



Draft date: 3/17/25

*2025 Spring National Meeting
 Indianapolis, Indiana*

FINANCIAL CONDITION (E) COMMITTEE

Wednesday, March 26, 2025

8:00 – 8:45 a.m.

JW Marriott Indianapolis—JW Grand 5–10—Level 3

ROLL CALL

Nathan Houdek, Chair	Wisconsin	Vicki Schmidt	Kansas
Justin Zimmerman, Co-Vice Chair	New Jersey	Michael T. Caljouw	Massachusetts
Michael Wise, Co-Vice Chair	South Carolina	Mike Chaney	Mississippi
Mark Fowler	Alabama	Adrienne A. Harris	New York
Michael Conway	Colorado	Judith L. French	Ohio
Michael Yaworsky	Florida	Cassie Brown	Texas
Holly W. Lambert	Indiana	Scott A. White	Virginia
Doug Ommen	Iowa		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

AGENDA

1. Consider Adoption of its 2024 Fall National Meeting Minutes Attachment One
 —*Commissioner Nathan Houdek (WI)*

2. Consider Adoption of the Reports of its Task Forces and Working Group Attachment Two
 —*Commissioner Nathan Houdek (WI)*
 - A. Accounting Practices and Procedures (E) Task Force Attachment Three
 - B. Capital Adequacy (E) Task Force Attachment Four
 - C. Financial Stability (E) Task Force Attachment Five
 - D. Receivership and Insolvency (E) Task Force Attachment Six
 - E. Reinsurance (E) Task Force Attachment Seven
 - F. Valuation of Securities (E) Task Force Attachment Eight
 - G. Risk-Focused Surveillance (E) Working Group

3. Report on Privately Rated Securities Missing Rational Reports Attachment Nine
 —*Carrie Mears (IA)*

4. Receive a Status Report on the Draft Reinsurance Asset Adequacy Actuarial Guideline—*Fred Andersen (MN)*
5. Receive a Status Report from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*
6. Discuss Any Other Matters Brought Before the Committee
—*Commissioner Nathan Houdek (WI)*
7. Adjournment

Draft Pending Adoption

Draft: 11/25/24

Financial Condition (E) Committee
Denver, Colorado
November 19, 2024

The Financial Condition (E) Committee met in Denver, CO, Nov. 19, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, and Jamie Walker (TX); Michael Conway (CO); Doug Ommen (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt (KS); Micheal T. Caljouw by Christopher Joyce (MA); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman and David Wolf (NJ); Adrienne A. Harris represented by Bhavna Agnihotri and Bob Kasinow (NY); Judith L. French and Dwight Radel (OH); Elizabeth Kelleher Dwyer represented by John Tudino and Ted Hurley (RI); and Scott A. White (VA). Also participating were: Kenneth Cotrone (CT), Philip Barlow (DC), Robert Wake (ME), and Fred Andersen (MN).

1. Adopted its Oct. 24, Aug. 24, and Summer National Meeting Minutes

The committee met Oct. 24, Aug. 24, and Aug. 15. During its Oct. 24 meeting, the committee adopted its proposed 2025 charges and made changes to address comments on the draft request for proposal (RFP) to engage a consultant to design and help implement a new due diligence program for the ongoing use of credit rating providers (CRPs). During its Aug. 24 meeting, the committee adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) that provide state insurance regulators with discretion over securities that are otherwise exempt from filing with the Securities Valuation Office (SVO).

Commissioner Conway made a motion, seconded by Commissioner Ommen, to adopt its Oct. 24 (Attachment One), Aug. 24 (Attachment Two), and Aug. 15 (see *NAIC Proceedings – Summer 2024, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Houdek stated that the committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded committee members that after the committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2024 Fall National Meeting as part of the Financial Condition (E) Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately.

With respect to the task force and working group reports, Commissioner Houdek asked the committee: 1) whether there are any items that should be discussed further and 2) whether there are other issues not up for adoption that are currently being considered by task forces or working groups reporting to the committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met Nov. 16, Oct. 23, and Oct. 2 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met Nov. 16, Nov. 4, and Sept. 6 in

Draft Pending Adoption

regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

Commissioner White made a motion, seconded by Eft, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Three); National Treatment and Coordination (E) Working Group (Attachment Four); Restructuring Mechanisms (E) Working Group (Attachment Five); and Risk-Focused Surveillance (E) Working Group (Attachment Six).

3. Adopted the Listing of Qualified Jurisdictions and Reciprocal Jurisdictions

Wake reported that the Mutual Recognition of Jurisdictions (E) Working Group met in regulator-only session on Oct. 24 to discuss the annual review of the qualified and reciprocal jurisdictions. During the meeting, the Working Group reapproved the status of the seven existing qualified and reciprocal jurisdictions, including Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK), and the three reciprocal jurisdictions that are not subject to an in-force “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement)—Bermuda, Japan, and Switzerland. By law, the other four reciprocal jurisdictions of France, Germany, Ireland, and the UK automatically remain reciprocal jurisdictions so long as they are parties to covered agreements. These decisions came after NAIC staff reviewed the due diligence they had performed. Additionally at the meeting, the Working Group approved the Canadian Office of Superintendent of Financial Institutions (OSFI) as a jurisdiction that recognizes and accepts the U.S. approach to group capital. However, this action is not final, as the report is still in its 30-day comment period. The comment deadline is Nov. 25, and if there are no negative comments, it will be considered formally adopted by the Working Group at that time and will be passed onto the E committee for adoption.

Commissioner Schmidt made a motion, seconded by Doggett, to adopt the listing of qualified jurisdictions and reciprocal jurisdictions (Attachment Seven). The motion passed unanimously.

4. Received an Update on the Draft Reinsurance Asset Adequacy Actuarial Guideline

Commissioner Houdek said the Life Actuarial (E) Task Force has been discussing issues related to reinsurance over the past few months. He noted that the American Council of Life Insurers (ACLI) told the committee it appreciates the increased coordination on reinsurance issues and wants to continue coordination on these activities.

Andersen noted that this work began in February when members of the Reinsurance (E) Task Force made a recommendation to the Life Actuarial (A) Task Force to consider cash flow testing requirements for ceded reinsurance business. Since February, the Life Actuarial (A) Task Force has had several public calls and meetings on the topic with some updates to the Financial Stability (E) Task Force and the Life Insurance and Annuities (A) Committee. There have been multiple comment periods on the issue, which have been helpful for a wide range of parties, including consumers, the American Academy of Actuaries (Academy), interested experts, ACLI, and representatives of reinsurance companies and reinsurance jurisdictions. The Life Actuarial (A) Task Force has made material changes to the original draft to incorporate many of the comments.

