "Refresh" to see the results with the "Dental HMOs" combined.

~~91.~~94. For your reference, the data for the Summary 4 -Grouping Alternative is from Calc 1 - Scaling (Ins, Bank) which is fed by the inputs you have made in Input 1 - Schedule 1, Input 2 – Inventory, etc.

Appendix 1 – Explanation of Scalars

~~92.~~95. The concept of a scalar is to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels.~~. During its Aug. 11, 2016 conference call, the Working Group again discussed the possible use of scalars for non-U.S. insurers and noted that scalars are needed, at least in part, to remove the differences that exist between countries because of the different level of conservatism built into the accounting and capital requirements.~~ The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data. ~~Two approaches are shown:~~

Excess Relative Ratio Approach

~~93.~~96. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the U.S. and Country A.

1. Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

   a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

   In Country A, assume that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

   $$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

   In the U.S., capital requirements are related to the insurer's risk-based capital (RBC) ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

   $$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{\text{100\% Company Action Level RBC*}}$$

   * 100% Company Action Level RBC is equal to the Total RBC After Covariance, without adjustment or 200% Authorized Control Level RBC.

   b. Similar to legal entity RBC requirements in the U.S., Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the U.S.'s Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. For simplification purposes, NAIC staff is not considering the RBC trend test in this memo.

   c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the U.S.'s CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test.). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as

100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells us how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a "multiples of the trigger level" approach, to ensure an apples-to-apples comparison[2].

2. Obtain Aggregate Industry Financial Data

~~94.~~97. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

U.S. Life Insurers – Aggregate Data
Total Adjusted Capital = \$495B
Authorized Control Level RBC = \$51B
Company Action Level RBC = \$102B
Country A Life Insurers – Aggregate Data
Total Available Capital = \$83B
BRC = \$36B

3. Calculate a Jurisdiction's Industry Average Capital Ratio

~~95.~~98. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the U.S., this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-U.S. company should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction's industry average capital ratio:

Calculation of U.S. Industry Average Capital Ratio – Life Insurers

$$\frac{\$495\text{B (Total Adjusted Capital)}}{\$102\text{B (CAL RBC)}} = \mathbf{485\%}$$

[2] While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where 100% CAL RBC is the reference point to calibrate against other regimes.

Calculation of Country A Industry Average Capital Ratio – Life Insurers

$$\frac{\text{\$83B (Total Available Capital)}}{\text{\$36B (BRC)}} = \mathbf{231\%}$$

4. Calculate a Jurisdiction's Excess Capital Ratio

99. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula

$$\frac{\text{Average Capital Ratio – Capital Ratio at the First Intervention Level}}{\text{Capital Ratio at the First Intervention Level}}$$

100. Based on the formula above and information provided in Steps #2 and #3, included below are how to calculate each jurisdiction's excess capital ratio. Note: The first intervention level in the U.S. is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[3]

Calculation of U.S. Excess Capital Ratio – Life Insurers

$$\frac{\text{485\% (Average Capital Ratio) – 100\% (Capital Ratio at the First Intervention Level)}}{\text{100\% (Capital Ratio at the First Intervention Level)}} = \mathbf{385\%}$$

Calculation of Country A Excess Capital Ratio – Life Insurers

$$\frac{\text{231\% (Average Capital Ratio) – 150\% (Capital Ratio at the First Intervention Level)}}{\text{150\% (Capital Ratio at the First Intervention Level)}} = \mathbf{54\%}$$

[3] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

5. Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

101. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

102. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14% Therefore, Country A's scalar for life insurers would be 14%

6. Apply to the Scalar to the Non-U.S. Insurer's Amounts in the Group Capital Calculation

103. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For purposes of this memo, assume that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, in order to equate the company's $341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting amount of $512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of $71,792.

104. Further, the above rationale suggests that the available capital might also be overstated (since it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, we should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for Group Capital Calculation

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1st Regulatory Intervention Level

341,866 (BRC) * 150% = 512,799

Scaling of Calibrated Minimum Required Capital 512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007) Scaled Total Available Capital 1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

105. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital	1,367,463	926,456
Base Required Capital	341,866	71,792
Capital Ratio (= TAC / BRC)	400%	1290%

~~96.~~106. Considering the fact that life insurers in Country A hold much lower levels of capital over the first intervention level as compared to U.S. life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that we understand is built into the U.S life RBC formula driven primarily from the conservative reserve valuation.