

FINANCIAL STABILITY (E) TASK FORCE

Financial Stability (E) Task Force Nov. 17, 2024, Minutes

Oct. 17, 2024, Minutes (Attachment One)

Financial Stability (E) Task Force 2025 Proposed Charges (Attachment One-A)

Macroprudential (E) Working Group Report (Attachment Two)

2023 Liquidity Stress Testing (LST) Results Summary (Attachment Three)

Draft 2024 LST Framework (Attachment Four)

Draft Pending Adoption

Draft: 11/27/24

Financial Stability (E) Task Force
Denver, Colorado
November 17, 2024

The Financial Stability (E) Task Force met in Denver, CO, Nov. 17, 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 David Lee (AZ); Andrew N. Mais represented by Kenneth Cotrone (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen represented by Carrie Mears (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Michael T. Caljouw represented by John Turchi (MA); Marie Grant 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 Holly Mills (OK); Andrew R. Stolfi represented by Kirsten Anderson (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Scott A. White represented by Dan Bumpus (VA); and Nathan Houdek (WI). Also participating was Elizabeth Kelleher Dwyer (RI).

1. Adopted its Oct. 17 and Summer National Meeting Minutes

The Task Force conducted an e-vote that concluded Oct. 17 to adopt its 2025 proposed charges.

Eft made a motion, seconded by Radel, to adopt the Task Force's Oct. 17 (Attachment One) and Aug. 13 (*see NAIC Proceedings – Summer 2024, Financial Stability (E) Task Force*) minutes. The motion passed unanimously.

2. Received an Update on the FSOC

Director Dwyer spoke on the continued efforts of the Financial Stability Oversight Council (FSOC) to monitor credit markets, commercial real estate, interest rates, and other forces that are impacting macroeconomic conditions and financial stability. The council also continues to discuss the resilience of the treasury market and the role of non-bank mortgage services in the housing market.

The council has also discussed the state of property insurance markets, both by FSOC's Climate-Related Financial Risk Committee and at the principal's level. Council members voted to bring on additional members with more insurance and catastrophe modeling expertise to the Climate-Related Financial Risk Advisory Committee. In addition, the work to finalize the FSOC annual report is underway and expected to be finished in the next few weeks, with publication anticipated in early December.

3. Adopted the Report of the Macroprudential (E) Working Group

Kasinow gave a report (Attachment Two) regarding the 2023 liquidity stress test (LST) results (Attachment Three). LST submissions were due June 30, 2024, and all required filers' submissions were received by states and the NAIC. The 2023 LST was completed with data as of Dec. 31, 2023. The primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in various stress scenarios. The results also provide regulators with a secondary benefit of insights for the supervision of individual insurers and groups.

Draft Pending Adoption

Kasinow reported that there were 25 submissions by life insurance groups, and NAIC staff reviewed the narratives, aggregated the quantitative results, and provided analysis to the Working Group regulators as well as a public summary. Asset sales are reported by asset type, and the totals are compared to average daily trading volumes and outstanding issues. Similar to last year's results, the largest asset sale emanated from the investment-grade corporate bonds and U.S. treasury bonds categories. The comparison-to-market data showed there should be no material impact on the capital markets from insurers' potential sale of these two asset classes.

Kasinow said the Macroprudential (E) Working Group met on Oct. 24 in regulator-only session to discuss cross-border reinsurance. A regulator request was made to NAIC staff earlier in the year to conduct additional analysis of cross-border-affiliated reinsurance activity. The analysis included a breakout of the types of products ceded, the jurisdictions of the assuming reinsurers, and transactions between affiliates. The discussion led to regulator proposals for additional analysis and monitoring. All proposals will be considered and prioritized, and a work plan for 2025 will be proposed and approved by regulator members and shared with members and interested parties.

Commissioner Houdek made a motion, seconded by Sherman, to adopt the report of the Macroprudential (E) Working Group. The motion passed unanimously.

4. Exposed the Proposed 2024 LST Framework

Kasinow proposed that the 2024 LST Framework document (Attachment Four) be exposed for a 30-day comment period starting Nov. 17 and ending Dec. 17. There were no significant updates made this year, but there was one non-substantive change specifying that regulators reviewed separate accounts activity and found that the current framework should adequately capture cash flow activity.

The 2024 LST Framework with lead state guidance will be issued in February 2025. This update will contain updated annexes that contain prescribed assumptions insurers should assume for the adverse scenario included in their submissions due June 30, 2025.

Fischer made a motion, seconded by Travis, to expose the proposed 2024 LST Framework for a 30-day public comment period ending Dec. 17. The motion passed unanimously.

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 (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 was received in 2024.

Andersen reviewed the areas of focus for this year and last year. One goal has been to lessen reliance on high net yields to pay claims. If the yield is above certain yields, an offsetting risk should be assumed. 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 spoke on the information the group was able to attain this year. This comes from the results of the previous year's reviews and the need for more information regarding complex assets. For example, there was more information available for tranche-level allocation for structured assets. Another finding was some companies assume high returns without much recognition of associated risk. Finally, the risks associated with payments in kind are being reviewed. These would take place if there is an asset that may not produce cash flows

Draft Pending Adoption

and potentially put the insurance company more at risk if it needs cash at the same time. There is work being done to gather better information for the upcoming year.