To understand the issue, it is helpful for non-actuaries to know that without reinsurance, U.S. regulators can review asset adequacy analysis assumptions and testing to evaluate the reasonableness of such amounts. However, when business is ceded, especially to companies that do not file an asset adequacy testing (AAT)

Draft Pending Adoption

memorandum required by the U.S. standard valuation law, regulators can lose insight. The increased use of reinsurance in recent years has led to this identified concern by the Reinsurance (E) Task Force and the Life Actuarial (A) Task Force. However, the Life Actuarial (A) Task Force will need to stay clear of any conflict with reciprocal jurisdictions and covered agreement issues as well as avoid excessive requirements where there is immaterial risk. The scope will be narrow and limited to the largest, most impactful treaties.

Andersen noted that an estimate of how many treaties will eventually fall within the scope of this cash flow analysis requirement will be around 100. Another issue is aggregation, which would allow a combined analysis when a ceding company has multiple treaties with one assessment. Also decided was that the higher the risk, the more analysis will be expected, while the lower the risks, the less analysis will be appropriate. Another decision was that for year-end 2025, only disclosures will be added as a new requirement. The alternative would be having the guideline specify that unfavorable cash flow testing would require the insurer to hold additional reserves. The guideline adopted for year-end 2025 will not include this requirement. However, the disclosure-only requirement does not impact a state's authority to work with its company to require additional reserves. Updated documents were exposed at the Fall National Meeting until the middle of January and discussion is expected around the end of January.

5. Received an Update from the Valuation of Securities (E) Task Force

Cotrone reported that the Task Force adopted an amendment to the P&P Manual to require an annual review of regulatory transactions. Regulatory transactions are unique investments engineered to address a regulatory concern that must be submitted for review and approval by the state insurance departments. They may contain an investment security component that the SVO is authorized to review with the state insurance department's approval. The P&P Manual did not previously require that these transactions needed to be periodically reviewed by the SVO. The amendment updates the instructions for the production of an SVO analytical value assigned to regulatory transactions to require an annual review (which is required for all other securities filed with the SVO), require the relevant insurance company to notify the SVO or structured securities group of any material changes, and to clarify the insurance company's limited ability to self-assign an SVO value with a "Z."

Cotrone also noted the Task Force's adoption of another amendment to the P&P Manual that updates the list of NAIC CRPs and clarifies the NAIC's use of CRP credit ratings. Only credit rating classes for which a CRP is registered with the U.S. Securities and Exchange Commission (SEC) as a nationally recognized statistical ratings organization (NRSRO) are eligible for NAIC CRP purposes. The amendment also clarifies that the SEC's definition used to regulate NRSROs is distinct from the definition used for statutory accounting asset classification purposes in the Statements of Statutory Accounting Principles (SSAPs).

Cotrone also reported that the Task Force adopted another P&P Manual amendment to remove references to subscript-s and update references to investment risk following the adoption of the updated definition of an NAIC designation at the Summer National Meeting. The technical amendment removed the outdated references and, where appropriate, changed "credit risk" or "credit quality" to "investment risk" or the corresponding meaning. The amendment also removed reference to "other non-payment risk" and references to the SVO administrative symbol to identify this risk, a subscript-s. Interested parties requested that examples of other non-payment risk also be removed from the P&P Manual. The Task Force agreed to the removal of those paragraphs since the concept of other non-payment risk is being removed throughout the P&P Manual. The amendment did not introduce any new policies or procedures.

Cotrone noted they also received a report on Statutory Accounting Principles (E) Working Group projects, a report on the identification of 1,700 privately rated securities that are missing the required ratings rational report, the

Draft Pending Adoption

status of financial modeling of collateralized loan obligations (CLOs), and a report on readiness to begin modeling single asset, single borrower (SASB) and commercial mortgage-backed securities (CMBS).

6. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow noted the focus of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group continues to be asset-backed securities (ABS) with an initial focus on CLOs. As a reminder, the life formula has an interim 45% risk-based capital (RBC) factor for residual tranches for year-end 2024, while the property and casualty (P/C) and health formulas have not adopted this change yet. He reported that the work being performed by the Academy on ABS and CLOs is slightly delayed due to receiving CLO data from one of the rating agencies. They now have the data and are trying to determine comparable attributes that can be used to assign factors based on these attributes. If that does not work, they will need to use a modeling methodology for individual CLOs. They have been working very closely with Eric Kolchinsky (NAIC) and his team and are also working on correlations between ABS and the portfolio like what is done from bonds in the RBC calculation. They have also started work on other projects, including reviewing three types of funds that currently receive different treatments and will see if their risk profiles are similar or different to warrant a different treatment.

7. Discussed Other Matters

Jeff Czajkowski (NAIC) stated that following the NAIC membership adoption of the new climate scenario interrogatories in the year-end P/C RBC filing, the NAIC has established a Climate Scenario Resource Center to assist filers and their advisors with the disclosure requirements. The NAIC Climate Scenario Resource Center is located on the webpage of the NAIC Center of Catastrophe Modeling Center of Excellence. The resources include the RBC blanks relating to catastrophe risk, a presentation by the NAIC, and an FAQ document, as well as a dedicated email address for insurers and their advisors to submit questions to the NAIC about the new climate scenario interrogatories. The link has been shared with the Reinsurance Association of America (RAA), the National Association of Mutual Insurance Companies (NAMIC), the American Property and Casualty Insurance Association (APCIA), several professional catastrophe modelers, and major reinsurance brokers to ensure RBC filers and their advisors are informed of the requirements and the tight deadline. Details have also been circulated to chief financial regulators and several commissioners for awareness and as a resource to engage with their domestic companies.

Having no further business, the Financial Condition (E) Committee adjourned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_3Fall/111924 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2024_3Fall/111924%20E%20Minutes.docx)

2025 Spring National Meeting
 Indianapolis, Indiana

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Tuesday, March 25, 2025

11:00 – 11:30 a.m.

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met March 25, 2025. During this meeting, the Task Force:

1. Adopted its 2024 Fall National Meeting minutes.
2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met March 24. During this meeting, the Working Group took the following action:
 - A. Adopted the following clarifications to statutory accounting guidance:
 - i. Adopted revisions to require restricted asset disclosure for modified coinsurance (modco) and funds withheld assets reported within a ceding company's financial statements. Recommended note illustrations and general interrogatory revisions to improve the restricted asset disclosure. (Ref #2024-20)
 - ii. *INT 24-02: Medicare Part D Prescription Payment Plans* and minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. (Ref #2024-24)
 - iii. Adopted annual statement reporting recommendations to provide granular reporting lines on Schedule BA: Other Invested Assets for Collateral Loans. A corresponding blanks proposal is concurrently exposed. (Ref #2023-28)
 - B. Exposed the following SAP concepts and clarifications to statutory accounting guidance for a public comment period ending June 6, except for agenda items 2024-07, 2025-04, 2025-05, 2025-06, 2025-07, and 2025-08, which are exposed for a public comment period ending May 2:
 - i. Exposed revisions expand the restricted asset reporting to capture information on modco and funds withheld assets that are related to the reinsurer and to require the disclosure in all quarterly and annual financial statements. Received related referral from the Financial Analysis (E) Working Group. (Ref #2025-05)
 - ii. Exposed proposed guidance to define interest maintenance reserve (IMR). (Ref #2025-03)
 - iii. Exposed a memorandum that recommends removing hypothetical IMR. (Ref #2023-14)
 - iv. Exposed revisions to adopt with modification *ASU 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20), Induced Conversions of Convertible Debt Instruments*, for statutory accounting. (Ref #2025-02)
 - v. Exposed revisions to clarify that sale leasebacks with restrictions on access to the cash proceeds do not qualify for sale leaseback accounting and shall be accounted for by the seller using the financing method. (Ref #2025-01)
 - vi. Exposed consistency revisions to reflect new VM-22, Statutory Maximum Valuation Rates for Income Annuities, principle-based reserve (PBR) requirements. (Ref #2025-09)
 - vii. Exposed revisions add disclosures on the Medicare Part D prescription payment plan amounts. (Ref #2025-08)

