

## **FINANCIAL CONDITION (E) COMMITTEE**

Financial Condition (E) Committee August 13, 2025, Minutes

Financial Condition (E) Committee July 28, 2025, Minutes (Attachment One)

Memorandum Regarding Proposed Reorganization of the Valuation of Securities (E) Task Force  
(Attachment One-A)

Comment Letters Regarding the Proposed Reorganization of the Valuation of Securities (E) Task Force  
(Attachment One-B)

Group Solvency Issues (E) Working Group and Own Risk and Solvency Assessment (ORSA) Implementation  
(E) Subgroup July 29, 2025, Virtual Meeting Minutes (Attachment Two)

Proposed Revisions to the ORSA Guidance Manual (Attachment Two-A)

NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group July 28, 2025, Virtual  
Meeting Minutes (Attachment Three)

National Treatment and Coordination (E) Working Group June 26, 2025, Virtual Meeting Minutes  
(Attachment Four)

## Draft Pending Adoption

Draft: 08/14/25

Financial Condition (E) Committee  
Minneapolis, Minnesota  
August 13, 2025

The Financial Condition (E) Committee met in Minneapolis, Minnesota, August 13, 2025. The following Committee members participated: Nathan Houdek, Chair (WI); Michael Wise, Co-Vice Chair (SC); Justin Zimmerman, Co-Vice Chair (NJ); Mark Fowler (AL); Michael Conway represented by Rolf Kauman (CO); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen and Carrie Mears (IA); Holly W. Lambert (IN); Vicki Schmidt (KS); Michael T. Caljouw (MA); Mike Chaney represented by David Browning (MS); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Cassie Brown and Jamie Walker (TX); and Scott A. White, Doug Stolte and Dan Bumpus (VA). Also participating were Philip Barlow (DC); and Sandra Bigglestone (VT).

### 1. Adopted its July 28 and Spring National Meeting Minutes

Director Wise made a motion, seconded by Commissioner Caljouw, to adopt its July 28 (Attachment One) and March 26, minutes (*see NAIC Proceedings – Spring 2025, Financial Condition (E) Committee*). The motion passed unanimously.

### 2. Adopted 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 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 2025 Summer National Meetings 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 Aug. 10, July 16, June 25, May 28-29, April 29-30, 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 Aug. 10 and May 14 in 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.

Director French made a motion, seconded by Commissioner Fowler, to adopt the task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Examination Oversight (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Group Solvency Issues (E) Working Group (Attachment Two); NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Three); and the National Treatment and Coordination (E) Working Group (Attachment Four), with the exception of the Statutory

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Accounting Principles (E) Working Group 2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts. The motion was unanimously approved.

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

Mears noted that the Task Force had two adoptions of changes related to private letter rating rational reports, one of which is clarifying. She noted that in some cases, the SVO has received private letter rational reports that really did not have substantive analysis and the Task Force had provided an anonymized actual rating rational report to demonstrate what this is and to ensure that those reports serve the purpose of providing transparency and information of how the rating came to be. One of the things the Task Force is wanting to clarify is that amendment is related just to the substance of the report itself, it is not a judgement of the rating, it is just ensuring that report has enough information to explain and document the rating that was assigned. For those rating rational reports as well, the Task Force adopted an amendment that gives 90 day period to provide those following an annual rating update of following a rating change. The Task Force had a couple of exposures as well. One is for when there is a change to a private letter rating, the rating itself, there is a 30 day period to provide the SVO that update. The Task Force also exposed a memo from the SVO which will propose creating blanks change to security IDs on the annual statement. This proposal will combine a host of security identifiers and put into a single field for reporting. This will help the verification processes internally and also allow some security identifiers that have not previously used to be permitted as well. This is important because in 2024 there were 10,053 missing or invalid security identifiers in Schedule D that collectively represented about \$55 billion of book adjusted carrying value. Mears reported that the Task Force received an update on the CLO modeling project from the Structured Security Group, noting that they have worked to have that ready but the Task Force decided to defer implementation for one more year given the work going on CLOs at the Risk-Based Capital Investment Risk and Evaluation (E) Working Group with the American Academy of Actuaries. She reported they directed the NAIC staff to draft a proposed change to the Purposes and Procedures Manual of the Investment Analysis Office and expose that for a 30 day comment period. She reported the Task Force also received updates that would be of interest related to the CRP Due Diligence work and the filing exception discretion projects. As reported June 2nd, NAIC selected PWC to assist the NAIC in developing such a framework. The NAIC business and technology teams have met with PWC to kick off the project and align stakeholder expectations, establish project governance, and discuss the CRP data. Mears noted that a template was created for historical ratings data call to the Credit Rating Providers (CRPs). The template standardizes the ratings history necessary for the development of the frameworks and the analytical frameworks analytical component. The data call was issued to all eight CRPs on August 8th. Updates will be provided in the future. Additionally, the initial business requirements have been gathered for the filing exemption discretion process. This process will require updates to the NAICs Vision and AVS Plus applications. The NAIC also reviewed various vendor applications to establish a secure data room to be used during the deliberative portion of the discretion process and a vendor has been selected for that. System enhancements are expected to begin in 2026.

Commissioner Houdek stated the additional 1-year extension made sense as regulators continue to try and align that work with the Academy's efforts and the work of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. Houdek also noted that it seemed appropriate that the NAIC develop a formal roadmap and more defined timeline with a clearer path to completion. This will help inform decision making on how to proceed with the goal to ideally have the process completed by year-end 2026, consistent with the extension. Houdek stated the Risk-Based Capital Investment Risk and Evaluation (E) Working Group is expecting to receive an update from the Academy in September. So, hopefully from that update regulators will have a clearer sense of the Academy progress, and the NAIC can use the coming months to develop the roadmap and timeline for the Fall National Meeting. Until then,

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we will continue to engage in heightened monitoring of insurer CLO exposure using all the tools at our disposal including the Structured Securities Group's CLO model.

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

Barlow stated a lot of good work had been accomplished by the American Academy of Actuaries (Academy) since the last update. They now have a working model and are beginning to work with that and will receive an update on that at the Working Group's September conference call. They are working with the NAIC Structured Security Group (SSG) who provide the waterfall runs. Barlow requested this work be prioritized for the SSG. However, a timeline will be created to see what needs to be done and by when to meet a year-end 2026 schedule for having something ready to implement that Academy's work. NAIC staff are also working on the structural changes that are required in case we have an earlier introduction timeline. He noted he was not sure at this point whether we actually will need structural change, but they want to be prepared in case we do need those but it's all developed in a way that its flexible enough that if we later develop the factor part of the change, we can implement that. Or, if there needs to be an additional delay, they can continue with the process as it is. The Working Group also met with the Statutory Accounting Principles (E) Working Group and the Valuation of Securities (E) Task Force in a regulatory meeting to review the information on collateralized loan obligations (CLOs). Barlow reminded the Committee that the work of the Academy is part of process that will enable them to use a similar process to evaluate other asset backed securities once the CLO work is complete.

### 5. Formed a Reciprocal Exchanges (E) Working Group

Houdek noted that included in the materials was a referral from the Risk-Focused Surveillance (E) Working Group and a Model Law Development Form. The referral contemplates forming a new working group and the model law request proposes modifying the Insurance Holding Company System Regulatory Act (440) and Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450) to clarify that reciprocals be subject to the fair and reasonable standards relate to intercompany transactions, which are designed to prevent fees charged to insurance companies from their affiliates from being excessive. Kaumann made a motion, seconded by Commissioner Ommen to adopt the model law request form to consider changes to model 440 and/or model 450. The motion was unanimously approved. Commissioner Schmidt made a motion, seconded by Commissioner Caljouw to include the proposed charges of the new working group in the proposed 2026 charges of the Committee. The motion was unanimously approved.

### 6. Receive a Proposal to Rename the Risk Retention Group (E) Task Force

Bigglestone summarized the proposal to rename the Risk Retention (E) Task Force the Risk Retention Group (E) Working Group, would oversee all drafting, maintenance, and analysis work related to risk retention groups (RRGs). The Working Group would include no more than 12 members representing the key states where RRGs are domiciled and/or writing business. Most meetings would be held in regulator-to-regulator sessions, as discussions will primarily focus on individual companies and best practices used by domestic states in similar situations. The Working Group would meet in open session when discussing public RRG topics and policy issues. The proposed effective date is Jan. 1, 2026. Director Wise made a motion, seconded by Director French to adopt the proposal to rename the Risk Retention Task Force and include those charges in the Committee's proposed 2026 charges. The motion was unanimously approved.

### 7. Receive a Proposal to Adopt Statutory Accounting 2024-06: Risk Transfer Analysis of Combination Reinsurance Contracts

Bruggeman noted how the Statutory Accounting Principles Working Group had been discussing this agenda for a little while as a result of a referral from the Valuation Analysis Working Group. There are contracts that would

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be put in scope that are combination coinsurance and yearly renewable term that end up having interdependent features, or in other words they are linked. Those kinds of contracts can create issues because one of the overarching features within the starting point is NAIC Model 791, which every state has adopted. The accounting aspects involve concerns and discussions revolving around the dates involved where one of them is the effective date of the contract and the other is when the first reporting date of the changes happens with those potential contracts for accounting giving time to make the adjustment. It was determined the first reporting date would be in 2026 and the issue revolves around the effective date of the contracts. The term grandfathering was used as a means to suggest not to look back with a rejection of the use of grandfathering at the Statutory Accounting Principles (E) Working Group being unanimous and two no votes at the Accounting Practices and Procedures (E) Task Force. Houdek acknowledged that they had been a lot of discussion the last few days but indicated they would hold off on voting on the issue at this time, and the Committee will plan to hold a meeting soon to give everyone a chance to learn more and understand the issue before taking action.

### 8. Any Other Matters Brought Before the Committee

Shannen Logue (PA), on behalf of the Big Data and Artificial Intelligence (H) Working Group, indicated that 24 states have adopted the AI Model Bulletin, with a handful of states who are in the works on adoption. This year, the Big Data and Artificial Intelligence (H) Working Group had a charge to develop an AI Evaluation tool to help regulators doing market or financial examinations assess the controls and practices insurers have as it pertains to AI Systems.

The AI Evaluation tool is intended to be an interim solution for states to pilot during their examinations to gather input and develop recommendations for long term solutions, which may include updates to examination handbooks, MCAS data, CGAD templates. A draft version of the AI Systems Evaluation tool is open for public review and comment until Sept. 5<sup>th</sup>. After the conclusion of the comment period, the feedback will be reviewed and updates to the tool will be made. A copy of our tool is available on our working group's website, or you can reach out to the NAIC support staff, Miguel Romero, Scott Sobel, and Dorothy Andrews to get up to speed on this initiative. She noted that the BDAIWG wants to:

1. Encourage regulators, insurers, and interested parties to review the draft tool and provide feedback
2. Recruit states who are interested in being a pilot user of the tool in order to provide input on the long term solutions
3. Identify AI training needs for regulators who would be evaluating insurer's use of AI Systems

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025\\_1Spring/032625 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2025_1Spring/032625%20E%20Minutes.docx)

fDraft: 7/30/25

Financial Condition (E) Committee  
Virtual Meeting  
July 28, 2025

The Financial Condition (E) Committee met July 28, 2025. The following Committee members participated: Nathan Houdek, Chair (WI); Michael Wise, Co-Vice Chair (SC); Justin Zimmerman, Co-Vice Chair (NJ); Mark Fowler (AL); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen and Carrie Mears (IA); Holly W. Lambert (IN); Vicki Schmidt represented by Tish Becker (KS); Michael T. Caljouw (MA); Mike Chaney represented by Mark Cooley (MS); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Cassie Brown (TX); and Scott A. White (VA). Also participating was Laura Clements (CA).

1. Discussed Comments on the Restructuring of the Valuation of Securities (E) Task Force

Commissioner Houdek said the purpose of the meeting was to receive comments (Attachment One-A) on the June 6 memorandum (Attachment One-B), which proposes the restructuring of the Valuation of Securities (E) Task Force. The proposal includes renaming the Task Force to the Invested Assets (E) Task Force and adding new working groups as the Investment Analysis (E) Working Group; Securities Valuation Office and Structured Securities (E) Working Group; and the Credit Rating Provider (E) Working Group. After considering the comments, the Committee can either choose to adopt the changes or, if the Committee wants to address some of the comments by making edits, consider a vote at the Summer National Meeting. He said that the letter from the American Academy of Actuaries (Academy) indicated broad support of the restructuring. The California Department of Insurance comment letter encouraged keeping the new groups small, especially the Investment Analysis (E) Working Group, which will require more hands-on development, and also keeping the newly created groups smaller would avoid increasing the amount of work on members of the current Task Force. Commissioner Houdek asked the Committee leadership that these considerations be kept in mind toward the end of 2025, so preparations can begin to have the groups ready by year's end.

Clements noted that her comments were seeking clarification on whether the groups would be similar in size. Mears responded that while group size and membership are still to be determined, outreach to interested regulators later this year will help ensure strong engagement, and size limits can be used to create effective environments for each group. Commissioner Houdek confirmed the new Investment Analysis (E) Working Group would focus on individual companies, similar to the Financial Analysis (E) Working Groups.

