

## **FINANCIAL STABILITY (E) TASK FORCE**

Financial Stability (E) Task Force Aug. 13, 2024, Minutes

List of 13 MWG Considerations – PE Related and Other (Attachment One)

## Draft Pending Adoption

Draft: 8/22/24

Financial Stability (E) Task Force  
Chicago, Illinois  
August 13, 2024

The Financial Stability (E) Task Force met in Chicago, IL, Aug. 13, 2024. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Judith L. French, Vice Chair, represented by Dwight Radel (OH); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Leo Liu (AR); Barbara D. Richardson represented by Lori Dreaver Munn (AZ); Andrew N. Mais represented by Ken Cotrone (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Carrie Mears (IA); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan represented by John Turchi (MA); Joy Y. Hatchette represented by Lynn Beckner (MD); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); Adrienne A. Harris represented by Bob Kasinow (NY); Glen Mulready represented by Ryan Rowe (OK); Andrew R. Stolfi represented by Kirsten Anderson (OR); Michael Humphreys represented by Diana Sherman (PA); Alexander S. Adams Vega represented by Glorimar Santiago (PR); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Amy Garcia (TX); Scott A. White represented by Dan Bumpus (VA); and Nathan Houdek (WI). Also participating was: Elizabeth Kelleher Dwyer (RI).

### 1. Heard Opening Remarks

Acting Commissioner Zimmerman said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under “Financial Condition (E) Committee.” Materials are also available on the member SharePoint site (formerly Member Connect) and in the Event App.

### 2. Adopted its Spring National Meeting Minutes

Mears made a motion, seconded by Sherman, to adopt the Task Force’s March 16 minutes (*see NAIC Proceedings – Spring 2024, Financial Stability (E) Task Force*). The motion passed unanimously.

### 3. Received an Update on the FSOC

Director Dwyer gave an update on the Systemic Risk Committee (SRC) of the Financial Stability Oversight Council (FSOC) and its revamping in 2024 to focus on risk identification and sector monitoring. The *Nonbanks Designation Guidance* issued last year addresses the SRC’s role in monitoring and identifying risk. This analytic framework lays out a general approach to risk identification and monitoring. The framework contains a definition of threats to financial stability and contains a description of vulnerabilities and transmission channels that may be sources of threats to financial stability. Climate-related initiatives also continue at the Climate-Related Financial Risk Committee (CFRC) of the FSOC.

### 4. Received an Update from the Macroprudential (E) Working Group

Kasinow gave an update regarding the 13 private equity (PE) considerations (Attachment One). Three out of the 13 considerations have been completed; four of 13 have made significant progress; and three of 13 are works in progress. This does not add up to 13, and that is due to some considerations having three or four parts that are in different stages of completion.

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Kasinow then gave an update on the Macroprudential (E) Working Group meeting on July 8, which was in regulator-to-regulator session, to discuss cross-border reinsurance. A regulator asked NAIC staff to conduct additional analysis of cross-border reinsurance activity, including a breakout of the types of products ceded and the jurisdictions of the reinsurers. The discussion led to a request for additional data and analysis from NAIC staff. The analysis is being conducted and a follow-up call will be scheduled shortly.

Kasinow discussed the progress on the liquidity stress test (LST). Submissions were due June 30, and states and the NAIC received all required filers' submissions. NAIC staff is analyzing the submissions and will provide summary results to the Working Group in September. The LST's separate account work was also discussed. After careful consideration, it has been determined that no additional reporting is required, and the existing framework is adequate.

Kasinow discussed the Counterparty Project. Early last year, NAIC staff started to work on a project to enhance its ability to aggregate counterparty exposure data from NAIC internal databases. As a result of this project, the NAIC can now identify exposures timelier and more accurately and provide states with a breakdown of exposures for their regulated companies. There is now a Tableau dashboard on StateNet for state regulators to use. Additionally, initial steps have been taken on quantifying credit risk utilizing counterparty nationally recognized statistical rating organization (NRSRO) ratings, probability of default, and loss given default tables.

Finally, at the Spring National Meeting, the Working Group discussed developing the climate risk dashboard. However, the group believes the dashboard is a better fit for the Climate and Resiliency (EX) Task Force. NAIC staff have prepared a preliminary climate risk dashboard framework and will look for volunteer state regulators to develop it further. The Working Group will monitor the development and focus more on the macroprudential application of a U.S. insurance climate risk dashboard domestically, federally, and globally.

### 5. Received an Update from the Valuation Analysis (E) Working Group

Andersen gave an update regarding *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves 53 (AG 53)*, which was adopted in 2022. The main purpose is to help ensure claims-paying ability even if complex assets do not perform as expected. AG 53 requires disclosures- and asset-related information for most life insurers over a size threshold. It gives companies an opportunity to tell their stories regarding their complex assets and associated risks, as well as how their cash flow testing models address those risks. The second round of annual submissions were received in 2024.