Andersen then discussed the activity of the Life Actuarial (A) Task Force, including the topic of reinsurance asset adequacy testing (AAT). Reinsurance activity occurs when reserves are held lower than U.S. statutory standards. In some of these cases, the reserves are substantially lower or disappear. It is important to know if the lower reserve amounts are adequate when using reasonable assumptions. There will be discussions in 2025 on the types of requirements and the overall scope.

6. Heard an International Update

Tim Nauheimer (NAIC) reported the International Association of Insurance Supervisors (IAIS) has completed its annual Global Monitoring Exercise (GME). One of the key deliverables from the GME is the Global Insurance Market Report (GIMAR). The year-end report, which is due to be published in December, is the culmination and summary of the two main components of the GME's data collection and analysis, including individual insurer monitoring (IIM) and sector-wide monitoring (SWM), as well as analysis related to reinsurance and climate. The final year-end report expands on the mid-year GIMAR that was released in July and provides more context and analysis of the key risk themes identified in the 2024 GME. These key risks include risks in the macroeconomic environment, such as commercial real estate exposures, geopolitical risks, and digitalization, including artificial intelligence systems, as well as structural shifts in the life insurance sector, specifically allocation of capital to alternative assets and cross-border asset-intensive reinsurance.

Nauheimer said the IIM and SWM data collection preparation is currently underway for next year. The IAIS Macroprudential Monitoring Working Group met in October to plan for the effort and began early preparations for the regular triennial review of the IIM assessment methodology. The review of the 2023 methodology will occur in 2025 for application the following year. The IAIS is also preparing a public consultation document on ancillary indicators in the GME. The working group discussed ancillary indicators during its October meeting. After the parent committee's input and approval, the document will be published for public consultation.

Nauheimer then spoke on the IAIS Macroprudential Supervision Working Group. The group is currently focused on the second 2024 GME theme, which is structural shifts in the life insurance sector. The working group formed two workstreams: 1) allocation to alternatives, which is focused on alternative investments of life insurers; and 2) cross-border reinsurance, concentrating on asset-intensive reinsurance. IAIS member jurisdictions and supervisors have contributed to the work through surveys, including the initial alternative assets survey. This work will culminate in a joint issues paper expected to be released for public consultation in the first quarter of 2025.

Lastly, Nauheimer spoke on the IAIS Climate Risk Steering Group. The consultation on climate risk supervisory guidance closed at the end of October. Last month, the group also approved the updated draft climate risk application paper materials. The climate risk application paper is expected to be published in April 2025. The paper focuses on several areas of climate disclosure, such as limitations and governance, and incorporates examples of applying the IAIS proportionality principle where appropriate.

7. Discussed Other Matters

There was one question posed to Kasinow when interested parties were asked if there were any follow-up questions: Will the Macroprudential (E) Working Group be working with the Reinsurance (E) Task Force on any reinsurance-related training? The interested party also stated that it has been a consistent request from reinsurers that the various working groups at the NAIC work with the Reinsurance (E) Task Force on anything reinsurance-related.

Draft Pending Adoption

Kasinow responded that the Working Group actively coordinates with the Reinsurance (E) Task Force on any reinsurance matters and that Rehagen, Reinsurance (E) Task Force Chair, is also a member of the Working Group.

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/FSTF/2024/2024_3 Fall/Minutes/FSTF Fall NM Minutes Nov. 17.docx

Draft: 10/18/24

Financial Stability (E) Task Force
E-Vote
October 17, 2024

The Financial Stability (E) Task Force conducted an e-vote that concluded Oct. 17, 2024. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Judith L. French, Vice Chair, represented by Tracy Snow (OH); Barbara D. Richardson represented by David Lee (AZ); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan represented by John Turchi (MA); Marie Grant represented by Lynn Beckner (MD); Grace Arnold represented by Ben Slutsker (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 Eli Snowbarger (OK); Michael Wise represented by Ryan Basnett (SC); Scott A. White represented by Dan Bumpus (VA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2025 Proposed Charges

The Task Force considered adoption of its 2025 proposed charges, including those of the Macroprudential (E) Working Group. The Task Force's 2025 proposed charges remain unchanged from its 2024 charges.

A majority of the Task Force members voted in favor of adopting its 2025 proposed charges (Attachment One-A). The motion passed.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/FSTF/FSTF E-vote Minutes Oct 17 2024.docx

Draft: 10/17/24

Adopted by the Executive (EX) Committee and Plenary, Nov. __, 2024

Adopted by the Financial Condition (E) Committee, Nov. __, 2024

Adopted by the Financial Stability (E) Task Force, Oct. 17, 2024

2025 Proposed Charges

FINANCIAL STABILITY (E) TASK FORCE

The mission of the Financial Stability (E) Task Force is to consider domestic or global financial stability issues and their impact on the role of state insurance regulators.