Commissioner Houdek said that the next comment letter was from S&P Global Ratings, which commented on its due diligence framework that will be developed in the future.

Joe Engelhard (Alternative Credit Council—ACC) said that he leads the policy work of the Council in the U.S. and the Americas. He noted that ACC believes the restructuring is timely and appropriate given the evolution of markets over the last several decades and, particularly, the increasing recognition that certain types of assets can offer cash flow pattern installments and risk return characteristics that are better suited to supporting the longer-term obligations insurers have to policyholders. The ACC comment letter is largely supportive of the proposal and highlights a few areas where the ACC either has concerns or recommendations. He noted concerns with the Investment Analysis (E) Working Group's meetings being primarily regulatory-only and encouraged some transparency without breaking confidentiality so that stakeholders can better understand the direction of regulatory thinking. This is especially important when decisions are going to be made that effectively create new supervisory interpretations of policy that will impact emerging market trends.

In addition, given the highly technical nature of the work, the ACC believes the Investment Analysis (E) Working Group would benefit from informational sessions or other technical input from industry stakeholders who have significant experience in the relevant investments under discussion, and, ideally, thematic updates would be provided publicly.

Regarding the Securities Valuation Office (SVO) and Structured Securities (E) Working Group, Engelhard said that it would be helpful to understand how the 2024 discretion policy will be operationalized in practice, especially when there is disagreement between the SVO and an insurer. The ACC requests that the Credit Rating Provider (E) Working Group have clear boundaries and consistent application across rating providers, whether they are large or small.

Dan Daveline (NAIC) noted that the Task Force has a charge for educational items that suggests those types of discussions take place as open meetings instead of in a regulatory-only session. He also said the non-NAIC Lease-Backed Securities Working Group was not able to participate in the meeting, but it noted that it did not have any further comments. Shannon Jones (American Council of Life Insurers—ACLI) commended the NAIC for its efforts to modernize its structure in response to the evolving nature of insurer investment portfolios and capital markets. Jones encouraged the Committee to consider mechanisms for public transparency around thematic trends and emerging issues. Jones also noted the ACLI looks forward to seeing how the work of the NAICs consultant for its due diligence project, Price Waterhouse's, will be operationalized within the structure and how disagreements will be resolved. Commissioner Houdek noted the Committee would take these comments into consideration as the work under this initiative moves forward.

Tom Sullivan (Sullivan Strategy & Advisory Services), speaking on behalf of himself and not an interested party, noted his support for the intent behind the proposal, but only the intent. He said the NAIC's nature is to strive toward continuous improvement, and that is one of its most enviable and laudable values. Further, the goal of modernizing and streamlining oversight and ensuring investments is appropriate, especially as insurer investment portfolios change. He noted that investing in capital markets is not static, so neither should the regulatory regime be. Consolidating analytical expertise and clarifying roles within the NAIC has the potential to improve regulatory responsiveness and consistency. He urged the Committee to consider several important refinements to safeguard integrity, transparency, and public trust in the process. This includes added transparency with SVO designations and related methodologies. Creating a third regulatory-only working group raises concerns since it appears to involve broad policy topics that do not justify exclusion from public deliberations. This also includes clarifying the structure and governance of the new credit rating provider working group—specifically its composition, how it will operate alongside the discretion proposal, and the measures that will ensure its independence, objectivity, and broad participation. In particular, there is a need to avoid reinforcing any reliance on the big three rating agencies and create an atmosphere where competition and innovation thrive in this space.

Sullivan encouraged earlier stakeholder input rather than releasing near-final proposals, such as stakeholder workshops at earlier stages. Finally, Sullivan recommended a phased implementation with checkpoints in addition to the formal one-year checkpoint to assess the real-world impact of these changes. He encouraged the Committee to defer further action until these considerations can be built into the proposal.

Commissioner Houdek reminded the Committee of previous comments about conducting a review after one full year. If further review is deemed necessary at that point, it can be added, along with any potential changes. He noted that the SVO and Structured Security (E) Working Group will not change its responsibilities or processes but agreed that if more general discussions take place within the Investment Analysis (E) Working Group, reporting may be appropriate to add more transparency. However, any policy decisions will continue to be considered in

public and with the use of public exposures. Finally, discussions regarding individual companies will be held in regulatory-only settings in accordance with the NAIC open meetings policy, and it will not be under the SVO.

Director Wise made a motion, seconded by Commissioner Caljouw, to adopt the proposed renaming and restructuring of the current Valuation of Securities (E) Task Force and adopt the revised charges included in the 2026 proposal, incorporating them into the Committee's charges. The motion passed unanimously.

Commissioner Ommen added that he supported this proposal and was incredibly pleased with the work done by all involved. He said that he believes it is on a good track, and the comments reflect that sentiment and express appreciation for the work already done.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024\\_3Fall/Fall National Meeting Materials/102424 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2024_3Fall/Fall%20National%20Meeting%20Materials/102424%20E%20Minutes.docx)





## MEMORANDUM

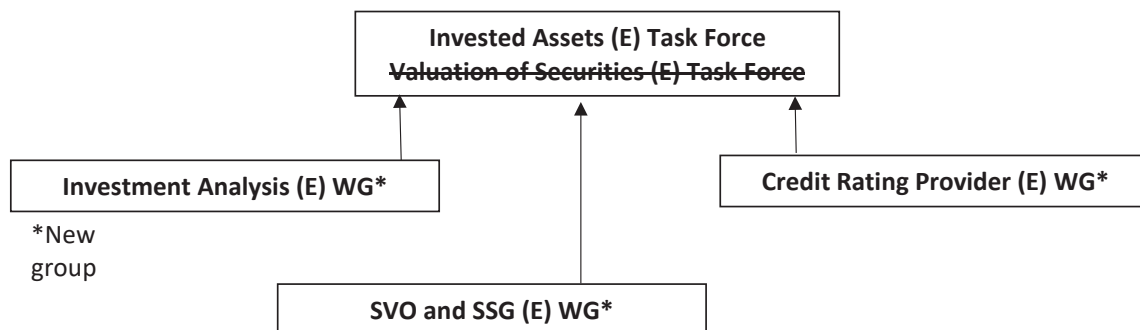
To: Financial Condition (E) Committee

From: Investment Framework Drafting Group of the Financial Condition (E) Committee

Date: June 6, 2025

Re: Proposed Reorganization of the Valuation of Securities (E) Task Force

In accordance with the Investment Framework, the Investment Framework Drafting Group of the Financial Condition (E) Committee proposes to reorganize the Valuation of Securities (E) Task Force and form new subsidiary groups as follows:



### **Proposed Revised Structural Change to the Task Force**

The Drafting Group proposes renaming the Valuation of Securities (E) Task Force to the Invested Assets (E) Task Force. The Task Force would be a commissioner-level group, chaired and vice chaired by two commissioners, with each of the member commissioners supported by members of three working groups, consisting of deputy-level financial, actuarial, and investment regulatory expertise. The Task Force charges would be as follows:

- Oversee the work of the Investment Analysis (E) Working Group, the Securities Valuation Office and Structured Securities (E) Working Group, and the Credit Rating Providers (E) Working Group.

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- Provide a forum for education from various parties to regulators on investment products, their performance, and the financial risks for regulatory policy purposes, as well as how regulators may address such risks.
- Understand new or evolving investment products that may possess characteristics that pose unique risks to insurers and the industry and coordinate with different NAIC groups of the Financial Condition (E) Committee or other NAIC groups, if necessary, to develop, implement, or advise on investment-related solvency policy changes (e.g., accounting, risk-based capital [RBC], etc.) or procedures within their analysis and examination of insurers subject to such risks.

#### **Form an Investment Analysis (E) Working Group**

The Drafting Group proposes forming an Investment Analysis (E) Working Group, intended to be the primary group under which modernized investment services for the U.S. system are achieved. The Working Group will be limited in size to no more than 13, favoring a smaller size if possible so that other groups under the Task Force are served by other existing members of the Task Force, and holding most if not all of its meetings in a regulator-to-regulator setting similar to the Financial Analysis (E) Working Group. The Working Group charges would be as follows:

- Monitor the risks associated with all types of invested assets, including collateral loans, mortgage loans, real estate, and Schedule BA investments.
- Analyze the details of new or evolving investment products or new investment characteristics that could pose unique risks to insurers and provide recommendations to the Task Force on investment-related solvency policy changes to be made in conjunction with other NAIC groups of the Financial Condition (E) Committee.
- Analyze insurers and groups that hold new, evolving, or riskier investments and advise the state of domicile on applicable risks, either directly or through coordination with the Financial Analysis (E) Working Group or Valuation Analysis (E) Working Group. Where applicable, utilize NAIC staff from the Securities Valuation Office and Structured Securities Group and Capital Markets Bureau to assist the Working Group with these deliverables.
- Oversee a revised portfolio analysis product from NAIC staff, the CMB Research agenda, and analytical investment reports produced by NAIC for the public.
- Oversee the NAIC's implementation of revised systems designed to improve the availability of various investment data points from existing NAIC databases while also identifying and providing NAIC staff who support this group with at least one investment software package that facilitates portfolio analysis and portfolio modeling.
- Monitor information technology and data resource needs to ensure data can be retrieved efficiently and effectively.
- Develop best practice examples of supervisory plans that monitor complex investments where the company and the regulator oversee company-designed risk dashboards on their riskier investment areas/or risk mitigation tracking.

#### **Form a Securities Valuation Office and Structured Securities (E) Working Group**

The Drafting Group proposes forming a Securities Valuation Office and Structured Securities (E) Working Group, intended to: 1) make recommendations to the Task Force regarding the scope of securities required to be filed with the Securities Valuation Office (SVO); 2) make recommendations regarding the scope of securities required to be modeled and/or filed with the Structured Securities Group (SSG) (e.g., collateralized loan obligations [CLOs], collateralized fund obligations [CFOs], mortgage-based securities [MBS]); 3) oversee private letter rating (PLR)

submissions and review processes; and 4) monitor the technology and resources available to implement current and future initiatives efficiently and effectively. This Working Group would be similar to the current day Task Force and provide oversight, through periodic operational reports on categories of filings, Regulatory Treatment Analysis Service (RTAS) filings, designations, PLR statistics, etc. The Working Group charges would be as follows:

- Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.
- Maintain and revise *the Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions for investment-related regulatory issues for existing or anticipated investments.
- Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual* (AP&P Manual), as well as financial statement blanks and instructions, to ensure that the P&P Manual reflects regulatory needs and objectives.
- Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.
- Identify potential improvements to the credit filing and designation processes, including formats and electronic system enhancements.
- Coordinate with the Invested Assets (E) Task Force, Investment Analysis (E) Working Group, and other NAIC working groups and task forces to formulate recommendations and make referrals to other NAIC regulator groups to ascertain that the purpose and objective of guidance in the P&P Manual is reflective in the guidance of other groups and that the expertise of other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual. Implement additional and alternative ways to measure and report investment risk.

#### **Form a Credit Rating Provider (E) Working Group**

The Drafting Group proposes forming a Credit Rating Provider (E) Working Group, intended to implement the due diligence framework once developed and approved by regulators and the discretion policy adopted in 2024. This Working Group will be staffed by two new dedicated staff members who have credit rating, analytical or quantitative backgrounds, as needed, to implement and manage the CRP framework. The Working Group charges could be expanded after the due diligence framework is adopted; however, the Working Group would initially have the following charges, most of which previously existed for the Valuation of Securities (E) Task Force:

- Identify potential improvements to the filing exempt (FE) process (i.e., using credit rating provider ratings to determine an NAIC designation) through ongoing implementation of the CRP due diligence framework to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives.
- Implement policies resulting from the CRP due diligence framework related to NAIC's staff administration of rating agency ratings used in NAIC processes, including staff discretion over the applicability of their use in its administration of FE.
- Coordinate with the Securities Valuation Office and Structured Securities (E) Working Group on issues identified from the maintenance of the CRP due diligence framework.

As many of the functions split between working groups were previously under one task force, there may be some need to re-evaluate charges and appropriate ownership after implementation. We suggest that the Invested Assets (E) Task Force solicit feedback from the working groups, interested regulators, and interested parties after one year of implementation and report the results of that feedback and any applicable recommendations to the Financial Condition (E) Committee to assess whether adjustments are needed.

If you have any questions regarding this memorandum, please contact NAIC staff (Dan Daveline at [ddaveline@naic.org](mailto:ddaveline@naic.org)) for further clarification.



July 10, 2025

Commissioner Nathan Houdek  
Chair, Financial Condition (E) Committee  
National Association of Insurance Commissioners

Re: Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Commissioner Houdek:

On behalf of the Life Practice Council's Investment Analysis Subcommittee (Subcommittee) of the American Academy of Actuaries (Academy),<sup>1</sup> thank you for the opportunity to offer comments regarding reorganization of the Valuation of Securities (E) Task Force (VOSTF).

The Subcommittee supports this initiative. Having reviewed the proposed reorganization memo, we noted that the NAIC's approach is similar to the Academy's recent activity in this space. Our Subcommittee was formed in 2024 to monitor regulatory developments affecting investment activities of life insurers in collaboration with other committees within the Life Practice Council. The proposed reorganization, renaming VOSTF, and creating working groups with targeted expertise, promotes a deliberate shift toward the enhanced analysis of evolving investment products, as well as offers the opportunity for stronger collaboration across and between the existing NAIC groups that focus on solvency and investment risk.