Andersen reviewed the areas of focus for this year, as well as last year. One goal has been to lessen reliance on high net yields to pay claims. If it is above certain yields, there should be an assumption of an offsetting risk. Another area of focus is to help ensure that there are enough quality assets at the reinsurer to pay reinsurance claims in moderately adverse conditions.

Andersen then gave insight into a new piece of information: project allocations of asset types on companies' cash flow testing models. Often, with life insurance and annuity businesses, the companies perform projections of 30 years or longer. If these allocations and riskier asset classes escalate over time, it could be a sign that reserve adequacy may not be achieved and that those volatile assets do not perform as expected. Andersen said that another point of data that seems to be helpful is the tranche-level information from each company.

Andersen then spoke on asset adequacy testing (AAT) on reinsurance ceded. The Life Actuarial (A) Task Force is discussing this issue. There is reinsurance activity taking place where reserves are held lower than U.S. statutory standards. In some of those cases, reserves are substantially lower or disappear. It is important to know if the lower reserve amounts are adequate when using reasonable assumptions. Discussions are taking place in 2025 to further this project further and discuss types of requirements and scope.

## Draft Pending Adoption

### 6. Heard an International Update

Tim Nauheimer (NAIC) reported that the Macroprudential Monitoring Working Group and the Macroprudential Supervision Working Group met in person in April and the parent Macroprudential Committee met in June. The April Macroprudential Monitoring Working Group meeting focused on analyzing individual insurer monitoring (IIM) submissions. Based on the analyses performed of the 60 insurance groups that were identified for the 2024 global insurer pool, several insurance groups have been identified for inclusion in the collective discussion.

Nauheimer then gave an update on the 2024 sector-wide monitoring (SWM) data collection exercise being completed. NAIC staff gather and submit aggregate data on behalf of the U.S. This exercise consists of a qualitative component, quantitative component, climate component, and reinsurance component. In July, the International Association of Insurance Supervisors (IAIS) published its *Global Insurance Market Report (GIMAR)* mid-year update. Interim results reflect stable solvency, liquidity, and profitability positions. The full-year 2024 GIMAR will be published in December. Utilizing IIM and SWM results, the report will elaborate on key potential systemic risk developments in the insurance sector, compare these to the banking sector, and detail solvency, profitability and liquidity positions. Additionally, progress is underway with drafting an issue paper on structural shifts in the life insurance sector. Also, a planned public consultation on ancillary indicators as part of the global monitoring exercise is also underway. Ancillary indicators include derivatives, reinsurance, credit risk, and level-3 assets.

Nauheimer said the IAIS released its fourth public consultation on climate risk supervisory guidance. This includes the draft application paper on climate scenario analysis in the insurance sector. The application paper outlines macroprudential guidance supporting Insurance Core Principle (ICP) 24 related to stress testing and scenario analysis for climate-related risk.

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

[SharePoint/NAIC Support Staff Hub/Committees/E CMTE/FSTF/2024/2024\\_2 Summer/Minutes](#)

Color Legend
Consideration addressed and closed
Significant progress, a few open items to be addressed.
Consideration is open-progress has been made, but work continues.