Ongoing Support of NAIC Program, Products, or Services

1. The **Financial Stability (E) Task Force** will:
 - A. Manage the macroprudential supervisory component of the NAIC financial solvency framework.
 - i. Monitor the U.S. insurance industry's macroprudential risk levels.
 - ii. Maintain macroprudential regulatory tools.
 - iii. Identify data gaps and enhanced disclosure needs for the statutory financial statement and/or other reporting mechanisms.
 - iv. Propose enhancements and/or additional supervisory measures to the Financial Condition (E) Committee or other relevant committees, and consult with such committees on implementation.
 - B. Monitor U.S. macroprudential policy issues, and respond as appropriate.
 - i. Support and work with the state insurance regulator representative to the Financial Stability Oversight Council (FSOC) to address confidential FSOC or other federal agency macroprudential work.
 - ii. Participate in public FSOC or other federal agency macroprudential work.
 - C. Monitor international macroprudential policy issues, and participate/respond as appropriate.
 - i. Coordinate with the International Insurance Relations (G) Committee to address International Association of Insurance Supervisors (IAIS) or other international macroprudential work.
2. The **Macroprudential (E) Working Group** will:
 - A. Oversee the implementation and maintenance of the Liquidity Stress Testing Framework (LST Framework).
 - B. Monitor domestic and global activities, including those enumerated in the "Plan for the List of Macroprudential Working Group (MWG) Considerations" document.
 - C. Execute the original Macroprudential Initiative (MPI) projects related to counterparty disclosures and capital stress testing.
 - D. Continue to develop and administer data collection tools as needed, leveraging existing data where feasible, to provide the Financial Stability (E) Task Force with meaningful macroprudential information regarding how the insurance sector is navigating the prevailing market conditions.
 - E. Oversee the development, implementation, and maintenance process for a new macroprudential risk assessment system (i.e., policies, procedures, and tools) to enhance regulators' ability to monitor industry trends from a macroprudential perspective.
 - F. Oversee the documentation of the NAIC's macroprudential policies, procedures, and tools.
 - G. Provide the Task Force with updates to IAIS and other international initiatives as needed.

NAIC Support Staff: Tim Nauheimer/Todd Sells

[https://naiconline.sharepoint.com/NAICSupportStaffHub/Committee Charges/2025 Committee Charges](https://naiconline.sharepoint.com/NAICSupportStaffHub/Committee%20Charges/2025%20Committee%20Charges)

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability Task Force and Macroprudential Working Group

FROM: Robert Kasinow, Chair, Macroprudential Working Group

DATE: November 17, 2024

RE: MWG Update

Liquidity Stress Testing Results:

The insurer Liquidity Stress Testing submissions were due June 30, 2024 and all required filers' submissions were received by states and the NAIC.

Attachment Three of today's materials includes some of the aggregated results and key observations of those submissions, which were completed with data as of December 31, 2023. As a reminder, the primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in the various stress scenarios. However, the results also provide regulators with a secondary benefit of insights for the supervision of individual insurers and groups.

There were 25 submissions by life insurance groups (referred to as insurers in the attachment). NAIC staff reviewed the narratives, aggregated the quantitative results, and provided the attached analysis to working group regulators as well as this public summary. Asset sales are reported by asset type, the aggregates of which is compared to average daily trading volumes and issues outstanding. Similar to last year's results, the largest asset sales emanated from the investment grade corporate bonds and U.S. Treasury and Agency bond categories. The comparison to market data showed there should be no material impact on the capital markets from insurers' potential sales of these two asset classes. The Appendix of Attachment Four includes the results for these comparisons.

As a reminder, state regulators may wish to review a copy of their regulated companies' submission as part of their Financial Analysis and/or Examination function.

Reinsurance:

The MWG met on October 24 in a regulator only session to discuss cross-border reinsurance. Consistent with heightened regulatory monitoring of cross border reinsurance, a regulator request was made to NAIC staff earlier in the year to conduct additional analysis of cross border affiliated reinsurance activity. Analysis included a breakout of the types of products ceded, the jurisdictions of the assuming reinsurers and transactions between affiliates. A robust discussion ensued resulting in regulator proposals for additional analysis and monitoring. All proposals will be considered, prioritized and a workplan for 2025 will be proposed and approved by regulator members and shared with members and interested parties.



MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability Task Force and Macroprudential Working Group

FROM: NAIC Staff

DATE: November 17, 2024

RE: LST Report Summary

Overview:

The NAIC alongside regulators and with input from interested parties continue to enhance the U.S. Insurance Solvency Framework since the 2008 financial crisis. The Liquidity Stress Testing (LST) Framework development began in 2017 as part of the Macroprudential Initiative. While regulators have existing tools and processes for assessing liquidity risk at a legal entity level (i.e., ‘inward’ impacts to the insurer), there was recognition that the solvency regulator toolbox could be further enhanced with a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., ‘outward’ impacts) of a liquidity stress impacting a large number of life insurers simultaneously. The primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in the various stress scenarios. However, the LST results also provide regulators with additional insights for the microprudential supervision of individual insurers, which is a secondary benefit.

The 2023 Liquidity Stress Test filings were submitted by 25 life insurance groups (insurers), which represents approximately 60% of the Life industry’s cash and invested assets. Subsequent to receiving LST submissions, NAIC staff reviews the narratives, aggregates the quantitative results, and provides detailed analysis to regulators and this summary analysis.

Most insurers prepared the 2023 LST filings due June 30, 2024, utilizing year-end 2023 data and projected cash flows forward based on various stress scenarios for three different time horizons. The three required time horizons are one month, three months, and one year. The five scenarios are as follows: a Baseline scenario, an Adverse scenario, a “What If” modification to the Adverse scenario, an Interest Rate Spike scenario, and the insurer’s own Worst-Case scenario. Insurers were not required to provide Worst-Case scenario data, but they were required to provide a narrative for the scenario. Economic metrics are prescribed by the regulators for the adverse scenario, and for the interest rate scenario insurers establish their own assumptions based on the regulators’ stress scenario description. The insurers report their potential stressed cash flows for sources and uses of cash and the resulting potential asset sales needed to satisfy any cash flow

deficiency. Asset sales are reported by asset type, which are aggregated by NAIC staff and compared to average daily trading volumes and issues outstanding. The potential impact of asset sales to the capital markets is the primary macroprudential objective of this exercise. The largest asset sales emanated from the investment grade corporate and U.S. Treasury and Agency categories. The impact of insurers' asset sales of these two asset classes were compared to market data for these two categories. The 2023 LST results show a nil effect of potential asset sales to the capital markets in the most severe scenarios. Please see Appendix for details.