The Subcommittee appreciates the ongoing public engagement with you and the Financial Condition (E) Committee. The Academy will continue to be an engaged partner with you, as well as with the new task force and working groups. If you have any questions or would like to discuss these comments further, please contact Amanda Barry-Moilanen, life policy project manager ([barrymoilanen@actuary.org](mailto:barrymoilanen@actuary.org)).

Sincerely,

David Bulin, MAAA, FSA  
Vice Chairperson, LPC Investment Analysis Subcommittee  
American Academy of Actuaries

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<sup>1</sup> The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

**From:** Clements, Laura <Laura.Clements@insurance.ca.gov>  
**Sent:** Friday, July 11, 2025 1:50 PM  
**To:** Daveline, Dan <DDaveline@naic.org>  
**Cc:** Lara, Ricardo <canaic@insurance.ca.gov>  
**Subject:** RE: Exposure of Proposed Reorganization of the Valuation of Securities (E) Task Force

Dear Commissioner Houdek:

Thank you for the opportunity to provide comments regarding the proposed reorganization of the Valuations of Securities (E) Task Force.

The California Department of Insurance had the following questions/comments regarding the proposed reorganization?

1. Currently the Valuation of Securities (E) Task Force has 27 members. Is this the same number of members contemplated for the Invested Asset (E) Task Force?
2. Is it anticipated that SVO and SSG (E) Working Group as well or the Credit Rating Provider (E) Working Group be limited in size?
3. Given the proposed role of the Investment Analysis (E) WG the California Department of Insurance would recommend the membership size be similar to the membership size of the Financial Analysis Working Group and the Valuation Analysis Working Group.

If you have any questions, please do not hesitate to contact me. Thank you.

***Laura Clements, CFE***

***Chief Examiner***

***Department of Insurance***

***300 South Spring Street, 9<sup>th</sup> Floor***

***Los Angeles, CA 90013***

***213-346-6127***



1100 15<sup>th</sup> Street, NW  
Washington, DC 20005

July 19, 2025

[aima.org](https://aima.org)

Chairman Nathan Houdek  
Financial Condition (E) Committee  
National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106

**Subject: Proposed Reorganization of Valuation of Securities (E) Task Force**

Dear Chairman and members of the E Committee,

On behalf of the Alternative Credit Council (ACC)<sup>1</sup>, I am writing to express our support for the Investment Framework Drafting Group's proposal to reorganize the Valuation of Securities (E) Task Force into a more modern and comprehensive structure: the Invested Assets (E) Task Force. We believe this thoughtful restructuring is a timely and necessary response to the continued evolution of investment markets and the growing complexity of the insurance industry's asset-liability management needs.

Over the past several years, insurers have increasingly turned to a broader range of

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<sup>1</sup> The Alternative Credit Council is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over US\$2 trillion of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board, which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure, as well as the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

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Alternative Credit Council (ACC)

The ACC is the private credit affiliate of the Alternative Investment Management Association Limited (AIMA)



AIMA is registered in England as a Company Limited by Guarantee, No. 4437037. VAT Registration no. 577 5913 90. Registered Office as above.



investment strategies, including private credit, asset-backed securities, infrastructure, and other alternative investments. These types of assets offer cash flow patterns, durations, and risk-return characteristics that are better suited to supporting the long-term obligations insurers have to policyholders. The proposed reorganization reflects this reality by creating three distinct working groups with deep subject-matter expertise: one focused on investment analysis, another on structured securities and the Securities Valuation Office, and a third on credit rating providers.

We believe this structure provides a more agile and risk-sensitive approach to regulatory oversight. Here are some specific comments on each of the three working groups:

**Investment Analysis (E) Working Group (IAWG)** – This group can play an important role in identifying emerging thematic trends in insurer investments and assessing how they align with liability profiles. While its discussions will primarily be regulator-only as they involve confidential data, some level of thematic transparency – focused on trends rather than company-specific insights – would help stakeholders better understand any policy-related developments. Given the focus on evolving products or markets, it is likely that the analysis will either apply current NAIC policy in new ways or perhaps effectively create new policies. In addition, emerging trends are often highly technical. As a result, the working group could benefit from informational sessions and technical input from industry specialists. This would improve the quality and context of any deliberations or referrals to other NAIC bodies for policy consideration.

**Securities Valuation Office and Structured Securities (E) Working Group (SVO/SSG)** – Enhancing expertise in complex structured assets is critical. It would be helpful to clarify how the ratings discretion policy adopted in 2024 will be implemented in practice, particularly in cases where there are disagreements between an insurer and the SVO on credit quality. Clear escalation procedures – such as when disputes should be referred to the SVO/SSG group, and whether commissioner-level appointees or other working group members will play a role in decisions – would improve governance. This will be especially important for novel asset classes or unique rating methodologies.

**Credit Rating Provider (E) Working Group (CRPWG)** – Maintaining a strong degree of independence between this group, which oversees the credit rating provider due diligence framework and discretion policy, and the SVO/SSG, which produces NAIC designations, is essential to avoid conflicts of interest. It would also be helpful to clarify how the ongoing review of rating agency governance and the 2024 discretion policy will align with the CRPWG's responsibilities, ensuring consistent and transparent standards across the framework.

Beyond the organizational design, the emphasis on enhancing analytical capabilities and modernizing data tools is critical. As insurers increasingly rely on sophisticated







portfolio strategies, regulators need robust systems and dashboards to assess how these investments impact solvency and policyholder protection. Careful coordination across related workstreams – particularly between the Academy of Actuaries and SVO CLO modeling initiatives – will be essential to ensure consistency, avoid duplication, and promote coherent outcomes. Clear governance for how these workstreams interact, including transparent feedback loops, would further strengthen confidence in the new framework.

More broadly, governance and transparency will be key to building confidence in this reorganization. Establishing clear protocols for stakeholder engagement – particularly when emerging themes are referred from the IAWG to policy-setting groups – would ensure that industry expertise can be leveraged without compromising confidentiality. Providing periodic public summaries of key trends or lessons learned at a high level could also improve trust and understanding. We also encourage consideration of formal mechanisms for stakeholder input into the one-year implementation review process so that the NAIC can benefit from both regulatory and market perspectives when evaluating the new structure.

Importantly, the proposal's commitment to a formal one-year review after implementation reflects an adaptive and responsive approach. This will allow regulators and stakeholders to identify gaps, refine processes, and ensure that the working groups remain aligned with the evolving investment landscape.

In sum, we believe the reorganization positions the NAIC to stay ahead of financial market developments, enabling a more informed and coordinated regulatory response that ultimately strengthens the insurance system's ability to serve policyholders. At the same time, incorporating governance and transparency refinements – such as clear escalation processes, stakeholder engagement protocols, and high-level thematic reporting – will enhance confidence and facilitate effective collaboration.

We commend the Financial Condition Committee for this initiative and urge it to adopt the proposed structure with these clarifications.

If you have any questions or would like to discuss further, please do not hesitate to contact me at [jkrol@aima.org](mailto:jkrol@aima.org) or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at [jengelhard@aima.org](mailto:jengelhard@aima.org).

Sincerely,

Jiří Król  
Global Head of Alternative Credit Council



**S&P Global Ratings**  
55 Water Street  
New York, NY 10041

**James Wiemken**  
Global Head of Rating Services  
S&P Global Ratings  
E: [James.Wiemken@spglobal.com](mailto:James.Wiemken@spglobal.com)  
W: [spglobal.com/ratings](http://spglobal.com/ratings)

July 21, 2025

Via Email

Mr. Dan Daveline ([ddaveline@naic.org](mailto:ddaveline@naic.org))  
Director-Financial Regulatory Services  
Financial Regulatory Affairs  
National Association of Insurance Commissioners

**Re: Proposed Reorganization of the Valuation of Securities (E) Task Force**

Dear Mr. Daveline,

S&P Global Ratings appreciates the opportunity to provide comments on the National Association of Insurance Commissioners' ("NAIC") memorandum of June 6, 2025, regarding the proposed reorganization of the Valuation of Securities (E) Task Force.

We understand the proposed creation of a new Credit Rating Provider (E) Working Group is part of the NAIC's broader review of the use of and reliance on credit ratings.

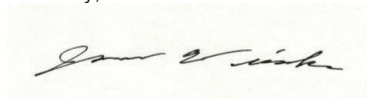
As a leading provider of credit ratings, we have long supported global efforts to reduce over-reliance on credit ratings in the financial system. We believe that markets are best served by a diversity of credit views and the availability of sufficient high-quality information, to help enable users of credit ratings to make informed decisions regarding investments and choices regarding credit ratings. This includes transparency regarding a credit rating provider's ratings definitions, methodologies and performance.

S&P Global Ratings recognizes the NAIC's efforts in this respect and welcomes its proposal to create a dedicated team of credit rating experts. We believe this team can play a valuable role in the NAIC's broader mission.

We look forward to continuing to work with the NAIC on this, including the development of a due diligence framework on credit rating providers by the NAIC's appointed third-party expert, PwC, and to provide the NAIC and PwC with comments on relevant proposals. We believe the NAIC's due diligence should complement rather than duplicate the oversight activities carried out by the SEC's Office of Credit Ratings to further serve the market.

S&P Global Ratings is committed to providing transparency to the market through high-quality independent opinions on creditworthiness and welcomes the opportunity to continue to be part of the ongoing dialogue on these important issues.

Sincerely,



James Wiemken  
Global Head of Rating Services

**S&P Global**  
Ratings

**Lease-Backed Securities Working Group**

To: NAIC Valuation of Securities (E) Task Force

Re: **June 6, 2025 Memorandum: Proposed Reorganization of the Valuation of Securities Task Force**

The members of the Lease-Backed Securities Working Group support the framework for a proposed reorganization of the Valuation of Securities Task Force laid out in the June 6<sup>th</sup> Memo referenced above. If implemented carefully and thoroughly, we believe the new structure will greatly facilitate the NAIC's primary goal of monitoring the solvency of the insurance industry, and also lead to greater accountability and transparency – and importantly, predictability for investors – in the regulators' oversight of insurance company investment portfolios.

These goals, accountability, transparency – and especially predictability for investors – are crucial because of the recent history of the NAIC casting doubt on private-placement securities, and rating agency ratings, as described below:

**Background:**

Our group, The Lease-Backed Securities Working Group, represents a group of insurance company investors, securities dealers, and attorneys working primarily in the private-placement markets. Our focus is on long-term securities which combine credit lending with additional security in the form of a mortgage on a property. These transactions are individually tailored to meet the investment needs of insurance company investors, and to fill their need for long-term assets of high credit quality to match their long-term liabilities.

These investments, which are backed by a long-term lease with a credit tenant, finance large mission-critical major government, infrastructure, and health-care transactions, as well as private industry. Since these securities combine a highly rated credit with additional security through a lien on a hard asset, they represent what we consider to be a “belt and suspenders” form of investing: providing additional safety for the long-term investor. Because of their unique and somewhat hybrid nature, these transactions tend to be rated by the “smaller” rating agencies who specialize in these products.

[While these transactions can range in size from tens of millions to several hundred million dollars, they are smaller in size than the large multi-billion-dollar transactions typically rated by the large rating agencies. They also come to market less frequently than transactions in the public markets and require specialized analysis. They are therefore less attractive to the “big three” agencies. Their pricing reflects this.]

**The Problem:**

Over the past few years, the SVO has repeatedly called into question the reliability of rating agency ratings: particularly those produced by the “smaller” rating agencies in rating private-placement securities. There have been several “anonymized” reports issued by the SVO highlighting a small number of securities out of the many thousands held by insurers where the

### Lease-Backed Securities Working Group

SVO's internal credit opinion (issued in the form of an NAIC "designation") differed from the rating agency rating. They have also publicly and repeatedly questioned the quality of the ratings issued by these "smaller" agencies.

These published reports have not named the specific securities in question or the rating agency or agencies that provided the ratings. There has been no detailed discussion of how the SVO arrived at their "designations" or how their analysis differed from that of the rating agency in question.

[For all private placement securities, the SVO requires investors to provide them with a copy of the full "Ratings Rationale Report" submitted to them by the rating agency. These reports contain a detailed discussion of the agency's analysis of the investment, including financial metrics, legal framework, critical factors considered and future events that might impact the rating either positively or negatively, etc. etc. These reports all refer to publicly-available methodologies put out by each of the agencies spelling out the steps they go through in analyzing each specific type of investment.]

In spite of the SVO's access to these reports and the agencies' published methodologies, when questioning a rating, the staff has not cited any specific shortcomings or errors in the rating agency's analysis of the credit, but have merely stated their disagreement with their conclusions.

This lack of transparency is somewhat understandable, due to the confidentiality restrictions placed on the NAIC. However, the inevitable but unfortunate result of this for the investment community has been a campaign of "innuendo": reports which are based on information that cannot be confirmed through other sources, and without "naming names", or explaining the SVO's methodologies or analysis – or the specific securities or even types of securities being questioned.

The uncertainty this has created with investors has placed a cloud over the entire private-placement market – estimated at \$100 billion annually – and over the rating agencies that rate them. Most importantly, it has effectively shut down the market for several types of investments that are extremely beneficial for insurers as they manage their assets and liabilities, ultimately harming both them and their policyholders.