- viii. Exposed revisions to the *Preamble* to clarify the treatment of issue papers in Level 5 of the statutory hierarchy and update the reference to U.S. Securities and Exchange Commission (SEC) rules and interpretations as authoritative U.S. GAAP for SEC registrants. (Ref #2025-12EP)
- ix. *Annual Statement Blanks*:
 - a. Exposed revisions to the life/fraternal annual statement blank remove a general interrogatory on dividends received. (Ref #2025-07)
 - b. Exposed revisions to the life/fraternal annual statement blank remove reporting line 8, “Unrated Multi-Class Securities Acquired by Conversion,” from the asset valuation reserve (AVR). (Ref #2025-06)
 - c. Exposed revisions remove the “capital structure code” reporting column in Schedule D-1-1: Long-Term Bonds – Issuer Credit Obligations (D-1-1) and Schedule D-1-2: Asset-Backed Securities (D-1-2). (Ref #2025-04)
 - d. Exposed revisions to capture information on modco/funds withheld assets remove the initially proposed Schedule F, Part 7 from the proposal and add a Part 8 to Schedule S for the life/fraternal instructions and blank. The Schedule S draft includes aggregated data and is consistent with AVR reporting. (Ref #2024-07)
- x. The following U.S. GAAP standards were exposed for rejection as they are not applicable to statutory accounting:
 - a. *ASU 2023-07, Improvements to Reportable Segment Disclosures*. (Ref #2025-10)
 - b. *ASU 2024-03, Disaggregation of Income Statement Expenses* and *ASU 2025-01, Clarifying the Effective Date of ASU 2024-03*. (Ref #2025-11)
- C. Directed NAIC staff on the following items:
 - i. Directed research possible guidance for certain non-accounting effective derivatives to defer realized gains and losses. (Ref #2024-15)
 - ii. Deferred concept agenda item for investment subsidiaries to allow for more research and consideration of Delaware Statutory Trusts (DSTs) holding residential mortgage loans. (Ref #2024-21)
 - iii. Directed development of revisions to clarify guidance for securities lending, repurchase, and reverse repurchase agreements. (Ref #2024-03)
- D. Received updates on the following:
 - i. IMR Ad Hoc Group activities, noting that its discussions have focused on IMR from reinsurance transactions, reinvestment for sold fixed-income instruments where realized gains/losses are taken to IMR, and guidance on excess withdrawals.
 - ii. Received a referral from Life Risk-Based Capital (E) Working Group requesting comments on a proposal from the American Council of Life Insurers (ACLI) seeking to clarify the LR010 instruction that certain Securities Valuation Office (SVO)designated non-bond debt securities can obtain asset concentration factor treatment akin to bonds in LR002 (Proposal 2025-05-L).
 - iii. Notice of a joint meeting with the Life Actuarial (A) Task Force scheduled for April 10.
 - iv. Notice of a Working Group meeting scheduled for May 22.
 - v. Notice that the electronic version of the AP&P Manual is free.
 - vi. U.S. GAAP exposures, noting that items will be addressed during the normal process.
 - vii. International Association of Insurance Supervisors (IAIS) Accounting and Auditing Working Group activities, including notice of the application paper on climate risk.
- E. Adopted its 2024 Fall National Meeting minutes.
- F. Adopted its Dec. 17, 2024, minutes. During this meeting, the Working Group took the following action:

- i. Adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* to clarify disclosure reporting by category and subcategory as reported in Schedule D, Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities). (Ref #2024-26EP)
 - ii. Exposed the following statutory accounting principle (SAP) clarifications to statutory accounting guidance for a public comment period that ended Jan. 31, 2025:
 - a. Revisions to *SSAP No. 41—Surplus Notes* to clarify capital notes references and guidance. A corresponding blanks proposal is concurrently exposed. (Ref #2024-28)
 - b. Revisions to *SSAP No. 56—Book Value Separate Accounts* to detail the measurement method and process to transfer assets. Revisions from prior exposure are limited to paragraph 18b and paragraph 22. (Ref #2024-10)
 - c. Revisions to the annual statement instructions to clarify that held debt securities that are sold to a special purpose vehicle (SPV) and then reacquired reflecting additional (derivative or other) components shall be reported as a disposal and reacquisition in the investment schedules. (Ref #2024-16)
 - d. Revisions to the preamble of the *Accounting Practices and Procedures Manual (AP&P Manual)* to classify issue papers in Level 5 of the statutory hierarchy. (Ref #2024-27)
 - iii. Deferred the following SAP concepts and clarifications to statutory accounting guidance for further consideration at a future interim or national meeting:
 - a. Proposed revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* with direction to schedule a joint call with the Life Actuarial (A) Task Force. (Ref #2024-06)
 - b. Proposed new SAP concept for asset liability management (ALM) derivatives, with direction to continue discussions at the 2025 Spring National Meeting. (Ref #2024-15)
 - c. Proposed revisions to *Appendix 791 (A-791), Life and Health Reinsurance Agreements*, with direction to schedule a joint call with the Life Actuarial (A) Task Force. (Ref #2024-05)
- G. Adopted its Feb. 25, 2025, minutes. During this meeting, the Working Group took the following action:
- i. Adopted the following clarifications to statutory accounting guidance:
 - a. Revisions to *SSAP No. 16—Electronic Data Processing Equipment and Software* to clarify references to the U.S. generally accepted accounting principles (GAAP) Accounting Standards Codification (ASC). (Ref #2024-25)
 - b. Revisions to *SSAP No. 54—Individual and Group Accident and Health Contracts* to clarify measurement method and prescribe guidance for transfers to/from the general and separate account. (Ref #2024-10)
 - c. Revisions to *SSAP No. 41* to clarify capital notes references and guidance. (Ref #2024-28)
 - d. Revisions to clarify terms used for derivative financing premium and to recommend revisions to the annual statement instructions. The exposed revisions to clarify the calculation of realized losses in relation to derivative premium costs were moved to agenda item #2024-15: ALM Derivatives. (Ref #2024-23)
 - e. Revisions to adopt with modification *Accounting Standards Update (ASU) 2024-01, Scope Application of Profits Interest and Similar Awards*. (Ref #2024-22)
 - f. Revisions to the preamble of the AP&P Manual to classify issue papers as Level 5 in the statutory hierarchy. (Ref #2024-27)
 - g. Adopted *Issue Paper No. 170—Tax Credits Project* to document the historical discussions in the development of *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits*. (Ref #2022-14)