Another key objective is the assessment of the Life industry's liquidity profile. Overall, insurers demonstrated their ability to manage any actual and projected cash flow deficits. Any cash flow deficits projected in the various scenarios were reported as satisfied with cash on hand and in some cases relatively small asset sales, which are a very small percentage of the industry's overall liquid assets.

2023 LST RESULTS:

1. Baseline Scenario

Baseline scenario cash flows are the insurer-specific cash flows from normal expected operations. For this reason, a positive net cash flow is presumed in the baseline cash flows since companies are typically not projecting to be operating in a net cash flow deficiency.

2. Adverse Scenario

The Adverse Scenario is one of the two regulatory required liquidity stress scenarios. The Adverse liquidity stress scenario contains a regulator provided narrative and regulator-prescribed assumptions, and company-specific liability assumptions.

In the Adverse Scenario for 2023 the aggregate results did not show any cashflow deficit but there were assets that were sold. Similar to last year we advised companies to not report asset sales if there was no deficit within the different LST scenarios. Although there were still companies that reported asset sales we did receive less reported assets sold over the twelve month time horizon. Total invested assets available for sale increased as compared to 2022 across the three different time horizons and the total invested assets available for sale increase was greater than the increase from 2021 to 2022.

3. Adverse What-If Scenario

The "What-If" modification to the adverse stress scenarios removes the ability for insurers to use extraordinary internal and external funding sources such as Bank and FHLB lines of credit to satisfy any liquidity deficiency under stress.

Compared to the Adverse Scenario, companies experienced higher cash flow deficits. The total assets sold increased from 2022 even though there is an overall decrease in the deficit prior to asset sales. Aggregate results show a deficit in the one month and the three-month horizon, however most companies had sufficient cash on hand to apply to the deficit, therefore less asset sales were required.

4. Interest Rate Spike

The Interest Rate Spike is the second of the two regulatory required liquidity stress scenarios. The interest rate spike scenario allows insurers to use the economic variables they use for their own internal liquidity stress testing function, (including the amount of interest rate spike).

The Interest Rate Spike scenario saw more asset sales as compared to 2022. This could be due to companies staying consistent with reporting asset sales while necessary. Although there were deficits for the 1 month and 3 month time horizon, there was enough cash to satisfy those deficits. Most assumptions remained the same, with insurers reporting a range of 200-400 bps increase in rates with 300 bps being the most common over the one-year horizon.

Worst-Case Scenario

A detailed reporting template was not required for this scenario. However, insurers were still required to communicate these results in their written narrative submission.

This scenario requires insurers to provide a detailed narrative of their most severe liquidity stress test scenario. The scenario should be focused on the insurers internal model scenario with the worst-case outcome for the group. Some insurers reported their worst-case scenario is an interest rate spike and therefore their own worst case and interest rate spike scenario was the same.

There were insurers that adopted the 2008-2009 financial crisis as a means of a worst-case scenario assumption. Those who did adopt this assumption did not need to sell assets or sold very little to meet their deficit.

Conclusion:

Overall, most insurers' assumptions for all scenarios remained the same as or similar to the prior year's submissions.

The total potential assets sold increased this year for the Baseline, Adverse, the Adverse What-if scenarios and Interest Rate Spike scenario. However, these observed changes appear reasonable. Most potential asset sales are comprised of Treasury and Agency Bonds and Investment Grade Public Corporate Bonds, which is also consistent with last year's report.

The 2023 LST filings continue to show the amount of potential assets sold would not be significant given historical average daily trading volumes by asset type.

Appendix:

A. Total Asset Sales for Interest Rate Spike (in millions)

	1 Month	3 Month	12 Month
Interest Spike Rate	23,749	28,358	30,083

B. Asset sales as a Percentage of ADTV and Issues Outstanding for IG Public Corporate Bonds and US Treasury Bonds in the Interest Rate Spike Scenario over the 1-month horizon.

	ADTV	Issues Outstanding
IG Public Corporate Bonds	4.0%	0.18%
US Treasury Bonds	0.7%	0.02%

C. Percentage of Industry Assets Sold (in millions) Interest Rate Spike Scenario

	Total Assets Sold applied to deficit	Life Invested Assets	Assets Sold as a Percentage of Life Industry Invested Assets
1 Month	23,749	5,284,724	0.45%
12 Month	30,083	5,284,724	0.57%



NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

NAIC 2024 LIQUIDITY STRESS TEST FRAMEWORK
For Life Insurers Meeting the Scope Criteria

November 17, 2024

Deleted: 2023

Deleted: March 6

Table of Contents (To be updated after adoption)

INTRODUCTION 4

Macroprudential Implications of a Liquidity Stress 4

BACKGROUND 5

NAIC Macroprudential Initiative..... 5

Liquidity Assessment Subgroup..... 6

 Mandate 6

 Data Gaps 7

 Discussions with Insurers 8

 Regulatory Goals of the Liquidity Stress Test..... 9

[Beginning of] 2024 Liquidity Stress Testing Framework – to be included/referenced in the NAIC Financial Analysis Handbook 10