#### **Rating Agency Ratings vs. NAIC Designations:**

Investors have the option of submitting transactions to the SVO with a rating from an approved Credit Ratings Provider ("CRP") through the Filing-Exemption ("FE") process or submitting transactions directly to the SVO for an NAIC Designation. Those transactions submitted with a rating from an approved CRP through the FE process have historically been entitled to the presumption of a direct translation to the equivalent NAIC Designation – creating a degree of certainty for investors.

### Lease-Backed Securities Working Group

Given the doubt that has been placed in investors' minds about how the SVO views the ratings of private transactions – particularly those rated by the “smaller” agencies – most investors would prefer to bypass the FE process and submit their transaction directly to the SVO for a confirmed Designation.

However, there are two problems with this: timing, and process.

**Timing:** Investors are trying to place investments in rapidly-moving markets where investment opportunities can vanish quickly, and pricing is a key factor in determining the viability of an investment. When rates move, an investment that was attractive at a certain price may not remain viable for the investor. Timing is crucial, and a delay in obtaining timely determinations from the SVO or the SSG often means the difference between an attractive investment and a lost opportunity.

While advanced indications of NAIC Designations are available through the RTAS process, our experience has been that the turn-around time in obtaining even these preliminary indications is not responsive to the needs of the investors – often taking many weeks or even months to obtain an answer.

**Process:** A second problem with submitting transactions directly for an NAIC Designation has been the lack of transparency as to how the SVO arrives at its Designations. In stark contrast to what is required of rating agencies, staff has repeatedly refused to share its internal analysis, providing only the resulting Designation, with little-to-no explanation. This leaves investors with a great deal of uncertainty as to how the SVO might respond to any given security. A fuller understanding of the SVO's process and methods of analysis would lead to greater reliance on direct filing of transactions with the NAIC.

We believe the framework described in the June 6<sup>th</sup> memo – depending on how it is implemented – could go a long way towards addressing some of the issues outlined above.

Specifically:

#### **1.) A Credit Rating Provider Working Group**

A robust – and transparent -- due diligence process for credit rating agencies, overseen by a special working group, would help to eliminate the investor uncertainty that has been the result of the current process. It would also assist rating agencies in “upping their game” if necessary.

We would suggest a two-pronged attack: the first, a thorough audit of all rating agencies methodologies, analyses, staffing, and credit-review processes. However, we believe that the reliability of a rating agency's rating can best be assessed by looking at its historical track record. The second and equally important component would be comparing the actual default and loss performance of the various agencies over time. The SEC already collects

### Lease-Backed Securities Working Group

and publishes voluminous statistics on rating agency performance and has detailed staffing and process requirements for any agency which obtains NRSRO status.

#### **2.) A Securities Valuation Office and Structured Securities Working Group:**

We support the formation of an extra layer of oversight for the SVO and the SSG and to serve as a liaison between these groups and the new Invested Assets (E) Task Force. The work performed by these two groups is complex in nature – covering thousands of securities and many constantly-evolving types of investments. A fresh review of staffing levels and experience, systems resources, and internal processes would be crucial.

These groups are also the most frequent and direct point of contact between the regulatory regime and the insurance industry (where “the rubber meets the road”). As such, they need not only to ensure the accuracy of investment portfolio ratings and alert regulators to potential problems, but also to be sensitive to the investment needs of the industry and responsive to existing and evolving investment market dynamics – as discussed above.

#### **2.) An Investment Analysis Working Group:**

The creation of a 13-member staff to oversee risk at a more macro level, rather than security-by-security, would greatly facilitate the NAIC’s main objective of protecting insurance company solvency – whether that macro was at the company portfolio level, or more broadly in an ongoing monitoring of evolving market risks.

We understand that when it comes to individual company oversight, portfolio analysis and solvency questions, these inquiries must necessarily take place at the regulator-only level. However, to the extent that the work of the Investment Analysis Working Group is to analyze new investment products and evolving market risks, it is vital that this work be undertaken in cooperation with insurance company investors, attorneys, and other experts familiar with these new products and markets. The process can only benefit from the input of the most knowledgeable market participants.

Finally, we seriously question whether the NAIC would ever have the staffing and actuarial expertise to oversee asset/liability matching – the key risk factor for solvency – broadly for the many insurance companies in the market or even very large, targeted, subsets of insurers.

#### **3.) The Invested Assets Task Force:**

Finally, we support reconstituting the VOS Task Force as a commissioner-level “Invested Assets” Task Force. This would both tie the work of the Task Force more closely with the regulators at the State level, and also allow this group to benefit from the areas of expertise offered by the new sub-groups reporting to them.

In conclusion, we applaud the members of the E Committee and the VOS Task Force for re-thinking the existing structure from the top down, so to speak. We hope you find our comments helpful in that effort.

**Lease-Backed Securities Working Group**

While we understand that the implementation of the new structural changes will largely occur at the “regulator-only” level, we encourage the NAIC members to communicate frequently with industry and seek feedback and suggestions from insurers as the work progresses. The end result can only benefit from the ideas and input of industry market participants.

Sincerely,

*JM Garrison*

John M. Garrison

On behalf of the Lease-Backed Securities Working Group

Cc: Carrie Mears  
Nathan Houdek  
Charles Therriault  
Elizabeth Dwyer



**Shannon Jones**

Senior Director, Financial Reporting Policy  
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shannonjones@acli.com

July 21, 2025

**Commissioner Nathan Houdek, Chair**

Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Via email ddaveline@naic.org

**Re: Request for Comments on Proposed Reorganization of the Valuation of Securities (E) Task Force**

**Submitted Electronically**

Dear Mr. Houdek:

The American Council of Life Insurers (ACLI) would like to thank you for the opportunity to comment on the proposed reorganization of the Valuation of Securities (E) Task Force (VOSTF) and the formation of the Invested Assets (E) Task Force and its associated working groups, as outlined in the June 6, 2025, memorandum.

At a high level, ACLI supports the NAIC's efforts to modernize its structure to better align with the evolving nature of insurer investment portfolios and the broader capital markets. The proposed framework appears to be a thoughtful step toward enhancing regulatory oversight and analytical capabilities.

We respectfully offer the following comments and questions for your consideration:

**1. Structure and Coordination of the Credit Rating Provider Working Group (CRPWG)**

ACLI understands the CRPWG, with the related proposed NAIC staff additions, will primarily be involved with implementing the CRP due diligence framework and the discretion policy adopted in 2024. We also understand that the intent is to provide some level of separation (i.e., to help avoid potential conflicts of interest) from the Securities and Valuation Office and Structured Securities Group (SVO & SSG), who often produce NAIC designations and the due diligence over the CRPs, whose ratings are also often used as NAIC designations. We support this in concept and look forward to understanding the details of how this will ultimately be implemented, including how PwC's work for the Financial Condition Committee on rating agency governance, and the discretion policy adopted in 2024, will specifically fit into this proposed framework.

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.  
acli.com



**2. Transparency and Stakeholder Engagement related to the Investment Analysis Working Group (IAWG)**

ACLI understands the intent is for the IAWG to primarily have regulator-to-regulator meetings, as it will primarily be looking at individual company data and/or information that is otherwise confidential. We also understand the IAWG will not be a policy-setting body but will likely refer emerging thematic issues or trends to other NAIC working groups or task forces. To make this as effective as possible, we believe some level of public transparency related to these issues is warranted, as a best practice, without sharing any company-specific or otherwise confidential information. Since these emerging and/or thematic trends are often expected to be complex and at the forefront of market trends that are related to industry more broadly, we stand ready to assist the IAWG by providing information and/or education. There may be times when access to specialized industry expertise would be extremely beneficial to help the IAWG gain more insights on new investment strategies and their potential implications. We believe this would especially be of value for any significant initiatives that are referred to other groups, so that such referrals are as informative and comprehensive as possible.

**3. Clarification on Ratings Discretion Process**

As the CRP due diligence framework and discretion policy are implemented, we request additional clarity on how rating disagreements will be handled. Specifically, industry assumes that if an insurer and the SVO are unable to agree on a rating, the matter could be escalated to the SVO & SSG Working Group, allowing commissioner-level appointees to opine on the process and review outcomes. It's less clear whether or how members of the IAWG and CRPWG might be involved in the Ratings Discretion process, particularly in cases involving new asset classes or concerns about a CRP's rating methodology. These nuances can be addressed later as the new organizational structure evolves, but Industry is highlighting, as Ratings Discretion was not discussed in detail in the exposure, and we view Regulators' involvement in the process as important and beneficial.

ACLI appreciates the Committee's leadership in advancing this important initiative and thank you for considering our comments. We look forward to continuing collaboration as the framework is implemented.

Sincerely,



Shannon Jones  
ACLI



Tracey Lindsey  
NASVA



John Petchler  
on behalf of PPiA Board of  
Directors

cc: Charles Therriault, Director, Securities Valuation Office  
Eric Kolchinsky, Director, Structured Securities Group



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July 21, 2025

Commissioner Nathan Houdek, Chair  
Financial Condition (E) Committee  
National Association of Insurance Commissioners  
via email to: ddaveline@naic.org

## **RE: Proposed Reorganization of the Valuation of Securities (E) Task Force**

Dear Commissioner Houdek and members the Financial Condition (E) Committee:

I appreciate the opportunity to submit comments on the NAIC's proposed reorganization of the Valuation of Securities (E) Task Force (VOSTF). The effort to modernize the oversight framework for insurer investments demonstrates the NAIC's commitment to undergo continuous improvement in ensuring the efficacy of its regulatory regime.

I support the intent behind the proposed reorganization—namely, to increase efficiency, reduce duplicative processes, and clarify the roles and responsibilities of the Securities Valuation Office (SVO) and other investment-related working groups. That said, I believe the proposal would benefit from further refinement to ensure that it strengthens—not weakens—the integrity, transparency, and accountability of insurer investment regulation.

### **1. Support for Modernization and Streamlining**

The migration of insurer investment portfolios toward assets new to regulators justifies a more agile and technically proficient oversight structure that does not impede constructive or forward-looking market activity. In this regard, the proposal's vision of consolidating analytical expertise and aligning operational responsibilities is potentially beneficial.



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Improved consistency in classifications and filings could reduce regulatory uncertainty and foster more effective supervision. The reorganization, if implemented with the right safeguards, could enhance the NAIC's ability to respond to market innovations, without stifling insurers' ability to respond to consumer demand for affordable risk transfer and protection products.

## **2. Transparency and Governance**

However, centralizing more authority within the SVO—particularly around asset designation decisions and the development of methodologies—raises legitimate concerns about transparency and due process. The SVO plays a pivotal role in shaping the regulatory treatment of trillions of dollars in insurer assets. However, decisions made without sufficient visibility or public deliberation can erode trust among stakeholders and limit the ability of regulators to weigh the broader implications for solvency and risk-based capital.

This proposed realignment must not come at the expense of openness or accountability. The NAIC proposes that the Investment Analysis (E) Working Group be a regulator only meeting group. However, the group's proposed goals seem inconsistent with the NAIC's [open meeting policy](#), which stipulate when/why meetings can be held in regulator only session.

- In particular, the goals to "monitor risks associated with all types of invested assets" and "analyze new or evolving investment types" do not seem to warrant regulator only sessions and should be held in an open forum. These topics are broad matters of policy, and are not company/solvency specific and should be deliberated in the light of day, in an open forum to foster transparency, stakeholder engagement while staying true to the NAICs own values.
- Additionally, this group will "oversee a revised portfolio analysis product from NAIC staff." Here again, there is concern that there will be no public input for the development of a portfolio analysis product, which is of a broad policy nature.

The NAIC already has two "Regulator Only" sub-committees in the E Committee structure (FAWG & VAWG) which never meet in an open transparent manner, nor do they report out in a meaningful manner. Is there a discernable need to create a third "Regulator Only" committee? Before creating a third closed forum, it would be helpful to delineate specifically what topics justify another "Regulator Only" forum.

With respect to the formation of a Credit Rating Provider (E) Working Group there are structural and governance details which need to be better enumerated and exposed. For instance, what will be the makeup of the CRP (E) Working Group? Will this be Commissioner-level or Commissioner-staff level WG? How many members will make up the WG?



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From the proposal, it seems that the CRP Working Group will oversee the SVO discretion amendment. How will this be operationalized? Does the NAIC anticipate any necessitated changes to the discretion amendment given this proposed reorganization? Under that amendment, any time the SVO challenges a rating, a VOSTF subgroup is to oversee a credit committee. From which group will that subgroup now be comprised?

Under the CRP Working Group, two new staff members will be hired. How will the NAIC ensure that the background/experience of these two individuals have sufficient depth, expertise, and a knowledge base/familiarity with CRP processes without being bias towards one rating agency or another? What specific measures will be put in place to ensure objectivity in these key personnel additions and how will the NAIC assess whether those measures are effective?

Furthermore, to ensure independence and objectivity, I would propose that with respect to its rating activity, the SVO be subject to the same level of review and assessment as the CRP's.

More broadly, there is a perception that the current processes may reinforce reliance on the largest CRP's. The NAIC has fostered a culture of preference towards the big three rating agencies. The proposed changes offer an opportunity to foster broader participation and innovation. How will the changes advanced in this proposal create and encourage more competition and innovation among rating agencies, or at the very least, not undermine it?

