Proposed GAAP Based Approach
XXX/AXXX On-top Adjustment Test 5

- Two key components:
  - Use readily available GAAP valuations as a proxy for an economic reserve valuation for both captives and direct writers (outlined below)
  - Adjust assets to align with SAP

- Use of GAAP reserves would produce a more comparable proxy across insurers

- Adjustment to Available Capital = Post-tax [Statutory reserves – GAAP reserves with adjustments[1]]

- Proposal offers a simple and implementable approach:
  - Uses broadly available data and avoids re-valuation of inforce business to PBR-basis reserves[2]
  - Is consistent with the principle underlying current captive treatment (i.e., acknowledging reserve redundancies)
  - Would produce results that are generally closer to "economic" reserve levels than PBR
  - Would provide comparable treatment of XXX/AXXX reserves within and across insurance groups
  - Has precedent – similar approach for XXX/AXXX business has been employed for rating agency purposes

- Qualitative information would be equally important; elements of interest:
  - Does your company compute GAAP reserves[3]?
  - How well would the proposed GAAP based approach approximate economic reserves?
  - Do you have alternative proposals for if/how GAAP reserves should be adjusted to remove inherent conservatism (e.g. provisions for adverse deviation) or more closely align with economic reserves?
  - Do agree with the proposed treatment of the asset side of the balance sheet?
  - Are there other elements or adjustment that would need to be considered/accounted for under a GAAP based approach?
  - Would a GAAP based approach work post implementation of FASB's Targeted Improvements to the Accounting for Long-duration Contracts?
  - Do you have other thoughts/comments on the proposed approach?

---

[1] *Adjustments may include reducing GAAP reserves (e.g., 50% credit for DAC) to adjust for inherent conservatism*
[2] *Section VM-20 of the Valuation Manual contains PBR requirements*
[3] *For purposes of this exercise, the question should not be narrowly interpreted as "does the company produce GAAP reserves to comply with SEC reporting requirements"*

Proposed GAAP Based Approach
XXX/AXXX On-top Adjustment Test 5

1.	Does your company compute GAAP reserves[4]?
2.	How well would the proposed GAAP based approach approximate economic reserves?
3.	Do you have alternative proposals for if/how GAAP reserves should be adjusted to remove inherent conservatism (e.g. provisions for adverse deviation) or more closely align with economic reserves?
4.	Do agree with the proposed treatment of the asset side of the balance sheet?
5.	Are there other elements or adjustment that would need to be considered/accounted for under a GAAP based approach?

[4] *For purposes of this exercise, the question should not be narrowly interpreted as "does the company produce GAAP reserves to comply with SEC reporting requirements"*

Proposed GAAP Based Approach
XXX/AXXX On-top Adjustment Test 5

6.	Would a GAAP based approach work post implementation of FASB's Targeted Improvements to the Accounting for Long-duration Contracts?
7.	Do you have other thoughts/comments on the proposed approach?