Tracking for the List of 13 MWG Considerations – PE Related and Other

Original exposure of 13 considerations: March 16, 2022

Consideration	Update Date	Update Date	Update Date	Update Date	Update Date	Update Date	2024 Spring National Meeting Update	2024 Summer National Meeting Update
<p><b>1. Holding Company Structures:</b></p> <p>Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer's risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).</p>	8/4/2022	3/22/2023	3/22/2023	6/15/2023	7/12/2023	12/11/2023	<p><b>RFSWG Update: 1-29-24</b> The RFSWG finalized updated guidance on regulator review and monitoring of affiliated services at the NAIC's 2023 Summer National Meeting. This guidance was subsequently adopted for inclusion in the 2024 publications of the NAIC's Financial Analysis Handbook and Financial Condition Examiners Handbook. At that same meeting, the RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.</p>	<p><b>RFSWG Update: 7-16-24</b> The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.</p>
<p><b>2. Ownership and Control:</b></p> <p>Control is presumed to exist where ownership is &gt;=10%, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.</p>	Sent a referral for new work to the Group Solvency Issues (E) Working Group.	<p><b>GSIWG Update:</b> The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.</p>		<p><b>GSIWG Update:</b> The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.</p>		See update above that covers this topic as well.	See update on #1 above that covers this topic as well.	<p><b>RFSWG Update: 7-17-24</b> The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.</p>
<p><b>3. Investment Management Agreements (IMAs):</b></p> <p>The material terms of the IMA and whether they are arm's length or include conflicts of interest—including the amount and types of investment management fees paid by the insurer, the termination provisions (how difficult or costly it would be for the insurer to terminate the IMA) and the degree of discretion or control of the investment manager over investment guidelines, allocation, and decisions.</p>	Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and Form D filings. Also sent a referral to the Valuation of Securities (E) Task Force (VOSTF) to highlight the regulatory discussion involving topics it administers.	<p><b>RFSWG Update:</b> The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.</p> <p><b>VOSTF:</b> discussed the referral and decided RFSWG was in the best position to address this concern.</p>		<p><b>RFSWG Update:</b> The RFSWG is nearing the completion of its project to update general guidance in NAIC handbooks related to affiliated service agreements, which is expected to be completed by the 2023 Summer National Meeting. After the general guidance is completed, the Working Group plans to begin work on more targeted guidance related to affiliated investment management agreements.</p>			<p><b>RFSWG Update: 1-29-24</b> The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.</p>	<p><b>RFSWG Update: 7-16-24</b> The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.</p>
<p><b>4. Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer:</b></p> <p>Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities on life products. For example, investment management fees, when not fair and reasonable, paid to an affiliate of the owner of an insurer may effectively act as a form of unauthorized dividend in addition to reducing the insurer's overall investment returns. Similarly, owners of insurers may not be willing to transfer capital to a troubled insurer.</p>	Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees. Also sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.	<p><b>RFSWG Update:</b> The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.</p>	<p><b>LATF Update:</b> Asset adequacy analysis requirements in NAIC Model 1820 and VM-30 require that company Appointed Actuaries perform testing to ensure that the reserves held for the company's liabilities are adequate in light of the assets supporting the business. Regulators review associated company Statements of Actuarial Opinion periodically.</p>	<p><b>LATF Update 6/23:</b> Actuarial Guideline 53 – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) became effective for year-end 2022. AG 53 requires additional disclosures related to life insurance and annuity company investment return assumptions for complex and high yielding assets. Regulators are conducting targeted reviews of the AG 53 disclosures to ensure that company investment returns for complex and high-yielding assets are not overly optimistic.</p>		<p><b>RFSWG Update: 1-29-24</b> The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop guidance related to the reasonableness of investment management fees. Proposed guidance on this topic is expected to be discussed at the Spring 2024 National Meeting. In addition, the RFSWG referred the considerations related to capital maintenance agreements over to the Financial Analysis-Solvency Tools Working Group.</p> <p><b>LATF/VAWG Update: 12-1-23</b> AG 53 reviews are in progress and focus on 4 areas related to this consideration of a potential conflict of interest of ST owners and an insurance co. The 4 areas are: -high net yield assumptions -attribution analysis of net yield assumptions -investment expense assumptions -reinsurance collectability</p>	<p><b>RFSWG Update: 7-16-24</b> The RFSWG met at the 2024 Spring National Meeting and finalized proposed guidance for both the Analysis and Examination Handbooks related to affiliated investment management agreements and services. The updated guidance was subsequently adopted by the respective handbook working groups and will be included in the 2025 publications.</p> <p>In addition, the RFSWG referred issues related to surplus notes and capital maintenance agreements to the Financial Analysis Solvency Tools (E) Working Group.</p> <p><b>FASTWG Update: 7-16-24</b> The FASTWG held an open call on 7/16/24 to discuss the development of additional guidance for regulator use in reviewing surplus notes and capital maintenance agreements. As a result of the call, the Working Group agreed to form a drafting group to assist NAIC with the development of additional guidance in this area.</p> <p><b>LATF/VAWG Update: 7-22-24</b> Reviews of AG 53 reports for year-end 2023 are in progress. As an expansion to the 4 areas that were in focus last year (high net yield assumptions, attribution analysis of net yield assumptions, investment expense assumptions, and reinsurance collectability) to ensure reserve adequacy associated with long-term liabilities is achieved, more refined information is being reviewed. This includes information related to projected portfolio allocations, structured assets by tranche, and payment in kind which may impact availability of future cash flows to support claims payments.</p>	