### **3. Need for Regulatory Checks and Public Input**

To balance technical efficiency with proper oversight, I encourage the NAIC to ensure that any reorganization includes:

- Clear mechanisms for regulator review and checkpoints of key changes. The NAIC needs to ensure it is a regulator led organization. Changes need to be made by regulators and for regulators without undue bias or influence of staff;
- The earliest and soonest public access to methodologies and material changes in asset classification standards. Too often, exposure drafts reveal deliberations and staff or regulator thinking which has clearly been formed or is formulating. Stakeholders should be brought in much earlier. I would recommend conventions such as stakeholder workshops and other exchange forums before the ink hits the paper;
- Opportunities for industry input, especially on evolving or novel asset structures to regulators wherein stakeholders have years and decades of experience;



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The above measures will help ensure alignment with state insurance commissioners' statutory mandates.

#### **4. Recommendation for Phased Implementation and Oversight Review**

I further recommend that the reorganization be implemented in phases, with formal evaluation checkpoints. A working group of Commissioner level E Committee regulators could be tasked with reviewing the outcomes of the structural changes after one year, soliciting stakeholder input, and reporting publicly on their effectiveness of the changes and any unintended consequences which come to the fore.

#### **Conclusion**

The proposed reorganization reflects forward-thinking goals that, with appropriate refinements, could enhance the quality and responsiveness of insurer investment oversight. However, success will depend on maintaining a strong framework of oversight of these changes, transparency, and stakeholder engagement. I urge the NAIC to proceed thoughtfully, incorporating safeguards that preserve public confidence in the system and ensure the SVO operates in service to—not in lieu of—state regulators.

Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tom Sullivan".

Tom Sullivan

Draft: 8/4/25

Group Solvency Issues (E) Working Group  
and the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup  
Virtual Meeting  
July 29, 2025

The Group Solvency Issues (E) Working Group of the Financial Condition (E) Committee met July 29, 2025, in a joint session with the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup. The following Working Group members participated: Jamie Walker, Chair (TX); Susan Berry, Vice Chair (IL); Kim Hudson and Michelle Lo (CA); Jack Broccoli and William Arfanis (CT); Charles Santana (DE); Jane Nelson (FL); Kim Cross and Mike Yanacheak (IA); Roy Eft (IN); John Turchi (MA); Kristin Hynes and Steve Mayhew (MI); Danielle Smith (MO); Anthony Quandt (NE); David Cook (OH); Diana Sherman (PA); Doug Stolte and Jennifer Blizzard (VA); and Amy Malm and Mark McNabb (WI). The following Subgroup members participated: Jack Broccoli and William Arfanis, Co-Chair (CT); Mike Yanacheak, Co-Chair (IA); Michelle Lo and Laura Clements (CA); Shalice Rivers and Carolina Herrera Wagoner (FL); Susan Berry (IL); Sara McNeely and Danielle Smith (MO); Tadd Wegner (NE); Victor Agbu (NY); David Cook (OH); Diana Sherman (PA); Amy Garcia (TX); and Amy Malm (WI).

1. Adopted Revisions to the ORSA Guidance Manual

Broccoli stated that the first agenda item for the meeting is to discuss comments received on the recent exposure of proposed revisions to the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual). The proposed edits are intended as minor clarifications to address common questions and issues that have been raised by companies and regulators in preparing, filing, and reviewing ORSA Summary Reports. The edits are intended to provide clarification in the following areas:

- The lead state may request and review information on international premium volume to assess the applicability of the insurance group exemption outlined in the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505).
- Captives should be included in the scope of the ORSA Summary Report.
- Insurers/groups should file their first ORSA Summary Report no later than two years after the year-end in which they first exceed the premium threshold.

The edits were developed by Subgroup leadership and NAIC staff before being exposed for a 45-day public comment period ending May 30. One comment letter was received during the exposure from the American Academy of Actuaries (Academy).

The comments received do not directly address the proposed edits but instead raise other topics addressed in the ORSA Guidance Manual. The first comment highlights the fact that there are questions around an attestation expected to accompany the ORSA Summary Report filed with the domestic or lead state regulator each year. While there is no template or explicit language required for the attestation, there is general guidance on the attestation included on page four of the ORSA Guidance Manual. The current language states:

The ORSA Summary Report shall include a signature of the insurer's chief risk officer or other executive having responsibility for the oversight of the insurer's ERM process attesting to the best of his/her belief and knowledge that the insurer applies the ERM process described in the ORSA Summary Report and that a copy of the ORSA Summary Report has been provided to the insurer's board of directors or the appropriate committee.

Broccoli stated that since the ORSA Guidance Manual already outlines general expectations in this area and the intent of the manual is not to be overly prescriptive on the format of the ORSA Summary Report, he does not believe it is necessary to develop additional guidance in this area.

Broccoli stated that the second comment in the letter notes that there are a couple of Actuarial Standards of Practice (ASOP) that are relevant for the preparation of an ORSA Summary Report but are not referenced in the ORSA Guidance Manual. This includes ASOP No. 55 on Capital Adequacy Assessment and ASOP No. 58 on Enterprise Risk Management. However, Model #505 and the ORSA Guidance Manual do not include a requirement or an expectation for a credentialed actuary to be involved in the development of an ORSA. Therefore, it might not be appropriate to reference ASOPs in the ORSA Guidance Manual that are applicable to credentialed actuaries, as this could be interpreted as an expectation or requirement to have a credentialed actuary involved in the ORSA process.

The final comment in the letter discusses group risks related to debt service and notes that the only discussion on this issue in the ORSA Guidance Manual focuses on the level of leverage, if any, resulting from holding company debt. As the ability of the group to service the debt on an ongoing basis is a key consideration in this area, the letter recommends additional language in this area. Broccoli stated his agreement with this recommendation and noted that the updated draft of the ORSA Guidance Manual incorporates the recommended language.

Garcia made a motion, seconded by Sherman, for the Subgroup to adopt the proposed revisions to the ORSA Guidance Manual. The motion passed unanimously.

Malm made a motion, seconded by Hudson, for the Working Group to adopt the proposed revisions to the ORSA Guidance Manual (Attachment Two-A). The motion passed unanimously.

## 2. Discussed Conducting a Survey to Request ORSA Guidance Manual Topics

Broccoli stated that the second agenda item is to discuss a potential survey to request ORSA Guidance Manual topics and clarifications to be addressed in future years. Broccoli stated that there are other topics that were not included in this year's revisions, as they are more challenging to address. For example, regulators have raised questions about how different sections of the ORSA Summary Report should be completed for legal entity versus group reports. In addition, questions have been raised about what information should be provided in an ORSA Summary Report regarding the insurer's normal exposure to key risks.

Broccoli proposed conducting a public survey to identify areas of the ORSA Guidance Manual that are unclear or could benefit from further discussion. The goal is to improve and clarify guidance for 2027 and beyond. Members of the Subgroup and Working Group expressed support for conducting a survey to gather additional topics, and Broccoli asked NAIC staff to develop and release a public survey to gather input.

Having no further business, the Group Solvency Issues (E) Working Group and the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup adjourned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025\\_2Summer/GSIWG/GSIWG 7-29-25 Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2025_2Summer/GSIWG/GSIWG%207-29-25%20Minutes.docx)



# **NAIC OWN RISK AND SOLVENCY ASSESSMENT (ORSA) GUIDANCE MANUAL**

**Maintained by the  
Group Solvency Issues (E) Working Group  
of the Financial Condition (E) Committee**

As of December ~~2022~~2025



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**Date:** ~~August 11, 2022~~August XX, 2025

**To:** Users of the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*

**From:** Group Solvency Issues (E) Working Group

This edition of the ORSA Guidance Manual has been revised from the previous edition. The following summarizes the most significant changes since the December ~~2017~~2022 edition:

1. Added guidance to clarify that the Lead State may request and review information on international premium volume to assess the applicability of the insurance group exemption outlined in the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505).
2. Added guidance to clarify that captives should be included in the scope of the ORSA Summary Report.
3. Added guidance to clarify expectations for when insurers/groups should file their first ORSA Summary Report after exceeding the premium thresholds outlined in the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505).
4. Added guidance to clarify that the ability of the group to service existing debt and not just the level of debt should also be considered when assessing the group-wide capital adequacy.
- ~~1. Added various updates throughout the ORSA Guidance Manual to incorporate additional elements deemed appropriate by state insurance regulators, including additions from International Association of Insurance Supervisors (IAIS) guidance to incorporate:  
A. Enhancements related to the treatment and disclosure of liquidity and business strategies within the Own Risk and Solvency Assessment (ORSA).  
Enhancements related to additional considerations relevant to internationally active insurance groups (IAIGs), as outlined in the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).~~

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**The requirements outlined in this manual are based on the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). An insurer using this manual should refer to the laws adopted by the insurer's state of domicile when determining its requirements for risk management, determining its Own Risk and Solvency Assessment (ORSA), and preparing its ORSA Summary Report.**

## INTRODUCTION

The purpose of this manual is to provide guidance to an insurer and/or an insurance group of which the insurer is a member, hereinafter referred to as “insurer” or “insurers,” with regard to reporting on its Own Risk and Solvency Assessment (ORSA), as required by the domestic state’s version of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505).

The ORSA, which is a component of an insurer’s enterprise risk management (ERM) framework, is a confidential internal assessment appropriate to the nature, scale, and complexity of an insurer conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer’s current business plan and the sufficiency of capital resources to support those risks. As described below, an insurer that is subject to the ORSA requirements will be expected to:

1. Regularly—i.e., no less than annually—conduct an ORSA to assess the adequacy of its risk management framework, as well as its current and estimated projected future solvency position.
2. Internally document the process and results of the assessment.
3. Provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state insurance regulator.

The ORSA has two primary goals:

1. To foster an effective level of ERM at all insurers, through which each insurer identifies, assesses, monitors, prioritizes, and reports on its material and relevant risks identified by the insurer using techniques that are appropriate to the nature, scale, and complexity of the insurer’s risks in a manner that is adequate to support risk and capital decisions.
2. To provide a group-level perspective on risk and capital as a supplement to the existing legal entity view.

An insurer that is subject to the ORSA requirement should consider the guidance provided in this manual when conducting its ORSA and compiling its ORSA Summary Report. As the process and results are likely to include proprietary and forward-looking information, any ORSA Summary Report submitted to the commissioner shall be confidential by state law.

## A. EXEMPTION

An insurer shall be exempt from maintaining a risk management framework, conducting an Own Risk and Solvency Assessment (ORSA) and filing an ORSA Summary Report, if:

1. The individual insurer's annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation (FCIC) and the National Flood Insurance Program (NFIP), is less than \$500 million.
2. If the insurer is a member of an insurance group and the insurance group's—i.e., all insurance legal entities within the group—annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the FCIC and the NFIP, is less than \$1 billion.

For determining the applicability of exemption paragraph 2 above, the U.S. Lead State of an insurance group with international operations may request and verify group wide premium volume on a regular basis, if not otherwise reported through holding company filings (i.e., Form B financial statements).

If the insurer does not qualify for an exemption, upon the commissioner's request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report that contains the information described in this manual. If the group is an internationally active insurance group (IAIG) with a U.S. global group-wide supervisor, a group ORSA Summary Report should be filed; otherwise, a single or combination of reports may be used by the insurer to represent the group perspective. For example, the property/casualty (P/C) insurers within a group could be included in one ORSA Summary Report or a combination of reports, and the life insurers within the same group could be included in another ORSA Summary Report or a combination of reports if those groups operate under different enterprise risk management (ERM) frameworks. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the ORSA Summary Report(s) required by this manual to the lead state commissioner of the insurance group. The lead state is determined by the procedures within the *Financial Analysis Handbook*.

If an insurer qualifies for an exemption pursuant to paragraph 1 but the insurance group of which the insurer is a member does not qualify for an exemption pursuant to paragraph 2, then the insurer may supply an ORSA Summary Report in any combination, as long as every insurer within the group (including captives) is covered by the ORSA Summary Report(s).

If an insurer does not qualify for an exemption pursuant to paragraph 1 but the insurance group of which it is a member qualifies for an exemption under paragraph 2, then the only ORSA Summary Report that may be required is the report of that insurer. However, such an exemption does not eliminate the requirement for any insurer that is subject to the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) to complete Section III – Group Assessment of Risk Capital and Prospective Solvency Assessment.

Notwithstanding the above exemptions, the commissioner may require the insurer to maintain a risk management framework; conduct an ORSA; and file an ORSA Summary Report based on unique circumstances, including, but not limited to, the type of business written, ownership and organizational structure, federal agency requests, international supervisor requests, and regulatory concerns about the rapidly growing concentration of risk or risk exposure.

A commissioner may also require the insurer to maintain a risk management framework; conduct an ORSA; and file an ORSA Summary Report if the insurer has triggered a risk-based capital (RBC) company-action-level event, meets one or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, as determined by the commissioner.