Section 1. Scope Criteria for Determining Groups Subject to 2024 LST 10

Section 2. Liquidity Stress Test 11

 2.1 Summary 11

 2.2 Time Horizons 12

 2.3 Insurer’s Internal Liquidity Stress Testing System 13

Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria 13

Section 4. Cash Flow Approach – Liquidity Sources and Uses 17

 4.1 Baseline Assumptions for Cash flows 17

Section 5. Stress Scenarios and their Assumptions 18

 5.1 Adverse Liquidity Stress Scenario for Insurers 19

 5.1.1 Narrative 19

 5.1.2 Regulator-Prescribed Assumptions 20

 5.1.3 Market Capacity Assumption 22

 5.1.4 Economic Variables for Adverse Scenario 24

 5.1.5 SWAP Spreads 25

 5.1.6 Swaption Volatility 25

 5.1.7 Moody’s Transition Matrix/Migration Rates 26

 5.1.8 Moody’s Default Table 26

 5.1.9 Moody’s Recovery Rate Table 26

 5.1.10 “What If” Modification 27

 5.1.11 Company-Specific Assumptions 27

Formatted: Font color: Red

Deleted: 2023

Deleted: 2023

5.2 Interest Rate Spike Scenario 27

5.2.1 Narrative..... 27

5.2.2 Regulator-Prescribed Assumptions 28

5.2.3 Company-Specific Assumptions..... 28

5.3 Insurer Specific Information Request - Worst-Case Scenario 29

5.3.1 Narrative..... 29

Section 6. Available and Expected Asset Sales 29

Section 7. Reporting 30

Section 8. Templates 33

8.1 Liquidity Sources Template 33

8.2 Liquidity Uses Template..... 34

8.3 Assets Template 35

Narrative/Explanatory Disclosures noted in the 2024 LST 37

[End of 2024 Liquidity Stress Testing Framework – to be included as an appendix in the NAIC Financial Analysis Handbook] 38

Data Aggregation..... 38

Regulatory Authority 38

Confidentiality 39

Timeline..... 39

Annex 1: Original Scope Criteria with Annual Statement References 40

Annex 2: Regulatory Prescribed Assumptions 42

Annex 2i. Economic and Market Variables..... 42

Annex 2ii. Market Capacity Assumption 45

Annex 2iii, A. Year-end Structured Spread Baseline Values 46

Annex 2iv. SWAP Spread Table 47

Annex 2v. Implied Volatility of IR Swaptions 48

Annex 2vi. Credit Assumptions: Moody’s Transition Matrix/Migration Rates..... 48

Annex 2vii. Credit Assumptions: Moody’s Default Table 49

Annex 2viii. Credit Assumptions: Moody’s Recovery Rate Table 49

Deleted: 2023

Deleted: 2023

INTRODUCTION

Macroprudential Implications of a Liquidity Stress

Beginning mid-year 2017, the NAIC embarked on a project to develop a liquidity stress testing framework. While the NAIC has existing tools and processes for assessing liquidity risk at a legal entity level (i.e., 'inward' impacts to the insurer), there was recognition that the NAIC toolbox could be further enhanced with the addition of more granular data in the annual statement and a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., 'outward' impacts) of a liquidity stress impacting a large number of insurers simultaneously.

Post-financial crisis, there were several attempts to assess potential market impacts emanating from a liquidity stress in the insurance sector. Many of these analyses relied heavily on anecdotal assumptions and observations from behaviors of other financial sectors. To provide more evidence-based analyses, the NAIC decided to develop a Liquidity Stress Test (LST) Framework for large life insurers that would aim to capture the outward impacts on the broader financial markets of aggregate asset sales under a liquidity stress.

The stress test will be run annually and the findings, on an aggregate basis, reported annually as part of the NAIC's continuous macroprudential monitoring efforts. The NAIC's pursuit of the liquidity stress test should not suggest any pre-judgement of the outcomes. The NAIC believes there is value to the exercise whether it points to vulnerabilities of certain asset classes or markets or, alternatively, suggests that even a severe liquidity stress impacting the insurance sector is unlikely to have material impacts on financial markets. The NAIC liquidity stress testing framework is intended to supplement, not replace, a firm-specific liquidity risk management framework. The NAIC has not yet discussed steps that might be taken to address any identified vulnerabilities but acknowledges that any recommendations may require collaboration with other financial regulators.

The NAIC's revised proposed liquidity stress testing framework is contained in the pages that follow. The NAIC recognizes that, at least in the early years, the stress testing process and analyses will be iterative. We expect refinements as the framework is developed, especially after the first year's implementation.

BACKGROUND

NAIC Macroprudential Initiative

The NAIC's Macroprudential Initiative (MPI) commenced in 2017. It recognized the post-financial crisis reforms that became part of our Solvency Modernization Initiative (SMI) that continue to serve us well today. However, in the ensuing years since those reforms, insurers have had to contend with sustained low interest rates, changing demographics and rapid advancements in communication and technology. They have responded by offering new products, adjusting investment strategies, making structural changes, and expanding into new global markets. There are new market players, new distribution channels, and a complex web of interconnections between financial market players.

What has not changed since the financial crisis is the scrutiny on the insurance sector in terms of understanding how insurers react to financial stress, and how that reaction can impact, via various transmission channels, policyholders, other insurers, financial market participants, and the broader public.