<p><b>5. Operational, Governance and Market Conduct Practices:</b></p> <p>Operational, governance and market conduct practices being impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. For example, a reliance on TPAs due to the acquiring firm's lack of expertise may not be sufficient to administer the business. Such practices could lead to lapses, early surrenders, and/or exchanges of contracts with in-the-money guarantees and other important policyholder coverage and benefits.</p>	<p>The MWG will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.</p>	<p><b>MWG Update:</b> No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.</p>		<p><b>MWG Update:</b> No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.</p>		<p><b>MWG Update:</b> No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.</p>	<p><b>MWG Update:</b> No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.</p>
<p><b>6. Definition of Private Equity (PE):</b></p> <p>No uniform or widely accepted definition of PE and challenges in maintaining a complete list of insurers' material relationships with PE firms. (UCAA National Treatment WG) deal with some items related to PE.) This definition may not be required as the considerations included in this document are applicable across insurance ownership types.</p>	<p>The MWG determined it was not feasible to determine a definition. Therefore, no further work on this consolidation shall be conducted and is considered closed or resolved.</p>					<p><b>Closed-item considered and addressed.</b></p>	<p><b>Closed-item considered and addressed.</b></p>
<p><b>7. Identifying Related Party-Originated Investments (Including Structured Securities):</b></p> <p>The lack of identification of related party-originated investments (including structured securities) may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. For example, a CLO which is managed or structured by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)</p>	<p>Sent a referral to the Statutory Accounting Principles (E) Working Group (SAPWG) regarding its existing work regarding disclosures for related-party issuances/acquisitions. Once MWG regulators work with these SAPWG disclosures and regulatory enhancements from referrals to other groups, further regulatory guidance may be considered as needed.</p>	<p><b>SAPWG Completed Actions:</b> Ref #2021-21 included revisions that clarified guidance for related parties and developed a blanks proposal which provided new investment schedule column with reporting codes to identify investments that involve related parties. (Adopted May 2022)  Ref #2021-22BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures include codes that identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)</p>		<p><b>SAPWG Completed Actions:</b> Ref #2021-15 included revisions to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Adopted March 2023)</p>		<p><b>SAPWG Update: Closed</b> No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral and objective are complete.</p>	<p><b>Closed-item considered and addressed.</b></p>
<p><b>8. Identifying Underlying Affiliated/Related Party Investments, and/or Collateral in Structured Securities:</b></p> <p>Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)</p>	<p>Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investments. Also sent a referral for new work to the Examination Oversight (E) Task Force for the CLO/structured security considerations.</p>	<p><b>SAPWG Completed Actions:</b> See above descriptions (Ref #2021-21 and Ref #2021-22 BWG) on investment reporting codes for year-end 2022 reporting. Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a "related party" and the disclosure of material transactions. This agenda item also resulted in the creation of a new Schedule Y Part 3, which was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership - regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Ref #2019-34 and Ref #2020-37BWG, both adopted March 2021)</p>	<p><b>EOTF/AWG Update:</b> The EOTF delegated work on this referral to its Financial Analysis Solvency Tools (E) Working Group and its Financial Examiners Handbook (E) Technical Group. Both groups developed new guidance for inclusion in 2023 NAIC handbooks related to the new related party investment disclosures developed by SAPWG and the AG 53 standards developed by LATF that will be in place for 12/31/22 reporting. The groups may develop additional guidance for NAIC handbooks, as well as supporting regulatory reports and tools, as work proceeds in this area.</p>	<p><b>SAPWG Completed Actions:</b> See above descriptions (Ref #2021-21, Ref #2022-15 and Ref #2021-22 BWG)</p>		<p><b>SAPWG Update: Closed</b> No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete.</p>	<p><b>SAPWG Update:</b> No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete.</p>