If an insurer that qualifies for an exemption subsequently no longer qualifies for that exemption due to changes in premium, as reflected in the insurer's most recent annual financial statement or in the most recent annual financial statements of the insurers within the insurance group of which the insurer is a member, the insurer shall have one year following the year the threshold is exceeded to comply with the ORSA requirements. For example, if Company A exceeded the premium threshold on 12/31/202X, they would prepare an ORSA Summary Report for the year ended 12/31/202X+1, which would be filed no later than 12/31/202X+2 (or at the state's specified filing date in 202X+2).

#### B. APPLICATION FOR WAIVER

An insurer that does not qualify for an exemption may apply to the commissioner for a waiver from the requirements of the Own Risk and Solvency Assessment (ORSA) based upon unique circumstances. The commissioner may consider various factors, including, but not limited to, the type of business entity, volume of business written, and material reduction in risk or risk exposures. If the insurer is part of a nonexempted insurance group, the commissioner shall coordinate with the lead state commissioner and the other domiciliary commissioners in considering the request for a waiver.

#### C. GENERAL GUIDANCE

The Own Risk and Solvency Assessment (ORSA) should be one element of an insurer's enterprise risk management (ERM) framework. The ORSA and the ORSA Summary Report link the insurer's risk identification, assessment, monitoring, prioritization, and reporting processes with capital management and strategic planning. Each insurer's ORSA and ORSA Summary Report will be unique, reflecting the insurer's business, strategic planning, and approach to ERM. The commissioner will utilize the ORSA Summary Report to gain a high-level understanding of the insurer's ORSA. The ORSA Summary Report will be supported by the insurer's internal risk management materials.

To allow the commissioner to achieve a high-level understanding of the insurer's ORSA, the ORSA Summary Report should discuss three major areas, which will be referred to as the following sections:

- **Section 1** – Description of the Insurer's Risk Management Framework
- **Section 2** – Insurer's Assessment of Risk Exposures
- **Section 3** – Group Assessment of Risk Capital and Prospective Solvency Assessment

When developing an ORSA Summary Report, the content should be consistent with the ERM information that is reported to senior management and/or the Board of Directors or the appropriate committee. While some of the format, structure, and content of the ORSA Summary Report may be tailored for the state insurance regulator, the content should be based on the insurer's internal reporting of its ERM information. The ORSA Summary Report itself does not need to be the

medium of reporting its ERM to the Board of Directors or the appropriate committee, and the report to the Board of Directors or the appropriate committee may not be at the same level of detail as the ORSA Summary Report.

In order to aid the commissioner's understanding of the information provided in the ORSA Summary Report, it should include certain key information. The ORSA Summary Report should identify the basis(es) of accounting for the report (e.g., generally accepted accounting principles [GAAP], statutory accounting principles [SAPs], or international financial reporting standards) and the date or time period that the numerical information represents. The ORSA Summary Report should also explain the scope of the ORSA conducted such that the report identifies which insurer(s) are included in the report. This may be accomplished by including an organizational chart. In subsequent years, the ORSA Summary Report should also include a short summary of material changes to the ORSA from the prior year, including supporting rationale, as well as updates to the sections listed above, if applicable.

The commissioner may develop a deeper understanding of the insurer's ERM framework upon examination or an annual risk-focused update. Additionally, as part of the risk-focused analysis and/or examination process, the commissioner may also request and review confidential supporting materials to supplement his/her understanding of the information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, investment, claims, asset and liability management (ALM), reinsurance counterparty, and operational risk policies.

This manual is intended to provide guidance for completing each section of the ORSA Summary Report. The depth and detail of information are likely to be influenced by the nature and complexity of the insurer and should be updated at least annually for the insurer. The insurer is permitted discretion to determine how best to communicate its ERM processes. An insurer may avoid duplicative information and supporting documents by referencing other documents, provided that those documents are available to the state insurance regulator upon examination or request. In order to ensure that the commissioner is receiving the most current information from an insurer, the timing for filing the ORSA Summary Report during the calendar year may vary from insurer to insurer, depending on when an insurer conducts its internal strategic planning process. In any event, the ORSA Summary Report shall be filed once each year, with the insurer apprising the commissioner as to the anticipated time of filing.

The ORSA Summary Report shall include a signature of the insurer's chief risk officer or other executive having responsibility for the oversight of the insurer's ERM process attesting to the best of his/her belief and knowledge that the insurer applies the ERM process described in the ORSA Summary Report and that a copy of the ORSA Summary Report has been provided to the insurer's board of directors or the appropriate committee.

An insurer may comply with the ORSA requirement by providing the most recent report(s)<sup>1</sup> filed by the insurer or another member of an insurance group of which the insurer is a member to the commissioner of another state or a supervisor or regulator of a foreign jurisdiction if that report provides information that is comparable to the information described in this manual. If a U.S. state insurance commissioner is the global group-wide supervisor of an internationally active insurance group (IAIG), the U.S. state insurance commissioner should receive the ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with a

<sup>1</sup> Reports filed to foreign jurisdictions that are a report on an insurer's ORSA shall henceforth for the purposes of this manual be referred to as an ORSA Summary Report.

U.S. global group-wide supervisor to identify the scope of the group, whether the group is an IAIG or not; identify the head of the IAIG using the guidance contained in the *Financial Analysis Handbook*; and determine which noninsurance operations, if any, within the group should be included within the scope of the group and therefore the ORSA Summary Report. However, for all ORSA filers, the noninsurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

If the U.S. is not the global group-wide supervisor, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations as long as the lead state receives ORSA Summary Reports encompassing the non-U.S. insurance operations from the global group-wide supervisor. If an ORSA Summary Report encompassing the non-U.S. insurance operations is not provided by the global group-wide supervisor, it should be provided by the insurer. If the insurer files an ORSA Summary Report encompassing only the U.S. insurance operations, and in it, the insurer states that the U.S. ERM framework is based on the insurers' global ERM framework, then the global ERM framework should be explained either within the U.S. ORSA Summary Report or in an ORSA Summary Report encompassing the non-U.S. insurance operations and be provided to the lead state at a time agreed upon by the insurer and the lead state. If the report is in a language other than English, it must be accompanied by a translation into the English language. The commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received to inquire about any concerns and either confirm that the report was compliant with the foreign jurisdiction's requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management to the extent included in this manual, as well as this manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

In analyzing an ORSA Summary Report, the commissioner will expect that the report represents a work product of the ERM framework that includes all of the material risks identified by the insurer to which an insurer(s), if applicable, is exposed.

The ORSA Summary Report may assist the commissioner in determining the scope, depth, and minimum timing of risk-focused analysis and examination procedures. For example, insurers may have varying ERM frameworks, ranging from a business plan to a combination of investment plans and underwriting policies to more complex risk management processes and sophisticated modeling. Insurers with ERM frameworks appropriate to their risk profile may not require the same scope or depth of review upon examination and analysis as those with less relatively comprehensive ERM frameworks. Therefore, the insurer should consider whether the ORSA Summary Report demonstrates the strengths of its framework, including how it meets the guidelines within this manual for the relative risk of the insurer.

In addition to the ORSA Summary Report, the insurer should internally document the ORSA results to facilitate a more in-depth review by the commissioner through analysis and examination processes. Such a review may depend on several factors, such as the nature, complexity, financial position, and/or prioritization of the insurer, as well as external considerations such as the economic environment. These factors may result in the commissioner requesting additional information about the insurer's ERM framework through the financial analysis or examination processes. The information requested may include, but is not limited to, risk management policies and programs, such as the insurer's underwriting, investment, claims, duration, or ALM, as well as reinsurance counterparty or operational risk policies.



#### D. MAINTENANCE PROCESS

The following establishes procedures of the Group Solvency Issues (E) Working Group or its designated subgroup for proposed changes, amendments, and/or modifications to the manual:

1. The Working Group may consider relevant proposals to change the manual at any conference call, interim, or national meeting throughout the year as scheduled by the Working Group.
2. If a proposal for suggested changes, amendments, and/or modifications is submitted to or filed with NAIC staff support, it may be considered at the next regularly scheduled meeting of the Working Group.
3. The Working Group publishes a formal submission form and instructions that can be used to submit proposals, which are available on the Working Group's web page. However, proposals may also be submitted in an alternate format provided that they are stated in a concise and complete format. In addition, if another NAIC committee, task force, or working group is known to have considered this proposal, that committee, task force, or working group should provide any relevant information.
4. Any proposal that would change the manual will be effective Jan. 1 following the NAIC Summer National Meeting—i.e., of the preceding year—in which it was adopted by the Working Group (e.g., a change proposed to be effective Jan. 1, 2018, must be adopted by the Working Group no later than the 2017 Summer National Meeting) and the Fall National Meeting in which it was adopted by the NAIC.
5. Upon receipt of a proposal, the Working Group will review the proposal at the next scheduled meeting and determine whether to consider the proposal for adoption. If the proposal is to be considered by the Working Group, it will be exposed for public comment. The public comment period shall be no less than 30 days and may be extended by the Working Group. The Working Group will consider comments received on each proposal at its next meeting and take action to revise, adopt, reject, refer, or continue the consideration of the proposal and comments thereto. Proposals under consideration may be deferred by the Working Group until the following scheduled meeting. The Working Group may form an ad hoc group to study the proposal, if needed. The Working Group may also refer proposals to other NAIC committees for technical expertise or review. If a proposal has been referred to another NAIC committee, the proposal will temporarily be removed from the Working Group's agenda until a response has been received. At that time, it will be added back to the Working Group's agenda.
6. NAIC staff support will prepare an agenda inclusive of all proposed changes. The agenda and relevant materials shall be sent via e-mail to each member of the Working Group, interested state insurance regulators, and interested parties and posted to the Working Group's web page approximately 5 to 10 business days prior to the next regularly scheduled meeting during which the proposal would be considered.
7. In rare instances, or where emergency action may be required, suggested changes and amendments can be considered as an exception to the above-stated process and timeline based on a two-thirds majority consent of the Working Group members present. Notwithstanding the foregoing, in no event may a proposal be adopted without an exposure for public comment.
8. NAIC staff support will publish the manual on or about Dec. 15 of each year. NAIC staff will post to the Working Group and NAIC Publications web pages the current versions and any material subsequent corrections to these publications.

## SECTION 1 – DESCRIPTION OF THE INSURER’S ENTERPRISE RISK MANAGEMENT FRAMEWORK

An effective enterprise risk management (ERM) framework should, at a minimum, incorporate the following key principles:

- **Risk Culture and Governance** – A governance structure that clearly defines and articulates roles, responsibilities, and accountabilities; and a risk culture that supports accountability in risk-based decision making.
- **Risk Identification and Prioritization** – A risk identification and prioritization process that is key to the organization; responsibility for this activity is clear; the risk management function is responsible for ensuring that the process is appropriate and functioning properly at all organizational levels; key risks of the insurer are identified, prioritized, and clearly presented.
- **Risk Appetite, Tolerances, and Limits** – A formal risk appetite statement and associated risk tolerances and limits are foundational elements of risk management for an insurer; an understanding of the risk appetite statement ensures alignment with risk strategy by the Board of Directors.
- **Risk Management and Controls** – Managing risk is an ongoing ERM activity, operating at many levels within the organization.
- **Risk Reporting and Communication** – Provides key constituents with transparency into the risk management processes and facilitates active, informal decisions on risk-taking and management.

Section 1 of the Own Risk and Solvency Assessment (ORSA) Summary Report should provide a high-level summary of the aforementioned ERM framework principles, if present. The ORSA Summary Report should describe the main goals and objectives of the insurers’ business strategy—i.e., for all insurance and noninsurance operations in scope—and how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy. The ORSA Summary Report should also describe risk monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. The ORSA Summary Report should identify assessment tools (e.g., feedback loops) used to monitor and respond to any changes in the insurer’s risk profile due to economic changes, operational changes, or changes in business strategy. Finally, the ORSA Summary Report should describe how the insurer incorporates new risk information in order to monitor and respond to changes in its risk profile due to economic and/or operational changes and changes in strategy.

The manner and depth in which the insurer addresses these principles are dependent upon its own risk management processes. Any strengths or weaknesses noted by the commissioner in evaluating this section of the ORSA Summary Report will have relevance to the commissioner’s ongoing supervision of the insurer, and the commissioner will consider the entirety of the risk management program and its appropriateness for the risks of the insurer.

## SECTION 2 – INSURER’S ASSESSMENT OF RISK EXPOSURES

Section 2 of the Own Risk and Solvency Assessment (ORSA) Summary Report should provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both

normal and stressed environments for each material risk category in Section 1. This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale, and complexity of the risks. Examples of relevant material risk categories may include, but are not limited to, credit, market, liquidity, underwriting, and operational risks.

Section 2 may include detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities, and outcomes of any plausible adverse scenarios assessed. The assessment of each risk will depend on its specific characteristics. For some risks, quantitative methods may not be well established, and in these cases, a qualitative assessment may be appropriate. Examples of these risks may include certain operational and reputational risks. In addition, each insurer's quantitative methods for assessing risk may vary; however, insurers generally consider the likelihood and impact that each material and relevant risk identified by the insurer will have on the firm's balance sheet, income statement, and future cash flows. Methods for determining the impact on a future financial position may include simple stress tests or more complex stochastic analyses. When evaluating a risk, the insurer should analyze the results under both normal and stressed environments. Lastly, the insurer's risk assessment should consider the impact of stresses on capital, which may include the consideration of risk capital requirements; available capital; and regulatory, economic, rating agency, and/or other views of capital requirements.