- h. Recommended revisions to annual statement instructions to clarify that held debt securities, which are sold to an SPV and then reacquired reflecting the addition of derivative or other components, shall be reported as a disposal and reacquisition in the investment schedules. (Ref #2024-16)
 - H. Exposed revisions to tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plan* to provide guidance for the Medicare Part D program prescription payment plan and edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*. (Ref #2024-24)
- 3. Adopted the report of the Blanks (E) Working Group, which met March 6. During this meeting, the Working Group took the following actions:
 - A. Adopted its Dec. 2, 2024, and Nov. 6, 2024, minutes, which included the following action:
 - i. Adopted its Aug. 7, 2024, minutes.
 - ii. Exposed eight new proposals.
 - iii. Received a Statutory Accounting Principles (E) Working Group memorandum regarding debt securities issued by funds representing operating entities.
 - iv. Adopted its editorial listing.
 - B. Adopted nine proposals and its editorial listing.
 - i. 2024-13BWG Modified – Update annual investment schedules for bond project editorial items.
 - ii. 2024-14BWG Modified – Update the 2025 annual (2026 quarterly) investment schedules line category for “Bonds Issued by Funds Representing Operating Entities.”
 - iii. 2024-15BWG – Remove the Affordable Care Act (ACA) disclosure on the transitional reinsurance program and the risk corridors program from the Supplemental Health Care Exhibit (SHCE).
 - iv. 2024-16BWG – Remove the quarterly investment interrogatory line 13 for reporting mortgages and real estate in short-term investments. Re-number all lines below the line being removed.
 - v. 2024-17BWG – Add a pet insurance line to the Market Conduct Annual Statement (MCAS) premium exhibit.
 - vi. 2024-18BWG – Add a footnote to SHCE, Part 2, to report the amount of premium deficiency reserves included in the lines of Part 2.
 - vii. 2024-20BWG Modified – Add an electronic-only company contact information field to the annual and quarterly Jurat page for the assessment contact.
 - viii. 2024-21BWG – Update Schedule D, Parts 4 and 5, to add clarifying instructions on what should be included in the investment schedule.
 - ix. 2024-22BWG – Update Schedule BA definitions for surplus debentures and capital notes to add clarification on what should be reported in these categories.
 - C. Re-exposed one modified proposal:
 - i. 2024-19BWG Modified — Update Schedule BA line categories and instructions for the expansion of collateral loans. Add two electronic-only columns to Schedule BA, Part 1, for reporting the fair value of collateral backing and the percentage of the collateral. Update the AVR instructions and blank for the added collateral loan lines.
 - D. Exposed six new proposals for a 54-day public comment period ending April 29.
 - E. Received two Statutory Accounting Principles (E) Working Group memorandums:
 - i. Inactive Lloyd’s Syndicates
 - ii. Year-End 2024 Impacts to the Annual Statement Notes and Instructions

*2025 Spring National Meeting
Indianapolis, Indiana*

CAPITAL ADEQUACY (E) TASK FORCE

Tuesday, March 25, 2025

8:00 – 9:00 a.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met March 25, 2025. During this meeting, the Task Force:

1. Adopted its 2024 Fall National Meeting minutes.
2. Adopted its Feb. 4 minutes. During this meeting, the Task Force took the following action:
 - A. Adopted proposal 2024-23-CR (2024 U.S. and Non-U.S. Catastrophe Risk Event Lists), which the Task Force exposed for a seven-day public comment period that ended Feb. 4.
3. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met March 24. During this meeting, the Working Group took the following action:
 - A. Adopted its July 25, 2024, minutes.
 - B. Received two referral letters from the Statutory Accounting Principles (E) Working Group. The first referral requested the Working Group's consideration of a comment received on *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions and Answers*. The second referral informed the Working Group of the exposure of *INT 24-02: Medicare Part D Prescription Payment Plan*. The referrals were exposed for a 30-day public comment period ending April 23.
 - C. Exposed proposal 2025-03-CA for the Underwriting Risk Factors Investment Income Adjustment for a 30-day public comment period ending April 23.
 - D. Heard a presentation from the American Academy of Actuaries (Academy) on the H2—Underwriting Risk report. The report includes recommendations on changes to the structure and risk factors for underwriting risk pages XR013, LR020, and PR020. The report is forthcoming and expected to be discussed during late April meeting.
4. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met March 24. During this meeting, the Working Group took the following action:
 - A. Adopted its Feb. 11, 2025, and Oct. 22, 2024, minutes. During these meetings, the Working Group took the following action:
 - i. Received updates from the Valuation of Securities (E) Task Force and Statutory Accounting Principles (E) Working Group.
 - ii. Heard updates from the Academy on its structured securities risk-based capital (RBC) project.
 - iii. Adopted revisions to its 2024 working agenda.
 - iv. Discussed the status of the fund review project.

- v. Exposed the American Council of Life Insurers' (ACLI's) RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in the 2023 annual statement filings for a 24-day public comment period that ended March 7.
 - B. Heard an update from the Academy on its structured securities RBC project. The Academy reported progress made thus far on the evaluation of RBC treatment of one type of structured securities—collateralized loan obligations (CLOs).
 - C. Received comments on the ACLI's RBC principles for bond funds presentation and the NAIC's memorandum of bond funds reported in the 2023 annual statement filings.
 - D. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
- 5. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met March 24. During this meeting, the Working Group took the following action:
 - A. Adopted its Feb. 21, 2025, and Oct. 23, 2024, minutes. During these meetings, the Working Group took the following action:
 - i. Adopted its 2024 Summer National Meeting minutes.
 - ii. Exposed proposal 2024-21-L (Tax Credit Investments) for a 75-day public comment period that ended Jan. 6.
 - iii. Exposed proposal 2024-24-L (Principle-Based Bond Definition Project) for a 75-day public comment period that ended Jan. 6.
 - iv. Re-exposed proposal 2024-21-L MOD (Tax Credit Investments) for a 30-day public comment period that ended March 23.
 - v. Re-exposed proposal 2024-24-L MOD (Principle-Based Bond Definition Project) for a 30-day public comment period that ended March 23.
 - vi. Exposed proposal 2025-01-L (C-2 Mortality Risk) for a 30-day public comment period that ended March 23.
 - vii. Exposed proposal 2025-05-L (Assets Concentration—LR010) for a 30-day public comment period that ended March 23 and referred it to the Statutory Accounting Principles (E) Working Group for comments.
 - viii. Received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup.
 - ix. Heard updates from the Academy on covariance and C-3 risk, which included key differences in correlation methodologies across jurisdictions, the impact of time horizons on risk assumptions, and ongoing efforts to refine RBC frameworks.
 - B. Received an update from the GOES (E/A) Subgroup, which met Feb. 26, 2025; Feb. 12, 2025; Jan. 29, 2025; Dec. 19, 2024; and Dec. 11, 2024. During these meetings, the Subgroup took the following action:
 - i. Discussed the model office results of the latest GOES updates.
 - ii. Referred two documents to the Variable Annuities Capital and Reserve (E/A) Subgroup and Life Risk-Based Capital (E) Working Group regarding GOES for capital calculations.
 - iii. Discussed revised equity calibration.
 - iv. Discussed amendment proposal form (APF) 2025-04 to implement the GOES in the *Valuation Manual*.
 - v. Heard a presentation on revised Treasury scenarios.
 - vi. Discussed the formation of a GOES model governance drafting group.
 - vii. Discussed the Sharpe ratio methodology for aligning risk-reward across GOES equity indices.
 - viii. Discussed equity calibration alternatives.