<p><b>9. Asset Manager Affiliates and Disclaimers of Affiliation:</b></p> <p>Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. (A new Sc Y, Pt 3, has been adopted and will be in effect for year-end 2021. This schedule will identify all entities with greater than 10% ownership - regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation. It will also identify the ultimate controlling party. Additionally, SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to determine what reflects a qualifying bond and to identify different types of investments more clearly, including asset-backed securities.)</p>	<p>MWG regulators are comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed. Also, a referral was sent to the Statutory Accounting Principles (E) Working Group recognizing its existing work to revamp Schedule D reporting along with the previously mentioned code disclosures will assist with this consideration.</p>	<p><b>SAPWG Completed Actions:</b> See above descriptions of Schedule Y Part 3. (Ref #2019-34 and Ref #2020-37BWG).</p> <p><b>SAPWG Ongoing Work:</b> Ref #2022-15, which clarifies affiliated investment reporting, is planned for adoption consideration at the 2023 Spring National Meeting. It adds guidance on reporting of affiliated investments.  As part of a project known as the bond project, the SAPWG is developing a proposal to revise Schedule D reporting, which intends to determine what is considered a qualifying bond and to identify different types of investments more clearly. For example, the current bond proposal would divide Schedule D-1 into a Schedule D-1-1 for issuer credit obligations and a Schedule D-1-2 for asset backed securities. The proposal includes more detailed reporting lines to provide more granularity on the actual types of investments held. The effective date of the bond proposal and the reporting changes, is anticipated for January 1, 2025. Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023. Updated revisions to the statutory accounting guidance are planned for exposure by the Statutory Accounting Principles (E) Working Group at the 2023 Spring National Meeting.  Ref #2022-17, which clarifies interest income disclosures, is planned for adoption consideration at the 2023 Spring National Meeting.</p>		<p><b>SAPWG Completed Actions:</b> See above descriptions Ref #2021-21, Ref #2022-15 and Ref #2022-22 BWG; Ref #2022-17, incorporated revisions to data-capture interest income disclosures, and established new disclosures for aggregate paid-in-kind interest and deferred interest. (Adopted March 2023). <b>SAPWG Ongoing Work:</b> Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023, and updated revisions are anticipated for exposure shortly after the 2023 Summer National Meeting. The statutory accounting revisions to incorporate a new principles-based bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities will be presented for adoption at the 2023 Summer National Meeting.</p>		<p><b>SAPWG Update: Closed</b> No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.</p>	<p><b>SAPWG Update: Closed</b> No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.</p>
<p><b>10. Privately Structured Securities:</b></p> <p>The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity and liquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)</p>	<p>Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an Actuarial Guideline including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks. Sent a referral to the VOSTF highlighting the MWG regulators' support for the blanks proposal to add market data fields for private securities being considered by the Valuation of Securities (E) Task Force (VOSTF). MWG regulators will wait on any further work or referrals until they have an opportunity to work with the results of the VOSTF proposal.</p>	<p><b>LATF Update:</b> Actuarial Guideline 53 (AG 53) has been adopted by the NAIC's Executive (EX) Committee and <i>Plenary</i> and was effective for year-end 2022 reporting. Starting in Spring 2023, regulators on the Valuation Analysis (E) Working Group will be conducting AG 53 reviews. This will involve a targeted review of asset adequacy analysis related to modeling of business supported with projected high net yield assets.</p>	<p><b>VOSTF Update:</b> The VOSTF sent referrals to the Financial Condition (E) Committee, Financial Stability (E) Task Force, Macroeconomic (E) Working Group, Capital Adequacy (E) Task Force, Risk-Based Capital Investment, Risk and Evaluation (E) Working Group, Life Actuarial (A) Task Force, Financial Analysis (E) Working Group, Statutory Accounting Principles (E) Working Group and Valuation Analysis (E) Working Group requesting feedback on a proposal to have the NAIC's SVO develop the analytical capability to produce risk metrics for bond</p>	<p><b>RBCIREWG Update:</b> The Risk-Based Capital Investment Risk and Evaluation (E) Working Group added this item to its working agenda. While not specifically addressing privately structured securities, the Working Group's current work on collateralized loan obligations may contribute to addressing this item.</p>		<p><b>RBCIREWG Update:</b> 1-30-24 The Academy finalized their principles for structured securities with input from the working group at the 2023 Fall NM. As previously indicated, this work may inform the work the Working Group does on the MWG item but it is still pending discussion by the MWG.</p>	<p><b>RBCIREWG Update:</b> 8-2-24 The Risk-Based Capital Investment Risk and Evaluation (E) Working Group met June 21, May 22, and April 12 to discuss residual tranches and the 45% risk-based capital (RBC) factor in place for year-end 2024. After consideration of comments, as well as a review of alternative proposals to bifurcate residual tranches between 30% and 45% RBC categories, the Working Group adopted a motion to retain the 45% RBC factor for all residual tranches for year-end 2024.</p>