The analysis should be conducted in a manner that is consistent with the way in which the business is managed, whether on a group, legal entity, or another basis. Stress tests for certain risks may be performed at the group level. Where relevant to the management of the business, some group-level stresses may be mapped into legal entities. The commissioner may request additional information to map the results to an individual insurance legal entity.

Any risk tolerance statements should include material quantitative and qualitative risk tolerance limits and how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and the risk relationships that are identified.

Because the risk profile of each insurer is unique, each insurer should utilize assessment techniques (e.g., stress tests, etc.) applicable to its risk profile. U.S. state insurance regulators do not believe there is a standard set of stress conditions that each insurer should test. The commissioner may provide input regarding the level of stress that the insurer's management should consider for each risk category. The ORSA Summary Report should provide a general description of the insurer's process for model validation, including factors considered and model calibration. Unless a particular assumption is stochastically modeled, the group's management should set assumptions regarding the expected values based on its current anticipated experience, what it expects to occur during the next year or multiple future years, and consideration of expert judgment. The commissioner may provide input to an insurer's management on the assumptions and scenarios to be used in its assessment techniques. For assumptions that are stochastically modeled, the commissioner may provide input on the level of the measurement metric to use in the stressed condition or specify particular parameters used in the economic scenario generator (ESG). Commissioner input will likely occur during the financial analysis process and/or the financial examination process.

By identifying each material risk category independently and reporting results in both normal and stressed conditions, insurer management and the commissioner are better placed to evaluate certain risk combinations that could cause an insurer to fail. One of the most difficult exercises in modeling insurer results is determining the relationships, if any, between risk categories. History

may provide some empirical evidence of relationships, but the future is not always best estimated by historical data.

## SECTION 3 – GROUP ASSESSMENT OF RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT

Section 3 of the Own Risk and Solvency Assessment (ORSA) Summary Report should describe how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its current business and over a longer-term business cycle (e.g., the next one to three years). The group risk capital assessment should be performed as part of the ORSA, regardless of the basis (e.g., group, legal entity, or another subset basis) and in a manner that encompasses the entire insurance group. The information provided in Section 3 is intended to assist the commissioner in assessing the quality of the insurer's risk and capital management.

### A. GROUP ASSESSMENT OF RISK CAPITAL

Within the group assessment of risk capital, aggregate available capital is compared against the various risks that may adversely affect the enterprise. The insurer should consider how the group capital assessment is integrated into the insurer's management and decision-making culture, how the insurer evaluates its available capital, and how risk capital is integrated into its capital-management activities.

The insurer should have sound processes for assessing capital adequacy in relation to its risk profile, and those processes should be integrated into the insurer's management and decision-making culture. These processes may assess risk capital through myriad metrics and future forecasting periods, reflecting varying time horizons, valuation approaches, and capital-management strategies (e.g., the mix of capital). While a single internal risk capital measure may play a primary role in internal capital adequacy assessment, insurers may evaluate how risk and capital interrelate over various time horizons or through the lens of alternative risk capital or accounting frameworks; i.e., economic, rating agency, and/or regulatory frameworks. This section is intended to assist the commissioner in understanding the insurer's capital adequacy in relation to its aggregate risk profiles.

The group capital assessment should include a comparative view of risk capital from the prior year, including an explanation of the changes, if not already explained in another section of the Own Risk and Solvency Assessment (ORSA) Summary Report. This information may also be requested by the commissioner throughout the year, if needed (e.g., if material changes in the macroeconomic environment and/or microeconomic facts and circumstances suggest that the information is needed for the ongoing supervisory plan).

The analysis of an insurer's group assessment of risk capital requirements and associated capital adequacy description should be accompanied by a description of the approach used in conducting the analysis. This should include key methodologies, assumptions, and considerations used in quantifying available capital and risk capital. Examples might include:

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
<b>Definition of Solvency</b>	Describe how the insurer defines solvency for the purpose of determining risk capital and liquidity requirements.	Cash flow basis; balance sheet basis
<b>Accounting or Valuation Regime</b>	Describe the accounting or valuation basis for the measurement of risk capital requirements and/or available capital.	Generally accepted accounting principles (GAAP); statutory; economic or market consistent; International Financial Reporting Standards (IFRS); rating agency model
<b>Business Included</b>	Describe the subset of business included in the analysis of capital.	Positions as of a given valuation date; new business assumptions
<b>Time Horizon</b>	Describe the time horizon over which risks were modeled and measured.	One-year, multi-year; lifetime; run-off
<b>Risks Modeled</b>	Describe the risks included in the measurement of risk capital, including whether all relevant and material risks identified by the insurer have been considered.	Credit; market; liquidity; insurance; operational
<b>Quantification Method</b>	Describe the method used to quantify the risk exposure.	Deterministic stress tests; stochastic modeling; factor-based analysis
<b>Risk Capital Metric</b>	Describe the measurement metric utilized in the determination of aggregate risk capital.	Value at risk (VaR), which quantifies the capital needed to withstand a loss at a certain probability; tail value at risk (TVaR), which quantifies the capital needed to withstand average losses above a certain probability; probability of ruin, which quantifies the probability of ruin given the capital held
<b>Defined Security Standard</b>	Describe the defined security standard utilized in the determination of risk capital requirements, including linkage to business strategy and objectives.	AA solvency; 99.X% one-year VaR; Y% TVaR or conditional tail expectation (CTE); X% of risk-based capital (RBC)

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
Aggregation and Diversification	Describe the method of aggregation of risks and any diversification benefits considered or calculated in the group risk capital determination.	Correlation matrix; dependency structure; sum; full/partial/no diversification

The approach and assessment of group-wide capital adequacy should also consider the following:

- Elimination of intra-group transactions and double gearing, where the same capital is used simultaneously as a buffer against risk in two or more entities.
- The level of leverage, if any, resulting from holding company debt and the ability of the group to service the existing debt.
- Diversification credits and restrictions on the fungibility of capital within the holding company system, including the availability and transferability of surplus resources created by holding company system-level diversification benefits.
- The effects of contagion risk, concentration risk, and complexity risk in the group assessment of risk capital.

The goal of the group capital assessment is to provide an overall determination of risk capital needs for the insurer based on the nature, scale, and complexity of risk within the group and its risk appetite; and compare that risk capital to available capital to assess capital adequacy. Group assessment of risk capital should not be perceived as the minimum amount of capital before regulatory action will result (e.g., the triggers in the *Risk-Based Capital (RBC) for Insurers Model Act* [#312]); rather, it should be recognized that this is the capital needed within a holding company system to achieve its business objectives.

The insurer should also monitor the effect of liquidity risk, including calls on the insurer's cash position due to microeconomic factors—i.e., internal operational—and/or macro-economic factors; i.e., economic shifts. The insurer should assess its resilience against severe but plausible liquidity stresses and whether the current liquidity position is within any liquidity risk appetite and/or limits. The insurer should describe in the ORSA the policies and processes in place to manage liquidity risk, as well as contingency funding or other plans to mitigate potential liquidity stresses.

## B. PROSPECTIVE SOLVENCY ASSESSMENT

The insurer's capital assessment process should be closely tied to business planning. To this end, the insurer should have a robust capital forecasting capability that supports its management of risk over the planning time horizon in line with its stated risk appetite. The forecasting process should consider material and relevant changes identified by the insurer to the insurer's internal operations and the external business environment. It should also consider the prospect of operating in both normal and stressed environments.

The insurer's prospective solvency assessment should demonstrate that it has the financial resources necessary to execute its multi-year business plan in accordance with its stated risk appetite. If the insurer does not have the necessary available capital in terms of quantity and/or quality to meet its current and projected risk capital requirements, then it should describe the management actions it has taken or will take to remedy any capital adequacy concerns. These

management actions may include or describe any modifications to the business plan or identification of additional capital resources.

The prospective solvency assessment is, in effect, a feedback loop. The insurer should project its future financial position, including its projected economic and regulatory capital to assess its ability to meet the regulatory capital requirements. Factors to be considered are the insurer's current risk profile, its risk management policy, and its quality and level of capital, including any changes to its current risk profile caused by executing the multi-year business plan. The prospective solvency assessment should also consider both normal and stressed environments.

While the prospective solvency assessment includes capital projections, the prospective solvency assessment should also include a discussion of prospective risks impacting the capital projections. This discussion should address whether risk exposures are expected to increase or decrease in the future and what steps the insurer plans to take that may change its risk exposures. The term "prospective" should pertain to both existing risks likely to intensify and emerging risks with the potential to impact the insurer in the future.

If the prospective solvency assessment is performed for each individual insurer, the assessment should take into account any risks associated with group membership. Such an assessment may involve a review of any group solvency assessment and the methodology used to allocate group capital across insurance legal entities, as well as consideration of capital fungibility; i.e., any constraints on risk capital or the movement of risk capital to legal entities.

## ADDITIONAL EXPECTATIONS FOR INTERNATIONALLY ACTIVE INSURANCE GROUPS

This section identifies additional enterprise risk management (ERM) expectations that are applicable to internationally active insurance groups (IAIGs) and should be discussed in the Own Risk and Solvency Assessment (ORSA) Summary Report. These expectations are generally consistent with elements outlined in the International Association of Insurance Supervisors (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), and they have been incorporated into this manual to the extent deemed appropriate by state insurance regulators.

As stated earlier in this document, an aggregated ORSA Summary Report should be filed at the head of the IAIG level. The head of the IAIG should ensure that the risk management strategy and framework described in the ORSA, whether located at the head of the IAIG or within another legal entity of the IAIG, encompass both the head of the IAIG and the legal entities within the IAIG to promote a sound risk culture across the group.

The risk management strategy should be approved by the IAIG Board, with regular risk management reporting provided to the IAIG Board or one of its committees.

The risk management framework should be integrated with the organizational structure of the IAIG and within its legal entities, as appropriate, to ensure that the decision-making processes, business operations, and risk culture of the IAIG are implemented. In addition, the framework should allow for the measurement of risk exposures of the IAIG against established risk limits on an ongoing



basis in order to identify potential concerns as early as possible. This framework should cover, at a minimum:

- The diversity and the geographical reach of IAIG activities.
- The nature and degree of risks in individual legal entities and business lines.
- The aggregation of risks across entities within the IAIG.
- The interconnectedness of legal entities within the IAIG.
- The level of sophistication and functionality of information and reporting systems in addressing key risks.
- The applicable laws and regulations of the jurisdictions where the IAIG operates.

The risk management framework should promote a sound risk culture across all legal entities of the IAIG by having policies and processes that include risk management training, address independence, create appropriate incentives for staff involved in risk management, and encourage timely evaluation and open communication of emerging risks that may be significant to the IAIG and its legal entities.

The risk management framework of the IAIG should be reviewed at least annually to ensure that existing and emerging risks, as well as changes in structure and business strategy, are taken into account. Necessary modifications and improvements to the risk management framework should be made in a timely manner.

The IAIG's ORSA should explain how the risk management function, actuarial function, and internal audit function are involved in the risk management of the IAIG. The ORSA should explain the main activities of each of these functions. Furthermore, the ORSA should describe how the risk management function remains independent from risk-taking activities. The ORSA should describe how the actuarial function is involved in the risk assessment and management of the risks emanating from the legal entities in determining the IAIG's solvency position, in any actuarial-related modeling in the ORSA, and in the annual reporting to the IAIG Board of Directors on the risks posed to the IAIG. Finally, the ORSA should describe how the audit function provides an independent assessment and assurance to the IAIG Board of Directors of the operational effectiveness of the internal controls incorporated into the risk management framework.

The risk management strategy and framework of an IAIG should generally be consistent, and any material differences should be described in the ORSA strategic risk. The investment policies should ensure that assets are properly diversified and asset concentration risk is mitigated across the IAIG:

- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions, and the qualitative and quantitative restrictions on these risks. These intra-group transactions may include loans, guarantees, dividend payments, reinsurance, transactions across different financial services entities within the IAIG, and any activity undertaken by individual legal entities that may change the risk profile of the IAIG.
- An economic capital model to measure all relevant and material risks that the IAIG faces in different sectors, jurisdictions, and economic environments. The model should estimate the amount of capital needed in reasonably foreseeable adverse situations. The results of the model, how the risks were aggregated in the model, how the diversification benefit was estimated, and the underlying assumptions used in the model should be presented in the ORSA. The ORSA should show both the economic and the regulatory capital at the head



of the IAIG level. A discussion of the fungibility of capital and the transferability of assets within the group should also be included.

- Risk measurements that include stress and reverse stress testing and scenario analysis deemed relevant to the risk profile of the IAIG.
- Risk measurements of the resilience of its total balance sheet against plausible macroeconomic stresses.
- Risk measurements that assess the aggregate investment counterparty exposures and the effect of severe but plausible stress events on those exposures. In addition, the IAIG should have an investment counterparty risk appetite statement to determine if the current exposures are within the risk appetite, and this should be presented in the ORSA.

The risk management framework should include a series of mechanisms to manage the IAIG's liquidity risk and demonstrate the IAIG's resilience against severe but plausible liquidity stresses. These mechanisms include:

- A liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position of the IAIG is within the risk appetite and the limits.
- Strategies, policies, and processes to manage liquidity risk.
- Liquidity stress testing.
- An adequate level of unencumbered highly liquid assets.
- Contingency funding to mitigate potential liquidity stresses.