- ix. Discussed the initial Treasury yield fitting methodology and Treasury model flooring methodology.
 - C. Received an update from the Longevity Risk (E/A) Subgroup, which has not met since the 2024 Fall National Meeting.
 - D. Received an update from the Variable Annuities Capital and Reserve (E/A) Subgroup, which met Feb. 20. During this meeting, the Subgroup took the following action:
 - i. Discussed comments received on draft additions to the variable annuities supplement in the annual statement.
 - ii. Exposed draft blanks changes to the variable annuities supplement for a 45-day public comment period ending April 6.
 - E. Received a referral from the GOES (E/A) Subgroup requesting amendments to the life RBC blanks and instructions to facilitate the implementation of the new economic scenario generator. The referral was exposed for a 30-day public comment period ending April 23.
 - F. Heard a presentation from the Academy on C-3. The Academy presented a potential alignment of C-3 Phase 1 and C-3 Phase 2 methodologies that could impact instructions and blanks changes to LR027.
 - G. Exposed proposal 2025-04-L (Other Long-Term Assets—LR008) for a 30-day public comment period ending April 23. The proposal reorganizes LR008 to ensure Schedule BA assets of the same risk components (C-1o vs. C1-cs) are grouped to facilitate proper modified coinsurance (modco)/funds withheld reinsurance agreement adjustments within LR008.
5. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group, which met March 24 in joint session with the Catastrophe Risk (E) Subgroup. During this meeting, the Working Group and Subgroup took the following action:
- A. Adopted its 2024 Fall National Meeting minutes.
 - B. Adopted its Feb. 18 and Jan. 16 minutes. During these meetings, the Working Group took the following action:
 - i. Received an update from the Wildfire Model Review Ad Hoc Group on the CoreLogic wildfire model.
 - ii. Discussed the wildfire peril impact analysis.
 - iii. Discussed the wildfire modeled losses impact analysis.
 - iv. Discussed climate impact disclosures.
 - v. Discussed flood peril.
 - vi. Heard updates from the Academy on its current underwriting risk projects.
 - vii. Exposed the Statutory Accounting Principles (E) Working Group referral for (RBC assessment for capital notes and non-bond debt securities, which it had exposed for a 30-day public comment period that ended March 20.
 - viii. Adopted the updated 2024 U.S. and non-U.S. catastrophe risk event lists, which it had exposed for a seven-day public comment period that ended Jan. 16.
 - C. Exposed proposal 2025-06-CR (Disclosure Climate Condition Cat Exposure Instructions) for a 30-day public comment period ending April 23.
 - D. Heard an update from the Wildfire Model Review Ad Hoc Group regarding the CoreLogic wildfire model review.
 - E. Heard an update from the Academy on its current underwriting risk projects.
 - F. Discussed the 2024 underwriting risk factors.
 - G. Discussed the Statutory Accounting Principles (E) Working Group referral on capital notes and non-bond debt securities.

- H. Discussed insights into catastrophe trends from the Actuaries Climate Index (ACI) and U.S. billion-dollar disasters.
- 6. Received a referral from the Life Risk-Based Capital (E) Working Group regarding an ACLI comment letter on the two RBC proposals (2024-21-L and 2024-24-L). The referral was exposed for a 30-day public comment period ending April 24.
- 7. Re-exposed proposal 2024-25-CA (Principle-Based Bond Project for P/C and Health) and proposal 2024-26-CA (Tax Credit Investments for P/C and Health) for a 30-day public comment period ending April 24.
- 8. Exposed proposal 2025-07-CA (Trend Test) for a 30-day public comment period ending April 24.
- 9. Re-exposed proposal 2024-16-CA (Revised Preamble) with modifications based on comments received during the meeting for a 45-day public comment period ending May 9.
- 10. Heard updates from the Statutory Accounting Principles (E) Working Group on its current RBC projects.

Virtual Meeting

FINANCIAL STABILITY (E) TASK FORCE

Monday, March 17, 2025

Summary Report

The Financial Stability (E) Task Force met March 17, 2025. During this meeting, the Task Force:

1. Adopted its 2024 Fall National Meeting minutes.
2. Heard an update on Financial Stability Oversight Council (FSOC) developments.
3. Adopted the report of the Macprudential (E) Working Group, which met Feb. 25 and Feb. 6 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group took the following action:
 - A. Discussed the International Association of Insurance Supervisors (IAIS) Issues Paper on cross-border reinsurance and alternative assets. Many topics in the IAIS Issues Paper are in alignment with the Working Group's initiatives.
 - B. Approved a work plan for the year and received an overview of the IAIS *Global Insurance Market Report (GIMAR)*.
4. Received an update from the Valuation Analysis (E) Working Group, which covered *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG) 53* and reinsurance asset adequacy analysis.
5. Heard an international update, which included an update on the IAIS Global Monitoring Exercise (GME). The GME includes the individual insurer monitoring exercise and the sector-wide monitoring exercise. Additionally, the IAIS Macprudential Supervision Working Group has finalized its public consultation draft of the Issues Paper focused on structural shifts in the life insurance sector, and it has received parent committee approval for public consultation. Other IAIS key initiatives were discussed, including the Climate Risk Steering Group, which expects to publish its updated, comprehensive climate risk application paper on the supervision of climate-related risks in the insurance sector.