The proposed work on macroprudential measures is reflective of the state insurance regulators' commitment to ensure that the companies they regulate remain financially strong for the protection of policyholders, while serving as a stabilizing force to contribute to financial stability, including in stressed financial markets. To that end, the NAIC's three-year strategic plan (2018-2020), "State Ahead", reflects the objective of "Evaluating Gaps and regulatory opportunities arising from macroprudential surveillance, and develop appropriate regulatory responses."

The NAIC's work on macroprudential surveillance is overseen by the Financial Stability Task Force of the NAIC Executive Committee. In April 2017, the Task Force was asked to consider new and

improved tools to better monitor and respond to both the impact of external financial and economic risks on supervised firms, as well as the risks emanating from or amplified by these firms that might be transmitted externally. The Task Force, in turn, focused its efforts on potential enhancements to identify and monitor liquidity risk, among other areas. More specifically, the Task Force was requested to further develop the U.S. regulatory framework on liquidity risk with a focus on life insurers due to the long-term cash-buildup involved in many life insurance contracts and the potential for large scale liquidation of assets.

Liquidity Assessment Subgroup

To carry out its work on assessing liquidity considerations, the Task Force established the Liquidity Assessment Subgroup (“Subgroup”) mid-year 2017.

Mandate

The charges and workplan of the Subgroup reflect the following assignments:

- Review existing public and regulator-only data related to liquidity risk, identify any gaps based on regulatory needs and determine the scope of application, and propose recommendations to enhance disclosures.
- Develop a liquidity stress testing framework proposal for consideration by the Financial Condition (E) Committee, including the proposed universe of companies to which the framework will apply (e.g., large life insurers).
- Once the stress testing framework is completed, consider potential further enhancements or additional disclosures.

In addition, a small informal study group comprised of regulators, industry participants and NAIC staff was formed to consider the specific data needs and technical aspects of the project. The study group is NOT an official NAIC working group. All recommendations from the study group must be vetted and considered by the Liquidity Assessment Subgroup and/or the Financial Stability (EX) Task Force according to NAIC procedures.

Data Gaps

Prior to undertaking work on the Liquidity Stress Test, the Subgroup constructed an inventory list of existing life insurer disclosures as of 2018 that contribute to an understanding of liquidity risk. When assessing the current state, the Subgroup recognized the availability of significant detailed investment-related disclosures but contrasted it to the relatively sparse liability-related disclosures. To remedy this imbalance, a blanks proposal was constructed to significantly increase the disclosures for life insurance products.

Specifically, the Analysis of Operations by Line of Business schedule was expanded from a single exhibit to five exhibits, one each for Individual Life, Group Life, Individual Annuity, Group Annuity, and Accident and Health. The Analysis of Increase in Reserves schedule was similarly expanded. Within each of the five new exhibits, columns were added for more detailed product reporting. For example, columns were added to the Individual and Group Life exhibits to capture universal life insurance and universal life insurance with secondary guarantees, and columns were added to the Individual and Group Annuity exhibits to capture variable annuities and variable annuities with guaranteed benefits. In addition, two new lines were added to the now five exhibits of the Analysis of Increase in Reserves schedule: one capturing the cash surrender value of the products outstanding and another capturing the amount of policy loans available (less amounts already loaned). A new addition was also proposed to the Life Notes to Financial Statement. The new Note 33 considered the type of liquidity concerns disclosed in Note 32 for annuities and deposit-type contracts and added disclosures for life insurance products not covered in Note 32.

These proposals were exposed and commented upon several times at the Liquidity Assessment Subgroup, the Financial Stability (EX) Task Force, and at the Blanks (E) Working Group. Ultimately, they were adopted by NAIC Plenary for inclusion in the 2019 Life Annual Statement Blank. As an interim step, The Financial Stability Task Force performed a data call requesting a few key lines of information from the newly adopted 2019 format of the Analysis of Operations by Line of Business schedule and the Analysis of Increase in Reserves schedule, as well as the new Note 33, but populated with 2018 year-end data. This data call was completed in July 2019.

Discussions with Insurers

During the latter part of 2017 and first quarter of 2018, the Subgroup conducted calls with several large life insurers who agreed to share their internal liquidity risk assessment processes. The dialogue provided extremely helpful input and informed the establishment of the initial direction of the Liquidity Stress Testing Framework. Feedback from these discussions include:

- Scope criteria should be risk-focused, not solely based on size.
- Stress test framework should align with internal management reporting and leverage the ORSA.
- Stress test should be principle-based and complement a company's internal stress testing methodology.
- Regulatory guidance should be provided to help define liquidity sources and uses, products/activities with liquidity risk, time horizons, level of aggregation, reporting frequency, and establishing stress scenarios.
- Public disclosure of results should be carefully considered to avoid exacerbating a liquidity crisis.

Regarding the specifics of liquidity assessments/stress test approaches, significant diversity in practices exist. Key observations in this regard included:

- Liquidity tests are performed at the material entity level and at the holding company level. Definitions of material entities differ.
- Most firms determine some sort of coverage ratio (Liquidity Sources) / (Liquidity Uses), for Base and Stress scenarios and monitor results to ensure they align with the firm's (internal) risk appetite. Categories of liquidity sources and uses differ across firms and assumptions vary depending on time horizon. Some insurers determine coverage ratios utilizing balance sheet values, applying different haircuts by asset class, time horizon and type of stress. Other insurers determine liquidity coverage gaps (Liquidity Inflows – Liquidity Outflows) utilizing a cash flow approach.
- Stress scenarios vary by company, reflecting a combination of market-driven, as well as idiosyncratic and insurer-specific scenarios.