	<p>and the SAPWG Schedule D revamp project. Sent a referral for new work to the RBC Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.</p>		<p>investments, and model measures of interest rate sensitivity and project investment cash flows and estimated losses for any given interest rate or economic scenario for regulator use. These groups were asked if they support the proposal and to describe different ways they envision being able to take advantage of such a capability within the NAIC.</p>	<p><b>SAPWG Ongoing Work:</b></p> <ul style="list-style-type: none"> <li>As discussed above, the Schedule D bond proposal is planned for 2025 reporting.</li> </ul>		<p><b>VOSTF Update: 2-6-24</b> In 2023 the Securities Valuation Office (SVO) proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&amp;P Manual) to make all Structured Equity and Funds, which captures a subset of the privately structured securities market, ineligible for filing exemption. The Task Force deferred action on that proposal and instructed the SVO to instead draft a new proposal that was more limited in scope and which would enable the targeting of individual securities with material risk assessment differences. Privately structured securities with material differences in assessment between Credit Rating Providers and the SVO would be captured in the discussion on Reliance on Rating Agencies in 11, below.</p> <p>The proposal for the SVO to develop the analytic capability to collect and analyze risk metrics is currently on hold.</p> <p><b>SAPWG Update:</b> No further work deemed necessary. Previous initiatives have addressed the PE concern and the referral objective is complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.</p>	<p><b>VOSTF Update: 7-17-24</b> Privately structured securities with material differences in assessment between Credit Rating Providers and the SVO would be captured in the discussion on Reliance on Rating Agencies in 11, below.</p> <p>The proposal for the SVO to develop the analytic capability to collect and analyze risk metrics is currently on hold.</p> <p><b>SAPWG Update:</b> No further work deemed necessary. Previous initiatives have addressed the PE concern and the referral objective is complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.</p>
<p><b>11. Reliance on Rating Agencies:</b> The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, and transparency). (VOSTF has previously addressed and will continue to address this issue.)</p>	<p>Sent a referral to the VOSTF indicating the MWG regulators' agreement to monitor the work of its ad hoc group addressing various rating agency considerations.</p>	<p><b>VOSTF Update:</b></p> <ul style="list-style-type: none"> <li>The Task Force adopted an amendment at its Feb. 21 meeting that effective Jan. 1, 2024, financially modeled collateralized loan obligations (CLO) will not be eligible to use credit rating provider ratings to determine a NAIC Designation.</li> <li>The Task Force has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The questions are in the materials for the Spring National Meeting and will likely be exposed for public comment.</li> <li>The Securities Valuation Office (SVO) has proposed an amendment to remove Structured Equity and Funds transactions from being eligible to use credit rating provider (CRP) ratings to assign an NAIC Designation. The SVO has proposed defining Structured Equity and Funds investments as investments which, through the insertion of an intervening entity such as a special purpose vehicle (SPV) or limited partnership, enable underlying assets that may not qualify as 'bonds' or be eligible to receive an NAIC Designation under the current regulatory guidance, to be reported as 'bonds' because the intervening entity issues notes and those notes receive a credit rating provider rating. The SVO identified multiple regulatory reporting/arbitrage opportunities with these investments that circumvent regulatory guidance using a CRP rating to accomplish that result.</li> <li>The Task Force adopted a new charge for 2023 to establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The criteria have not yet been proposed.</li> </ul>		<p>VOSTF received referral responses from the Financial Condition (E) Committee, the Life Actuarial (A) Task Force, the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group. The Life Actuarial Task Force and Valuation Analysis Working Group supported the proposal and provided examples of risk metrics which would be useful to their groups. The Financial Analysis Working Group supported the VOSTF investigating various products because it said the risk metrics could be more effective in helping financial analysts and examiners to fully evaluate and assess investment risks. The Financial Condition Committee said it was worthwhile for the VOSTF to continue to investigate the various products which could be made available to the SVO staff and state regulators that provide some of the alternative investment risk measures as they could obviate the need for the NAIC to collect that information from NAIC Annual Statements. However, the E Committee said that before it could sponsor the proposal it would need more information to fully understand the costs and benefits of such products. This is an ongoing initiative.</p>	<p>VOSTF has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The SVO has received comments from certain rating agencies and is incorporating those comments into a final list of questions to be agreed to by the Task Force. At the 2023 Spring National, during the discussion of the proposed amendment on Structured Equity and Funds, the Task Force deferred action on the Structured Equity and Funds amendment and directed the SVO staff to draft a distinct process on how it would recommend challenging an NAIC Designation assigned from a credit rating provider ("CRP") rating pursuant to the Filing Exemption ("FE") process which the SVO thinks is not a reasonable assessment of risk for regulatory purposes. The SVO subsequently proposed an amendment which would grant the SVO staff a limited amount of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. The amendment would establish strict due process requirements before the SVO could over-ride a CRP rating including a materiality threshold of a 3-notch difference in order to flag a CRP rating and sufficient notice to insurers to provide time for insurers to appeal SVO assessments. This amendment will continue to be discussed by the Task Force and interested parties.