Virtual Meeting

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

Tuesday, March 4, 2025

Summary Report

The Receivership and Insolvency (E) Task Force met March 4, 2025. During this meeting, the Task Force:

1. Adopted its 2024 Fall National Meeting minutes.
2. Received the report of the Receivership Financial Analysis (E) Working Group, which will meet March 23 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.
3. Heard an update on international resolution activities. In December 2024, the International Association of Insurance Supervisors (IAIS) Resolution Working Group adopted revisions to Insurance Core Principle (ICP) 12 (Exit from the Market and Resolution) and ICP 16 (Enterprise Risk Management for Solvency Purposes). The U.S. representative on the IAIS Resolution Working Group is participating in a drafting group to update the *Application Paper on Recovery Planning* and the *Application Paper on Resolution Powers and Planning* and also is participating in the third targeted jurisdictional assessment (TJA) member review panel. The IAIS Resolution Working Group is meeting in April.
4. Received an update on receivership matters, including: 1) the *Financial Analysis Handbook* has been updated for revisions within the supervisory college chapter related to recovery and resolution planning in line with changes to ICPs 12 and 16; 2) the *Directory of Receivership and Runoff Resources* has been published and is available on the NAIC web page; 3) the Global Receivership Information Database (GRID) web page has been updated to include links to the NAIC's insurance data services and a list of state insurance department receivership contacts; and 4) NAIC staff will track states' adoption of recent amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540), which will be posted to the NAIC website.

Draft: 3/13/25

Reinsurance (E) Task Force
Virtual Meeting
March 4, 2025

The Reinsurance (E) Task Force met March 4, 2025. The following Task Force members participated: Ricardo Lara, Chair, represented by Monica Macaluso (CA); Scott Kipper, Vice Chair (NV); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Todrick Burks (AL); Alan McClain represented by Chris Erwin (AR); Peter M. Fuimaono represented by Elizabeth Perri (AS); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Ainsley Hurley (FL); Doug Ommen represented by Kim Cross (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Michael T. Caljouw represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker and Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Jon Godfread represented by Matt Fischer (ND); Justin Zimmerman represented by David Wolf (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Andrew R. Stolfi represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Amy Garcia (TX); Jon Pike represented by Cambria Shore (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its 2024 Fall National Meeting Minutes

Rehagen made a motion, seconded by Lloyd, to adopt the Task Force's Oct. 24, 2024, minutes (*see NAIC Proceedings—Fall 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Received a Status Report and Heard Comments on the Life Actuarial (A) Task Force's AAT Project

Macaluso stated that a project has been ongoing for the past two years at the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. She stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. She stated that this project had been discussed publicly during several Life Actuarial (A) Task Force meetings and noted that there were substantial discussions during those meetings.

Andersen stated that the Life Actuarial (A) Task Force met several times over the past months to discuss the AAT project. He stated that the regulatory focus of the project is on gaining insight into reserve adequacy when business is ceded, with a particular focus on U.S. policyholders. He noted that reinsurance may result in a lowering of transparency in terms of the amount of reserves held and the types and risks associated with the assets supporting reserves. He stated that there has been a high level of consensus between regulators and interested parties at this point in the process.

Andersen stated that the primary goals of this project are to provide U.S. state regulators with what is needed to review the reserves and solvency of U.S. life insurers, to steer clear of conflicts with reciprocal jurisdictions and covered agreement issues, and to prevent extra work by U.S. ceding companies where there is immaterial risk. He noted that the actuarial guideline will be disclosure only but noted that companies may view the results of the

analysis and decide to post additional reserves and that domestic regulators will continue to have the right to require additional analysis and reserves. He noted that after the first year of analysis, the Life Actuarial (A) Task Force may reopen discussion of the project if deemed to be necessary.

Andersen noted that the Life Actuarial (A) Task Force is currently focused on scope and materiality thresholds and noted that there is likely to be some flexibility in the way that this analysis is conducted. He noted that the Task Force is also looking at the appropriateness of alternative types and forms of analysis. Andersen provided an updated timeline on the project, noting that the group plans for the potential adoption of the new actuarial guideline in May 2025 at the Life Actuarial (A) Task Force, with adoption by the Life Insurance and Annuities (A) Committee in the summer.

Karalee Morell (Reinsurance Association of America—RAA) noted that the Life Actuarial (A) Task Force has not yet addressed issues related to the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement) because the project is taking a disclosure-only approach.

Morell noted that the RAA and its members continue to be concerned about potential covered agreement implications, even if the adoption is disclosure only. She stated that as it is currently drafted, the most recent proposal would require duplicative regulatory disclosure for some of RAA’s members located in Europe, which is inconsistent with the principles of the EU and UK Covered Agreements, even if disclosure is all that is required. She urged the Reinsurance (E) Task Force and Life Actuarial (A) Task Force to allow a full discussion of these issues now, either through a dedicated exposure of that topic or through a dedicated Life Actuarial (A) Task Force or subgroup call on these issues or both. Resolution of these concerns is critical given the importance of maintaining the EU and UK Covered Agreements. Additionally, she noted that the European Insurance and Occupational Pensions Authority (EIOPA), the Bermuda Monetary Authority (BMA), and other regulators are actively considering regulatory action with respect to asset-intensive transactions and that the NAIC should take no action that might conflict with the EU and UK Covered Agreements or trigger parallel regulatory action inconsistent with the principles underlying those agreements. Jeff Altman (RAA) agreed with Morell’s statement.

Dan Schelp (NAIC) noted that there have not been specific discussions with the Federal Insurance Office (FIO), but they are monitoring this ongoing project.

Andersen asked if the RAA could provide any specific information related to their concerns about potential conflicts with the EU and UK Covered Agreements. Morell responded that she would provide some examples later.

Wake noted agreement with avoiding any duplicative and burdensome disclosures.

Jason Kehrberg (American Academy of Actuaries—Academy) stated that he supports the disclosure-only language and stated that it is reasonable for the appointed actuary to perform a mandatory run of cash flow testing where the starting asset amount equals the post-reinsurance result and alternative runs at the option of the appointed actuary that may use higher starting asset amounts. He also noted support for enhancing the examples further or adding additional examples. He noted that one comment on the scenarios that were required in the current guideline was the New York Seven scenarios that many companies used for their cash flow testing, which are required in New York, and suggested that in some situations, the appointed actuary be allowed to use other scenarios if they feel they can demonstrate they do a better job of stressing the risky aspects of the treaty.

Peter Gould (Retired) stated that he is a retiree and end user of insurance products. He said he depends on annuity income for a substantial portion of his retirement income. He recommended regulations that can be used proactively and effectively to prevent the impairment of solvency so the contractual obligations to policy owners are paid. He noted concern with the limited scope of this project at this point and suggested some sort of asset adequacy grading system that would be added to the consumer information search financial disclosures.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He agreed with the comments from the RAA. He noted that the ACLI is proposing a simplified version of this guideline that still meets the spirit of this effort with a focus on mandating that the appointed actuary provide a suitable assessment of the reinsurance-related exposures and risks associated with the transactions that they are entering. Specifically, this assessment should address the identified risks and what mitigating factors are in place and then allow for alternative forms of analysis or submissions. He agreed with Andersen's comment about including flexibility in the first year. He suggested that the appointed actuary should have flexibility around this analysis, as should the domestic regulator. He requested that the scope be limited to 2020 and later policies. He noted the technical issues with the introduction of the concept of an associated party, which is similar to the existing known statutory concept of an affiliate party but would potentially go further at a lower ownership control level.