- Time horizons tested also vary, typically ranging from 7 days to 1 year.

Regulatory Goals of the Liquidity Stress Test

- The primary goal of this liquidity stress testing, and the specific stress scenarios utilized, is for macroprudential uses – to allow the FSTF regulators to identify amounts of asset sales by insurers that could impact the markets under stressed environments. Thus, the selected stress scenarios are consciously focused on industry-wide stresses – those that can impact many insurers within a similar timeframe. These may not be the most stressful scenarios for specific legal entity insurers, or even their groups. Regulators have indicated the liquidity stress testing is also meant to assist regulators in their micro prudential supervision, in the context of being helpful for domiciliary and lead state regulators to better understand liquidity stress testing programs at those legal entities and groups. There is no intent to require these stress scenarios to be used by individual insurers for some sort of assessment or regulatory intervention mechanism. Similarly, there has not been any consideration given to requiring them in the management of any entities in receivership.
- Regulatory concerns regarding liquidity risk for legal entity insurers and/or groups is more about the stress scenarios of most concern to those entities (not those identified for macro prudential purposes). Similarly, when considering liquidity risk at a legal entity and/or group, regulators need to understand the insurer's entire risk management framework. Much of this understanding may come from the ORSA filings. Thus, the LST is not meant to be a legal entity insurer requirement, or used as a ranking tool, etc. However, it is recognized that simply reviewing these LST results may help regulators better understand the role of liquidity stress testing within the entities – which may result in more questions and information requests regarding the entities' own liquidity risk management framework and dynamics of their internal liquidity stress tests.

[Beginning of] 2024 Liquidity Stress Testing Framework – to be included/referenced in the NAIC Financial Analysis Handbook

Deleted: 2023

Section 1. Scope Criteria for Determining Groups Subject to 2024 LST

Deleted: 2023

HISTORY – Scope Criteria for the Initial 2020 LST:

In determining the companies subject to the liquidity stress test (LST), consideration was given to activities assumed to be correlated with liquidity risk. Another consideration was the desirability of tying data used in the criteria back to the statutory financial statements. Ultimately six activities were identified. Those activities are Fixed and Indexed Annuities, Funding Agreements, Derivatives, Securities Lending, Repurchase Agreements and Borrowed Money. Minimum thresholds were established for each of these six activities. A life insurance legal entity or life insurance group exceeding the threshold for any of the six activities is subject to the stress test (see Annex 1 for more details).

While the scope criteria only utilize statutory annual statement data, the stress test is not similarly limited. Thus, the stress test will consider many more liquidity risk elements than the scope criteria, and internal company data will be the source for many of those elements.

Just as the liquidity stress test structure and methodology may change over time, the scope criteria may also be modified, for example, in response to new data points in the NAIC Annual Statement Blank. The scope criteria will be reviewed annually.

Using the agreed criteria, NAIC staff obtained the amounts for all life insurance legal entities from the 2018 annual statutory financial statements (filed by March 1, 2019). If two or more life insurers were part of an insurance group with an NAIC group code, then the numbers for each of those legal entity life insurers was summed together to represent an insurance group result. Thus, a legal entity life insurer not in an insurance group can meet the threshold on its own, or the sum of legal entity life insurers in a group could meet the threshold. Twenty-three insurance groups met the initial scope criteria.

In establishing whether an insurer or group met or exceeded the threshold criteria, the Subgroup members supported using the most current single year activity rather than a multi-year average. This resulted in coverage amounts ranging from 60% to 80% of the industry total for each activity based on 2018 data. It was recognized that using single year activity could result in more instances of an insurance group being in scope one year and out of scope the next, but regulators viewed it more important to have the most recent financial data utilized for determining scope. To address concerns about insurers moving in and out of scope, regulatory judgment will be used to address an insurer’s exit from or entry to the scope of insurers subject to the liquidity stress test. Per revisions to the model Holding Company Act, the lead state regulator will consult with the Task Force in determining when it is appropriate to remove an insurer from the LST requirement if it no longer meets the scope criteria. Similarly, lead state regulators should have the ability to consult with the Task Force and require the LST from an insurer not meeting the scope criteria (e.g., an insurer close to triggering the scope criteria for more than one year).

CURRENT – Scope Criteria for the 2024 LST:

Regulators agreed to retain the same 6 criteria and thresholds from the 2020, 2021, and 2022 LST Scope Criteria for use as the 2024 LST Scope Criteria. The 2024 LST Scope Criteria have been applied to the 2022 annual statement data (data as of Dec. 31, 2022, filed by March 1, 2024).

Deleted: 2023

Deleted: 2023

Deleted: 2023

Deleted: 2023

Section 2. Liquidity Stress Test

2.1 Summary

The stress testing framework employs a company cash flow projection approach incorporating liquidity sources and uses over various time horizons under a baseline assumption and some number of stress scenarios (for 2024 there are 2 stress scenarios and also an insurer-specific request for information). The available assets are then recorded by asset category. The framework then calls for identification of expected asset sales by category, or other funding as allowed in the stress test, to cure any cash flow deficits (liquidity uses exceed liquidity sources) under the stress scenarios. The stress tests are to be performed at the legal entity level; the aggregated group does not perform the LST.