</p>	<p><b>VOSTF Update: 2-6-24</b> The Securities Valuation Office (SVO) has proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&amp;P Manual) to authorize procedures for the SVO's discretion over NAIC Designations assigned through the Filing Exemption (FE) process. The amendment would grant the SVO staff some level of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. It also addresses the Financial Condition (E) Committee's charge to the Task Force to establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The proposed process would include:</p> <ul style="list-style-type: none"> <li>Establishment of a materiality threshold required to flag a CRP rating. In order to limit the SVO's use of this process to only what would be considered truly material differences of opinion, the SVO would only be able to change a Designation assigned through the FE process if it were 3 or more notches different than the SVO's assessment.</li> <li>Inclusion of a subgroup of the Task Force in the review process before any rating would be removed.</li> <li>Procedural steps to ensure insurers are given due process: ample notification to insurer, an opportunity for the insurer to provide full documentation to the SVO and explain its analysis of the investment, an opportunity to get an alternate CRP rating, and sufficient time to file the security, if needed.</li> </ul> <p>VOSTF is currently reviewing comments from interested parties and discussion is ongoing.</p>	<p><b>VOSTF Update: 7-17-24</b> The Securities Valuation Office (SVO) has proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&amp;P Manual) to authorize procedures for the SVO's discretion over NAIC Designations assigned through the Filing Exemption (FE) process. The amendment would grant the SVO staff some level of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. It also addresses the Financial Condition (E) Committee's charge to the Task Force to establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. This proposal is intended to complement E Committee's Framework for Regulation of Insurer Investments - A Holistic Review. The proposed process would include:</p> <ul style="list-style-type: none"> <li>Establishment of a materiality threshold required to flag a CRP rating. In order to limit the SVO's use of this process to only what would be considered truly material differences of opinion, the SVO would only be able to change a Designation assigned through the FE process if it were 3 or more notches different than the SVO's assessment.</li> <li>Procedural steps to ensure insurers are given due process: ample notification to insurer, an opportunity for the insurer to provide full documentation to the SVO and explain its analysis of the investment, an opportunity to get an alternate CRP rating, and sufficient time to file the security, if needed.</li> </ul> <p>VOSTF is currently reviewing comments from interested parties and discussion is ongoing.</p>
<p><b>12. Pension Risk Transfer (PRT) Business Supported by Complex Investments.</b> The trend of life insurers in pension risk transfer (PRT) business and supporting such business with the more complex investments outlined above (LATF has exposed questions aimed at determining if an Actuarial Guideline is needed to achieve a primary goal of ensuring claims-paying ability even if the complex assets (often private equity-related) did not perform as the company expects, and a secondary goal to require stress testing and best practices related to valuation of non-publicly traded assets (note - LATF's considerations are not limited to PRT). Additionally, enhanced reporting in 2021 Separate Accounts blank will specifically identify assets backing PRT liabilities.) Considerations have also been raised regarding the RBC treatment of PRT business. a. Review applicability of Department of Labor protections resulting for pension beneficiaries in a PRT transaction.</p> <p>a. Review state guaranty associations' coverage for group annuity certificate holders (pension beneficiaries) in receivership compared to Pension Benefit Guaranty Corporation (PBGC) protection.</p>	<p>LATF's Actuarial Guideline Sent a referral to the LATF recognizing its work on an Actuarial Guideline which should address the reserve considerations of pension risk transfer (PRT) business. Sent a referral to the SAPWG to address the related disclosure considerations as the goal was to have them in the Notes to Financial Statements.</p>	<p><b>LATF Update:</b> The PRT Drafting Group of the VM-22 SG is considering the development of PRT longevity risk mortality factors. The DCF hopes to share data with the Longevity Risk Subgroup of LATF that the Subgroup could consider for C-2 RBC for PRT products and longevity risk transactions.</p>	<p><b>SAPWG Completed Actions:</b> Ref #2020-37: Separate Account - Product Identifiers and Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure, which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements, was adopted by the SAPWG May 2021. Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021. Comment - The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented; most entities are still broadly grouping PRT activity in the disclosures. Review of 2022 data is planned to be completed in the first half of 2023.</p>	<p><b>LATF Update:</b> June 27, 2023, per Scott O'Neal, the VM-22 Subgroup of LATF is currently developing a new reserving framework for non-variable annuities. As part of this effort, there is a distinct methodology being developed for longevity reinsurance/PRT. This has been the most controversial aspect of the VM-22 project. VM-22 is expected to go live no sooner than 2026. There is also a separate Longevity Risk (E/A) Subgroup of LATF that will work to develop a longevity reinsurance/PRT related capital charge. This work is on hiatus until the VM-22 reserving framework is adopted.</p>	<p><b>LATF Update:</b> July 12, 2023, per Scott O'Neal, the PRT drafting group hasn't met since January 2023, and the Longevity Risk Subgroup is holding off on meeting until the VM-22 Subgroup finalizes the VM-22 methodology</p>	<p><b>SAPWG Update:</b> 1-30-24 Review of 2022 data was completed by NAIC staff in 2023 and continued data and reporting issues were identified. Review of 2023 YE data will be completed in the second quarter of 2024. This will allow for regulator review and input in determining if addition instruction or other follow-up is needed.</p> <p><b>LATF Update:</b> 2-5-24 Confirmed no change in status since July 12, 2023 due to the VM-22 methodology not being final.</p>	<p><b>SAPWG Update:</b> 7-25-24 The data collected provides overall detail of PRT product balances in the separate accounts. Continued regulator discussion is anticipated to see if further granularity is necessary for regulator review.</p> <p><b>LATF Update:</b> 7/16/24 An industry field test of the draft VM-22 methodology will begin 7/31/24 and go through 9/30/24. After results are reviewed and any necessary revisions are made, the VM-22 reserving methodology is expected to be effective for 1/1/26. The Longevity Risk (E/A) Subgroup will meet after the VM-22 framework is finalized.</p>