Greg Mitchell (Cayman International Reinsurance Companies Association—CIRCA) noted that Cayman reinsurers are unauthorized and required to be fully collateralized under the *Credit for Reinsurance Model Law (#785)*, adding that there is often a level of over-collateralization in these arrangements that will further protect the ceding insurers. He stated that the collateral and not the reinsurer's reserve should serve as the starting point of any kind of AAT.

Patricia Matson (Risk & Regulatory Consulting—RRC) stated that the driver of this project was a small number of transactions where the invested assets declined dramatically pre- and post-transaction, so there is less to protect the consumer. She agrees with a risk-focused approach. She noted that disclosure alone will not necessarily protect consumers, so a long-term solution that focuses on protecting consumers should be put in place.

3. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met Nov. 29, 2024, and Dec. 19, 2024, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 97 reciprocal jurisdiction reinsurers and 40 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the certified and reciprocal jurisdiction reinsurer web page.

Kaumann made a motion, seconded by Eft, to adopt the report of the Working Group. The motion passed unanimously.

4. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Wake stated that the Working Group last met Oct. 24, 2024, in regulator-to-regulator session pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

5. Discussed Ongoing Projects at the NAIC Affecting Reinsurance

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group. Stultz noted that the Macroprudential (E) Working Group will also continue to focus on its 13 considerations and that a major focus of their work will be on cross-border reinsurance.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its second year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers AAT for life insurers, but he noted that the Task Force's primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the EU Covered Agreement and the UK Covered Agreement. He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force. The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals are being addressed by the Statutory Accounting Principles (E) Working Group.

Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Spring National Meeting. Additionally, the Statutory Accounting Principles (E) Working Group received a referral from the Financial Analysis (E) Working Group that recommended a project that focuses on investment concentrations with affiliated and related parties and that a new agenda item is planned for the Spring National Meeting.

6. Heard Discussion of a Reinsurance Contract Question

Chou noted that he had received some questions regarding a reinsurance transaction where Appendix A-791 of the *Accounting Practices and Procedures Manual* (AP&P) is not being applied consistently.

Sheldon Summers (Claire Thinking Inc.) introduced slides (Attachment One) and provided background information and discussion on the transactions and the implications of the various outcomes where Appendix A-791, Section 2.e., is applied inconsistently, noting that Appendix A-791 covers life and health reinsurance risk transfer requirements and specifies conditions which would result in disallowance of reinsurance credit under a

reinsurance agreement. He noted that the question is about situations where the reinsurance agreement involves a possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies, and whether it is improper for a ceding insurer to pay reinsurance premiums or other fees or charges to a reinsurer that are greater than the direct premiums collected by the ceding insurer.

Chou requested that any regulators or interested parties who have any thoughts on this subject contact him after the Task Force meeting.

Alton asked if this topic should be discussed at the Statutory Accounting Principles (E) Working Group. Stultz stated that since this was a reinsurance topic, this Task Force was an appropriate place to discuss this topic since it is an open forum but that it could be discussed at the Statutory Accounting Principles (E) Working Group as needed.

Having no further business, the Reinsurance (E) Task Force adjourned.

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2025SpringNM/Minutes/0 ReinsuranceTFmin 03.04.2025.docx>

*2025 Spring National Meeting
Indianapolis, Indiana*

VALUATION OF SECURITIES (E) TASK FORCE

Tuesday, March 25, 2025

9:30 – 10:30 p.m.

Meeting Summary Report

The Valuation of Securities (E) Task Force met March 25, 2025. During this meeting, the Task Force:

1. Adopted its 2024 Fall National Meeting minutes.
2. Exposed a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to require private rating letter rationale reports be filed within 90 days of an affirmation, update, or change for a 30-day public comment period ending April 25, 2025.
3. Exposed a proposed amendment to the P&P Manual to require that private rating letter rationale reports possess analytical substance for a 30-day public comment period ending April 25, 2025.
4. Received a report from the Securities Valuation Office (SVO) on the status of private rating letter rationale report filings for 2024.
5. Received an annual report from the SVO on 2024 carry-over filings.
6. Received an NAIC staff report on the projects of the Statutory Accounting Principles (E) Working Group.
7. Received a Structured Securities Group (SSG) staff report on the proposed collateralized loan obligation (CLO) modeling methodology and the CLO Ad Hoc Working Group.

Draft: 3/3/2025

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
February 26, 2025

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met Feb. 26, 2025. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Laura Clements and Michelle Lo (CA); William Arfanis and Jack Broccoli (CT); Carly Wagoner (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Kristin Hynes (MI); John Rehagen and Shannon Schmoeger (MO); Monique D. Smith (NC); Tadd Wegner (NE); Paul Lupo (NJ); Mark McLeod (NY); Dwight Radel and Tracy Snow (OH); Jammie Jaffurs (OK); Diana Sherman (PA); Ted Hurley and John Tudino (RI); Amy Garcia (TX); Cambria Shore (UT); Jennifer Blizzard and Greg Chew (VA); Karen Ducharme (VT); and Tarik Subbagh (WA).

1. Finalized Contractor Oversight Guidance

Malm stated that the Working Group received a referral in 2024 from the Financial Regulation Standards and Accreditation (F) Committee on state oversight of contracted resources. While state insurance departments have utilized contract resources to assist in solvency monitoring efforts for many years, the use of contractors in financial analysis work has become more common in recent years due to staffing challenges.

The referral states that the current accreditation guidelines and expectations for a state in utilizing contract resources in financial analysis are limited, which has raised some questions during reviews. Therefore, various questions and considerations were referred to the Working Group for consideration, including issues related to the oversight of contractors in both financial analysis and examination work.

After receiving the referral, the Working Group discussed the issues and asked NAIC staff to develop proposed revisions to existing handbook guidance and the accreditation review team guidelines to address the questions raised. The proposed revisions were then exposed for a 45-day public comment period that ended Nov. 25, 2024.

During the exposure period, comments were received from a joint group of interested parties and the Georgia Office of Commissioner of Insurance and Safety Fire (OCI). The Working Group met Feb. 12 in regulator-to-regulator session for technical discussions with NAIC staff on the comments received. As a result of those discussions, NAIC staff were asked to prepare an updated draft of guidance incorporating comments received during the exposure period.

Malm asked if the joint group of interested parties would like to speak to their comments or the updated draft of the guidance. Tom Finnell (America's Health Insurance Plans—AHIP) summarized the interested party comments, which focused on guardrails to address potential conflicts of interest, confidentiality concerns, and data protection issues when contractors are utilized in financial analysis and examination work. Finnell stated that the updated draft of the guidance effectively incorporated the interested party recommendations, with a couple of minor exceptions. Finnell then proposed language edits to indicate that contractors should not be able to use information obtained through financial analysis and examination engagements for any other purpose. State insurance regulators expressed their agreement with these proposed revisions.

