Group Capital Calculation - Post Adoption Q & A – December 17, 2020

The following questions were received after adoption of the Group Capital Calculation (GCC), and corresponding clarifications or corrections were made to the GCC instructions and / or template:

**Inventory Tab**

Q1. What is the required capital calculation for the ultimate controlling person (UCP)/ top non-insurance holding company and what entry is required capital reporting for its subsidiaries on the parent regime column (Inv 1C col. 1)? First, for UCP/ top non-insurance holding company, there are no specific instructions for its required capital. Is one of the options is using a non-insurance/non-financial entity's required capital calculation method (% of equity based on insurer type)?

A. The entry in Inventory C. column 1 for the UCP will always be zero since there is no Parent Regime for the UCP. The entry in Inventory C, column 2 for a non-operating UCP will also be zero. However, in the Calc 2 and Summary Tabs the adjusted carrying value (from Inventory B, Column 8) of all non-operating holding companies, including the UCP will be totaled and if the net total is a positive value then a the charge applied to non-insurance / nonfinancial entities with material risk will be applied to the net positive value of the non-operating holding companies in the group. The charge varies based on the predominant insurance type (life, P&C, or health) issued by the insurers in the group. If the net value of all non-operating holding companies is zero or negative, then a zero charge will be applied. If there is an overall positive capital charge that will carry into the GCC Ratio. Instructions will be added for the top UCP and clarified for all other non-operating holding companies.

Revision made to instructions on Paragraph 54 (Page 15):

- Mutual Insurance Groups may use the Total Adjusted Capital and amount of required capital from the top-level Insurer’s RBC Report at 200% x ACL RBC, each further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-through 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.

Revisions made to instructions in Paragraphs 60 (Page 23) and 61 (page 27) respectively:

- **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: 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 U.S. GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. **No entry is required for the Ultimate Controlling Person (UCP).**

- **[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. **No entry is required for the Ultimate Controlling Person.** In general, entity required capital should represents the capital requirements of the Parent’s insurance or other sectoral regulator:
Revision to instructions on Page 68 (Page 30):

68. Non-operating holding companies:

- Non-operating holding companies, including a non-operating UCP, will be treated the same as other non-insurance/non-financial entities with material risk. Unless reported on a grouped basis (see paragraph 54), 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 in the Calc 2 Tab and zero values will be reported in the Inventory Tab. If the net value is zero or less (floored at zero for purposes of applying a charge), the charge applied will be zero. If the net value is positive the applicable non-insurance/non-financial capital charge will be applied in the Calc 2 Tab. If the filer chooses to designate the non-operating holding company as a non-insurance/non-financial entity without material risk and requests exclusion, then no allowance for debt issued by that holding company may be included in the calculation.

Capital Instruments Tab

Q2. There appears to be a formula error in the GCC template for Input 3- Capital Instruments tab that calculates the qualifying debt in Column 16. The formula error exists in Other Criteria met?, It should be an OR instead of AND in Column 15, so it will be considered as qualifying debt if we meet the requirement that the instrument has a fixed term (a minimum of 5 years at the date of issue or refinance, including call options other than make whole provisions) and supervisory review or approval is required for ordinary or extraordinary dividend distribution from the insurance subsidiary to fund the repurchase or redemption of the instrument. Currently the AND forces the impact that it should have both the 5-year term and call provision.

A. The “AND” in the Column 15 instructions is correct. However, the GCC instructions in paragraph 71 on Page 37 will be modified as follows:

- **[Sec 3A Col 13] Call Provisions Criteria** – Respond “Y” or “N” as to whether the instrument is subject to a call provision (other than a make whole provision) in the first five years AND it is management’s intent to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument. Respond “NA” if the instrument is not subject to a call provision in the first five years.

- **Sec 3A Col 15 Other Criteria Met**– This is an automatic calculation to determine if instrument qualifies due to criteria beyond those in Column 14. The column will show “Y” if: 1) the instrument has initial maturity of greater than five years; and 2) it meets the “Call provisions criteria” in Column 13 (i.e. “Y” or “N/A” is reported in Column 13).

The formula in Column 15 of the Template will make sure that (1) column 7 is >= five years after column 6 AND (2) column 13 is “Y” or “N/A” (i.e. not “N”). It will be revised as follows:

=IFERROR(IF(AND(Q13<>"N",K13-J13>=5),"Y","N"),"N")