b. Department of Labor Protections:	<i>MWG Update:</i> NAIC staff are continuing to hold discussions with Department of Labor representatives.				<i>MWG Update:</i> Discussions with DoL continue. DoL is in the process of updating their fiduciary requirements under 95-1, which require due diligence in assessing an insurer prior to a PRT transaction.	<i>MWG update: Closed</i> DoL revised their fiduciary standards (95-1) and duties to evaluate an insurance company prior to approving a PRT.	<i>MWG update: Closed</i> DoL revised their fiduciary standards (95-1) and duties to evaluate an insurance company prior to approving a PRT.
c. State Guaranty Funds Compared to PBGC Protection – NOLHGA 2016 Study:	No further action was deemed necessary <i>MWG Update:</i> However, NAIC staff have contacted PBGC representatives to inquire if they have any items they wish to address with the MWG.					<i>Closed</i> It appears state guaranty funds provide adequate protections for PRT business according to NOLHGA study and other research. No further action was deemed necessary.	<i>Closed</i> It appears state guaranty funds provide adequate protections for PRT business according to NOLHGA study and other research. No further action was deemed necessary.
d. RBC Treatment of PRT Business:	Sent a referral to the Longevity Risk (E/A) Subgroup recognizing its work will also address PRT business and indicating the MWG regulators will monitor this work.	<i>LATF Update:</i> The Longevity Risk (E/A) Subgroup will review the currently exposed VM-22 PBR methodology once it is finalized and adopted. The Subgroup will consider whether to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.			<i>LATF Update:</i> July 12, 2023, per D. Flemming: No change in this item as the VM-22 framework is not final yet.	<i>LATF Update: 1-30-24</i> The VM-22 Subgroup is still working on assumptions and other aspects, so the work on the framework continues. With that, the work of the Longevity Risk (E/A) Subgroup is pending this outcome.	<i>LATF Update: 7-22-24</i> The VM-22 Subgroup is still working on assumptions and other aspects, so the work on the framework continues. With that, the work of the Longevity Risk (E/A) Subgroup is pending this outcome.
<b>13. Offshore/Complex Reinsurance:</b>							
Insurers' use of offshore reinsurers (including captives) and complex affiliated sidacar vehicles to maximize capital efficiency, reduce reserves, increase investment risk, and introduce complexities into the group structure.	<i>MWG Update:</i> MWG regulators are wrapping up the confidential discussions with industry participants and other jurisdictions regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles. They are continuing discussions to identify the best mechanism to ensure reviewing/approving regulators can identify the true economic impacts of the reinsurance transaction. MWG regulators will consider further work and/or referrals once they have concluded these discussions.	At the Spring NM 2023 The Working Group released for comment the reinsurance comparison worksheet designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved. We believe the cross-border reinsurance worksheet will enhance state insurance regulators' ability to monitor these transactions. The comment period ended Apr 28 and the MWG is in the process of addressing comments received.			<i>MWG Update:</i> The Reinsurance Worksheet was adopted on a joint FSTF/MWG virtual meeting on June 20, 2023.	<i>MWG Update:</i> Continue to monitor offshore reinsurance market, meet with BMA and enhance RoWS. Monitor and assess ceded reserves offshore by transaction type, i.e., ModCo, Coinsurance, Funds WH and asset intensive reinsurance. <i>LATF Update:</i> 2-8-24 Proposal being considered to require Asset Adequacy Testing for Reinsurance transactions.	<i>MWG Update:</i> Continue to monitor cross-border reinsurance market and continue dialogue with other jurisdictions. The MWG met July 8 to receive a report of crossborder reinsurance activity and trends. State regulators requested NAIC run additional metrics. Continue to monitor and assess ceded reserves offshore by transaction type, i.e., ModCo, Coinsurance, Funds WH and asset intensive reinsurance. <i>LATF Update: 7/16/24</i> Discussions are continuing on a potential proposal to require Asset Adequacy Testing for certain reinsurance transactions. Comments on the potential proposal will be heard at a 7/25/24 meeting of LATF with additional discussions expected to take place at the LATF session of the Summer National Meeting.