Bruce Jenson (NAIC) provided an overview of other edits made to the updated guidance, which included the recommendation from Georgia, as well as many of the recommendations proposed by the joint group of interested parties on conflict of interest, confidentiality, and data security. Jenson stated that the proposed

guidance for the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook* were drafted together to ensure consistent expectations for both functions.

Malm asked for a motion to refer the updated guidance, including the changes proposed by Finnell during the meeting, to the relevant NAIC groups for consideration of adoption. Smith made a motion, seconded by Subbagh, to refer: 1) the proposed Accreditation Review Team Guideline revisions to the Financial Regulation Standards and Accreditation (F) Committee; 2) the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group; and 3) the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Discussed a Referral on Reciprocal Exchanges

Malm stated that the Working Group received a referral from the Chief Financial Regulator Forum regarding reciprocal exchanges. The Chief Financial Regulator Forum meets at each NAIC national meeting in regulator-to-regulator session in accordance with the NAIC Policy Statement on Open Meetings, which does not apply to roundtables and other similar sessions.

During the forum meeting at the 2024 Fall National Meeting, the chief financial regulators discussed the increase in the number of reciprocal exchanges being formed in recent years. During this discussion, some regulators highlighted challenges in assessing the fairness and reasonableness of attorney-in-fact fees being charged to the newly formed reciprocals, as well as other challenges in monitoring the solvency of reciprocal exchanges. The referral notes that it is common for attorney-in-fact fees to be based on a percentage of premium volume, which has the potential to create conflicts of interest if that same attorney-in-fact oversees underwriting decisions for the reciprocal.

Malm stated that while this particular concern is not necessarily unique to reciprocal exchanges, it does relate to recent Working Group efforts to update regulatory guidance related to affiliated services. As such, Malm proposed the formation of a drafting group to study these issues, including the applicability of the *Insurance Holding Company System Regulatory Act* (#440) to attorneys-in-fact for reciprocal exchanges and to develop additional guidance for the full Working Group to consider in this area.

Garcia expressed support for the formation of a drafting group, as did Lupo and Andersen. Jenson asked whether the drafting group should focus solely on reciprocal exchange issues or address the broader issues of all service agreements that include fees based on premium volume and include some level of management or oversight of underwriting decision-making. Malm encouraged the drafting group to address the referral from a broader perspective and encouraged interested members to contact NAIC staff regarding their interest in joining the drafting group.

3. Received an Update on the 2025 Peer Review Program Sessions

Nickelson stated that the Working Group held a financial analysis peer review session in January, which involved eight states reviewing completed financial analysis files. One of the eight states had to participate remotely due to weather-related travel challenges, but the peer reviewers worked around that challenge and still had a successful session. Based on the discussions held, several new sound practices were identified and added to the existing sound practices documents, which have been updated and distributed to states before the upcoming annual analysis review period.

Nickelson stated that the next peer review session planned for 2025 is a small company exam session to be held in May, followed by a special Own Risk and Solvency Assessment (ORSA) examination session to be scheduled in August. Finally, the Working Group plans to hold another financial analysis session in October to complete the peer review offerings for 2025.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025_1Spring/RFSWG/Surveillance WG 2-26-25 Minutes.docx



TO: Nathan Houdek, Chair, Financial Condition (E) Committee
 Members of the Financial Condition (E) Committee

Carrie Mears, Chair, Valuation of Securities (E) Task Force
 Members of the Valuation of Securities (E) Task Force

FROM: Charles A. Therriault, Director, NAIC Securities Valuation Office
 Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office
 Eric Kolchinsky, Director, NAIC Structured Securities Group and Capital Markets Bureau

RE: Removal from Filing Exemptions of Privately Rated Securities Without a Required Private Rating Letter Rationale Report

DATE: March 10, 2025

Summary – Since January 1, 2024, all privately letter rated (PLR) securities (other than waived submission PLR securities, as defined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (the “P&P Manual”)) have required a corresponding “private rating letter rationale report” to be eligible for the Filing Exemption process. The rationale report is filed with the Securities Valuation Office (SVO) through NAIC’s VISION application. This past year end, Dec. 31, 2024, was the first year that NAIC systems were able to accurately identify which privately rated securities did not comply with the rationale report filing requirement and would be removed from Filing Exemption per the Task Force’s policy.

Background – The SVO staff informed that Valuation of Securities (E) Task Force at the 2024 NAIC Fall National Meeting that the functionality necessary to accurately identify which privately rated securities were missing a required rationale report in the NAIC systems, VISION and AVS+, was now operational, and the status of each security was published in the AVS+ valuation file. Over the prior two years, the SVO deferred the implementation of the Task Force’s policy to remove from Filing Exemption (FE) privately rated securities that did not have the required supporting private rating letter rationale report submitted to the SVO. This deferral was recommended by the SVO and approved by the Task force to allow for the implementation of the needed functionality in NAIC systems.

As of Nov. 11, 2024, the SVO identified 1,636 privately rated securities missing a required rationale report. By Dec. 31, 2024, the number of privately rated securities missing the required rationale report had dropped to 853. And as of Feb. 27, 2025, that number had been further reduced to 494 privately rated securities missing the required rationale report. The SVO and Task Force chairs met with industry representatives from the American Council of Life Insurers (ACLI), Private Placement Investors Association (PPiA) and North American Securities Valuation Association (NASVA) on Nov. 22, 2024, Dec. 3, 2024, Jan. 15, 2025, Feb. 18, 2025, and Feb. 27, 2025, to discuss and review



the privately rated securities missing a required rationale report. Following each meeting, the SVO researched all issues reported by industry representatives. The SVO identified no systemic issues in NAIC systems.

Additionally, at the direction of the Task Force chairs, the SVO sent reports on Jan. 9, 2025, to each state with an insurer that held one of the identified securities at some time in 2024. The goal of sharing this information with each state was to minimize the number of securities that would potentially be removed from FE because of an insurer's failure to provide the required rationale report. That goal appears to have been achieved given the significant reduction in impacted securities.

Action Taken – On Mar. 3, 2025, the NAIC applied the Task Force policy to remove privately rated securities missing the required rationale report from FE. There were 346 securities impacted by this FE removal and the list of these securities has been published in the NAIC's AVS+ system so insurers can view impacted securities they hold. Those privately rated securities can be reinstated if an insurer submits the missing rationale report.

https://naiconline.sharepoint.com/teams/SVOVOSTaskForce/Shared Documents/Meetings/2025/2025-03-23 - NAIC Spring NM/04-PLRMissingRationale/2025-003.01 PP_Manual_PLRMissingRationale.docx