The IAIG may be asked by the group-wide supervisor to develop a recovery plan, if warranted. A recovery plan identifies in advance options to restore the financial position and viability of the group if it comes under severe stress. The full recovery plan is not expected to be included in the ORSA Summary Report; however, the ORSA Summary Report should discuss at a high level the severe stresses that could trigger a recovery plan, and it should summarize the recovery options available.

The risk management framework should be reviewed by the insurer at least once every three years in order to ascertain that it remains fit for purpose based on the risk profile, structure, and business strategy of the IAIG. The review may be carried out by an internal or external body as long as it is neither responsible nor involved in the risk management framework that it reviews.

## APPENDIX – GLOSSARY

Term	Definition
Available Capital	The amount of resources that an enterprise has at a given point in time under a defined valuation or accounting basis (e.g., economic, statutory, generally accepted accounting principles [GAAP], or a combination) to support its business and under the defined valuation represents the insurer's assessment of the types of capital required to support its business.
Conditional Tail Expectation (CTE) (also known as Tail Value at Risk [TVaR])	A measure of the amount of risk that exists in the tail of a distribution of outcomes, expressed as the probability-weighted average of the outcomes beyond a chosen point in the distribution. Typically expressed as CTE (1-x), which would be calculated as the probability-weighted average of the worst x% of outcomes. For example, CTE 95 is calculated as the probability-weighted average

Term	Definition
	of the worst 5% of outcomes, CTE 97 is the probability-weighted average of the worst 3% of outcomes, etc. CTE can be used as a way of defining a particular <i>security standard</i> .
Correlation Matrix	A symmetric matrix specifying pairwise interactions between a set of variables or data. A correlation matrix is commonly applied to risks or capital amounts and is an important determinant of calculated <i>risk capital</i> , including levels of <i>diversification</i> .
Deficit Capital	If the amount of <i>available capital</i> is less than the determined <i>risk capital</i> of an enterprise, then the enterprise is said to have <i>deficit capital</i> .
Defined Security Standard	The minimum threshold of <i>available capital</i> that a company wishes to achieve or maintain, consistent with the company's business strategy, <i>risk appetite</i> , and <i>risk tolerance</i> .
Dependency Structure	Specification of the relationship between different variables. Commonly specified in a <i>correlation matrix</i> .
Diversification	The extent to which the combined impact of risks inherent to assets and liabilities is less than the sum of the impacts of each risk considered in isolation.
Double Gearing	Used to describe situations where multiple companies, typically parent and subsidiary, are using shared capital to buffer against risk occurring in separate entities.
Economic Capital	The amount of capital that an insurer is required to absorb in unexpected losses based on its risk profile and risk appetite.
Excess Capital	If the amount of <i>available capital</i> is greater than the determined <i>risk capital</i> of an enterprise, the enterprise is said to have <i>excess capital</i> .
Fungibility	Within a group context, the ability to redeploy <i>available capital</i> from one entity to another. Fungibility is reduced where the movement of <i>available capital</i> within the group is constrained or regulation prohibits it.
Group Capital	Group capital represents the aggregate <i>available capital</i> or <i>risk capital</i> for the entire group. It will be impacted by the interaction of the risks and capital of the individual entities within the group, with properties such as <i>diversification</i> , <i>fungibility</i> , and the quality and form of capital being important drivers.
Internationally Active Insurance Group (IAIG)	An insurance holding company system meeting the following criteria: <ol style="list-style-type: none"> <li>1. Premiums written in at least three countries.</li> <li>2. The percentage of gross premiums written outside the home country is at least 10% of the insurance holding company system's total gross written premiums.</li> <li>3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least \$50 billion, or the total gross written premiums of the insurance holding company system are at least \$10 billion.</li> </ol>
Probability of Ruin	The likelihood of liabilities exceeding assets for a given time horizon.

Term	Definition
Reverse Stress Test	An analysis of those scenarios that would render the insurer insolvent.
Risk Appetite	Documents the overall principles that a company follows with respect to risk-taking, given its business strategy, financial soundness objectives, and capital resources. Often stated in qualitative terms, a risk appetite defines how an organization weighs strategic decisions and communicates its strategy to key stakeholders with respect to risk-taking. It is designed to enhance management's ability to make informed and effective business decisions while keeping risk exposures within acceptable boundaries.
Risk Capital	An amount of capital calculated to be sufficient to withstand adverse outcomes associated with various risks of an enterprise, up to a pre-defined <i>security standard</i> .
Risk Capital Metric	A quantitative variable used to gauge risk.
Risk Exposure	For each risk listed in the company's <i>risk profile</i> , the amount the company stands to lose due to that particular risk at a particular time, as indicated by a chosen metric.
Risk Limit	Typically quantitative boundaries that control the amount of risk that a company takes. Risk limits are typically more granular than <i>risk tolerances</i> and may be expressed at various levels of aggregation; i.e., by type of risk, category within a type of risk, product or line of business, or some other level of aggregation. Risk limits should be consistent with the company's overall <i>risk tolerance</i> .
Risk Profile	A delineation and description of the material risks to which an organization is exposed.
Risk Tolerance	The company's qualitative and quantitative boundaries around risk-taking, consistent with its <i>risk appetite</i> . Qualitative risk tolerances are useful to describe the company's preference for, or aversion to, particular types of risk, particularly for those risks that are difficult to measure. Quantitative risk tolerances are useful to set numerical limits for the amount of risk that a company is willing to take.
Security Standard	The level of a <i>measurement metric</i> used to determine <i>risk capital</i> . It signifies the strength of capital and, in practice, should be chosen to be consistent with the <i>risk appetite</i> and <i>risk tolerance</i> .
Solvency	For a given accounting basis, the state where, and extent to which, assets exceed liabilities.
Stochastic Analysis	A methodology designed to attribute a probability distribution to a range of possible outcomes. May use closed form solutions, or large numbers of scenarios in order to reflect the shape of the distribution.
Scenario Analysis	An analysis of the impact of possible future outcomes based on alternative projected assumptions. This can include changes to a single assumption or a combination of assumptions.
Stress Test	A type of scenario analysis in which the change in parameters is considered significantly adverse or even extreme.

Term	Definition
Time Horizon	In the context of risk capital calculations, the period over which the impact of changes to risks is tested.
Value at Risk (VaR)	An estimate of the maximum loss over a certain period of time at a given confidence level.

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NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group  
Virtual Meeting  
July 28, 2025

The NAIC/AICPA (E) Working Group of the Financial Condition (E) Committee met July 28, 2025. The following Working Group members participated: Doug Stolte, Chair (VA); Diana Sherman, Vice Chair (PA); Laura Clements (CA); Rylenn Brown (DE); Kevin Clark (IA); Kristin Hynes (MI); Shannon Schmoeger (MO); Andrea Johnson (NE); David Cook (OH); and Johanna Nickelson (SD).

1. Discussed the Premium Threshold

Stolte said the Working Group is responsible for reviewing the premium threshold amounts contained within the *Annual Financial Reporting Model Regulation* (#205) on an annual basis. Bruce Jenson (NAIC) gave an update on the results of the annual review, noting that as of Dec. 31, 2024, more than 93% of all direct written premiums and more than 95% of all gross written premiums are subject to internal control reporting requirements. Stolte noted that these results are within the Working Group's expectations, and no action to adjust the threshold is deemed necessary at this time.

2. Discussed a Referral on Access to Audit Workpaper Issues and Formed a Drafting Group

Stolte stated that the Working Group received a referral from the Chief Financial Regulator forum after its discussion on access to audit workpapers last fall. The referral notes that some states have experienced challenges in gaining access to statutory audit workpapers in support of a financial exam called by the state insurance department. Some of the specific issues raised in the referral include: 1) audit firms only allowing exam teams a short window of time to access a read-only version of the audit file and request copies of specific workpapers; 2) requested workpapers being provided to exam teams in a mass export PDF format as opposed to a native version; and 3) the requested workpapers being provided in a password-protected or highly secure format.

Stolte said that in addition to the specific topics raised in the referral, the Working Group has received reports of other challenges, including: 1) audit firms requiring states to sign release forms before they will provide access to workpapers; and 2) firms restricting access to certain sections of the audit file like the audit programs. In addition, the Working Group has also received reports from audit firms on frustrations they face when states provide insufficient notice before expecting access to workpapers, or request copies of all workpapers before reviewing the file and determining which workpapers will be used during the exam.

Cook noted that examination teams often request copies of all audit workpapers to promote efficiency and ensure they will not have to come back to the audit firm a second time if additional needs are identified.

Brown asked if the Working Group plans to discuss how to address these challenges or if it is just looking to identify a list of challenges. Stolte indicated that after discussing the topics during today's meeting, he would like to propose the formation of a drafting group to review and update existing best practices documents in this area.

Dave Osborn (Ernst & Young) stated agreement with how Stolte summarized the issues, as well as with the proposal to form a drafting group to update existing best practices. Osborn stated that the initial best practices document was developed approximately 10 years ago and could benefit from updates and enhancements, in part due to the technological advancements in workpaper access that have taken place since that time.

Stolte stated that these issues are not new to the Working Group and have been discussed many times. The Working Group, in conjunction with the AICPA's NAIC Task Force, maintains two different best practice documents for use in guiding the process to provide access to audit workpapers. Because it has been several years since either of the documents have been reviewed and updated, Stolte proposed the formation of a drafting group of volunteer regulators and firm representatives to review and refresh these documents with updated guidance. Stolte also recommended updating and expanding the list of audit firm representatives included in the best practices documents.

Jenson stated that NAIC staff have identified external audit firms that conduct the most statutory insurance company audits and that this information could be used to target firms for outreach and engagement. Stolte encouraged NAIC staff to work with the drafting group to direct outreach efforts.

Osborn volunteered to participate in the drafting group and offered to help identify other firm representatives to participate through his work on the AICPA's NAIC Task Force.

Stolte indicated that the drafting group will be asked to develop updated best practices and present the results to the full Working Group for consideration of adoption. Stolte encouraged Working Group members to contact NAIC staff to volunteer to participate in the new drafting group.

Having no further business, the NAIC/AICPA (E) Working Group adjourned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2025\\_2Summer/AICPA/7-28-25 AICPAWGmin.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2025_2Summer/AICPA/7-28-25%20AICPAWGmin.docx)

Draft: 7/30/25

National Treatment and Coordination (E) Working Group  
Virtual Meeting  
June 26, 2025

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met June 26, 2025. The following Working Group members participated: Cameron Piatt, Co-Chair (OH); Kelly Hopper, Co-Chair, (MO); Cindy Hathaway (CO); William Mitchell (CT); Jane Nelson (FL); Lorie Gasior (LA); Ursula Almada (NM); Steve Yerger (PA); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Tracy McEwen (WY). Also participating were: Keyatta Kelly (GA); Dana Sanders (IA), Annette Gunter (IN); and Jenn Gagner (MN).

1. Discussed Comments Received on the New Change Type Reinstatement

Piatt provided a summary of the comments received on the new change type reinstatement. Four comments were received, and they were mainly about improving the form. Piatt said rather than vote on the new change type, it would be tabled for now, as the initial work is being implemented into Appian, and resources are not available.

2. Discussed the Status of the Biographical Subgroup

Hopper said an email seeking volunteers for the biographical subgroup was sent out in December 2024, and the Working Group received 12 responses—five from regulators and seven from the industry. Another request was sent in February 2025. Hopper said that with the resource limitations and the group's desire to prioritize development, he recommended putting this item on hold while Appian is being upgraded and improved. There were no objections to the recommendation.

3. Discussed the New Portal (Appian)

Bon Rector (NAIC) provided a summary of the current enhancements being made in Appian, including redesigning the landing page, reducing the steps for closing an application, and fixing defects. Hopper asked what the redesigned landing page would look like. Kim Myers (NAIC) said they are considering building a landing page for each of the primary types of applications, which would allow for adding forms for both companies and jurisdictions. Gunter asked about separating the service of process from the corporate amendments. Myers said that is something NAIC staff is looking into, along with moving Form 14 away from Legacy and into Appian.

Hathaway asked if a survey would be sent out for feedback. Rector said a survey can be sent if there is a need for one. Kelly asked if the landing page could show the list of change types. Myers said they are planning on making it look similar to the Legacy portal. Malm asked if it would be beneficial to have a user group for technical feedback on the applications. Rector said a group will be formed. Malm also asked that the chief examiners be kept in the loop of the changes. Birchler asked about having the option to amend a corporate amendment. Rector said she can take that request back to the development team for consideration.

For the landing page, Hopper suggested a tab for primary and expansion, and tabs for domestic and foreign corporate amendments on the landing page. McEwen suggested a closed application or a reviewed option to checkmark on the landing page. Gagner asked about adding the NAIC code to all email notifications. Gunter and Kelly suggested the NAIC code on all notifications as well. Sanders suggested access to the domestic filings of other states. Malm and Gunter agreed.

Piatt advised that the Working Group will form the small group and send out a survey for feedback.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.

SharePoint/Support Staff Hub/Committees/E CMTE/NTCWG/6-26 ccm final.docx