March 8, 2024

Philip Barlow
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Exposure of the ACLI RBC Repurchase Agreement (Repo) Proposal (2024-03-L)

Dear Chair Barlow:

The American Council of Life Insurers (ACLI) appreciates the LRBC Working Group’s consideration and exposure of our proposal to reduce the repo charge to 0.2% for programs that meet “conforming program criteria” through the General Interrogatories, including identification of a reinvestment pool funded by conforming repo programs.

Following conversations with regulators regarding our previous suggestions on February 23, 2024, ACLI has decided to amend our proposal slightly to leave the word “dedicated” within the RBC Instructions while specifying that the primary conforming requirement should be to identify a “pool of” dedicated reinvested assets. Within the Background section, the change would appear as such:

- To qualify for a “conforming” securities lending program, insurers must attest that their program conforms to appropriate operational and investment risk guidelines and that the collateral margin applied to transactions is within the industry standard. The primary “conforming” requirement is to identify a pool of dedicated reinvested assets to match the securities lending liability.

In a similar vein, we also recommend the following change in the ACLI proposal section:

1. Establish “conforming program criteria” for repo, similar to securities lending. Reporting insurers must attest that they have identified a pool of dedicated reinvested assets to
support the repo liability and enhance their statutory reporting so that regulators can validate these attestations.

Thank you once again for the consideration of our proposal and we look forward to future discussions with regulators on this topic.

Sincerely,

[Signature]

Colin Masterson

cc: Dave Fleming, NAIC
Summary: Life Risk-Based Capital (RBC) currently has a C-0 charge for Repurchase Agreements (repo) advances of 1.26% computed on LR017. ACLI proposes a reduction of the repo charge to 0.2% for programs that meet “conforming program criteria” through the General Interrogatories, including identification of a reinvestment pool funded by conforming repo programs; General Interrogatories will be updated as part of this proposal. This reduced charge will apply to footnote 5 F (7) ending balance for collateral received under secured borrowing (or the conforming amount as determined by the instructions). The overcollateralized amount (the difference in statement balances for the above-mentioned footnote 5 F (7) ending balance for collateral received under secured borrowing net of the statement balance for Footnote 5 F (5) defining the fair value ending balance for securities sold under repurchase secured borrowing) would receive C-1 RBC factor for bonds rated BBB; this would only apply to counterparties rated BBB or higher. All other repo programs that do not meet the conforming program criteria or where the counterparty is rated BB or lower would continue to receive the current 1.26% charge.

Rationales for change: Approval of this proposal would align capital charges and disclosure requirements between conforming securities lending programs and conforming repo programs, incentivizing insurers to diversify sources of short-term funding. Enhanced disclosure for conforming repo programs would improve regulatory oversight, while RBC alignment would help insurers reduce interconnectedness with Primary Dealers and the idiosyncratic risk associated with bank balance sheet management, particularly during periods of financial stress.

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**Background:**

Repurchase agreements and securities lending transactions are similar forms of short-term collateralized funding for life insurers. Counterparties are a key difference between these two funding structures. While Primary Dealers act as intermediaries for securities lending transactions, repo is generally executed directly with end-counterparties, such as money market funds. When risk-based capital (RBC) standards were developed, both securities lending and repurchase agreements were assigned C-0 RBC factors of 1.26%. Around 2006, the NAIC revised the C-0 RBC factor for “conforming” securities lending programs to 0.2%:

- To qualify for a “conforming” securities lending program, insurers must attest that their program conforms to appropriate operational and investment risk guidelines and that the collateral margin applied to transactions is within the industry standard. The primary “conforming” requirement is to identify a pool of dedicated reinvestment portfolio assets to match the securities lending liability.
- Adjusting RBC requirements for smaller “repo” programs was left for a later date.

Since the Great Financial Crisis, regulators and market participants have worked towards reducing the interconnectedness of funding through both regulation and risk management practices. A core tenant of these efforts has been to reduce concentration risk, both in single counterparty and source. Reliance on Primary Dealers in the securities lending market has exposed insurers to the idiosyncratic risks that drive bank balance sheet availability, particularly under stress. The expansion of funding sources to include repo counterparties would enhance overall liquidity for Securities Lenders, increase stability in secured funding markets during times of stress and diversify loan exposures, collectively reducing systematic risk. Alignment of RBC charges would support this enhancement.

**ACLI Proposal**

The ACLI proposal for conforming repo programs mirrors existing RBC for conforming securities lending:

1. Establish “conforming program criteria” for repo, similar to securities lending. Reporting insurers must attest that they have dedicated identified a pool of dedicated reinvestment assets to support the repo liability and enhance their statutory reporting so that regulators can validate these attestations.

2. Proposed RBC for conforming repo programs is the sum of:
   - 0.20% charge for repo assets, plus
   - Additional RBC applied to insurer’s net uncollateralized counterparty exposure (typically 2% of funding amount). To be conservative, the C-1 RBC charge for bonds rated BBB is applied to the insurer’s net counterparty exposure. Counterparts rated lower than BBB would not qualify for a conforming repo program.
Additional Staff Comments:

** This section must be completed on all forms.  

Revised 11-2023