Deleted: 2023

2.2 Time Horizons

The time horizons chosen by regulators are 30 days, 90 days, and 1 year, because, overall, insurance products are designed to be for the benefit of customers as risk protection over the long term and not designed to provide short term liquidity like other financial products. Historical experience in times of stress demonstrate slow policyholder reaction in short periods of time, as opposed to an event that occurs over months or years. Features designed to protect the long-term nature of the product for the policyholders ultimately reduce the likelihood of policyholder reaction to short-term volatility in markets. Therefore, evaluating shorter than 30-day time horizons has been deemed not warranted for the overarching macroprudential purpose of gauging liquidity risk in the Life insurance industry.

Policyholders do not “run” from an insurer in times of economic stress to the extent depositors do from a bank, because insurance is purchased to obtain the protection insurance provides, not as a source of liquidity or discretionary funds. In the United States, life insurance and annuities are purchased primarily for long-term financial protections upon death or retirement. Surrendering a life insurance contract to harvest its cash surrender value would leave the policyholder without death benefit protection that would be expensive or impossible to replace at a future date. Surrendering a variable annuity contract would lock in potentially temporary decreases in account value and could result in the loss of living benefit protection that becomes more valuable when market conditions depress account values below trigger points. Further, mitigating contract features such as surrender charges and the insurer’s right to delay the processing of withdrawals and surrenders for up to 30 days are common.

There are also non-contractual mitigating factors at play, such as potential negative tax consequences, that further reduce the short-term nature of liquidity risk for life insurers.

Simply put, policyholders are highly disincentivized to give up the likely irreplaceable protection for which they have already paid. The run-like mass surrender of insurance policies would require large numbers of policyholders to act against their self-interest.

From a holistic risk perspective, liquidity stress is traditionally experienced on the asset side. One short-term consequence of market turmoil could be a requirement to post collateral in connection with existing derivative contracts. However, even in this scenario, collateral is typically posted in the form of securities, so a demand for cash is not generated.

We do acknowledge liquidity risk does exist with respect to shorter time horizons and that many insurers do consider shorter time horizons (7-days for example) as part of their internal liquidity stress testing framework. This is viewed as a cash management/Treasury function impacting the daily operations of individual insurers, however, that would not affect the industry as a whole. Hence, these considerations are typically reviewed as part of individual/microprudential surveillance efforts in the U.S.

2.3 Insurer's Internal Liquidity Stress Testing System

Insurers are to use their own internal liquidity stress testing system to perform the regulatory LST, adjusting for regulatory assumptions, metrics, etc., as specified in this document. For example, assessing materiality of stressed cash flows for inclusion in the liquidity uses and sources templates is per the insurer's own internal methodology, but determining which legal entities are to perform the LST and report on those templates is specified in this document. Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars (see Section 7. Reporting). The stress scenarios may vary from year-to-year and contain variations referred to as "What-if" scenarios. The following sections provide a further description of each of the key components of the framework.

Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria

The scope of entities included within an insurance group for the purposes of liquidity stress testing to assess the potential for large scale liquidation of assets (i.e., the legal entities within the group which should perform the LST), should include:

- U.S. Life insurance legal entities, including reinsurers, regardless of corporate structure, so including captive (regulators specifically want all U.S. life insurance/reinsurance legal entities to perform the 2024 LST for informational purposes – future LST iterations may see a materiality consideration added);

Deleted: 2023

Non-guaranteed/market value separate account cash flows are generally not in scope for the LST. The rationale is that even though non-guaranteed/market value separate accounts may experience asset sales during stressed environments, those sales are at the policyholder’s discretion and do not generate liquidity stress for the insurer/group. As such they are deemed other market activity rather than insurance entity activity. Thus, for annuities that provide both non-guaranteed and guaranteed benefits, insurers should only include the cash flow impact of the guaranteed benefits. LST filers should consider including all cash flows related to assets and liabilities that may be grouped with general account assets in the event of a liquidation regardless of Separate Account classification.

Deleted: s

Deleted: included in the 2023

Deleted: However, regulators may want to perform a separate account study in the future.

Deleted: current thinking

- Non-U.S. life insurance/reinsurance legal entities should perform the 2024 LST if they pose material liquidity risks to the U.S. group (see below on non-U.S. legal entities).

Deleted: Though not required for the 2023

Deleted: ,

- Where applicable, holding companies that could be a source or draw of liquidity to the life insurance legal entities; and
- Non-life insurance entities and non-insurance entities with material sources of liquidity, or that carry out material liquidity risk-bearing activities and could, directly or indirectly, pose material liquidity risk to the U.S. group. This materiality consideration should occur within the context of the specific stress scenario (and “what if” modification if applicable). The materiality criteria and initial list of legal entities in scope should be reviewed by the lead state regulator and modified by the insurer as needed based on regulator direction.
 - Non-U.S. legal entities (including non-U.S. holding companies) are subject to this materiality consideration and should be subject to performing the LST if they pose material liquidity risk to the U.S. group.
 - U.S. non-life insurers and reinsurers are not automatically exempted. If the U.S. non-life insurer poses material liquidity risk, per the stress scenario, to the U.S. group, then that legal entity insurer should perform the LST.

Deleted: 2023

- Legal entity asset managers and mutual funds (both U.S. and non-U.S.) are **excluded** from performing the 2024 LST.

Deleted: 2023

- However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity asset manager/mutual fund in their 2024 LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).

Deleted: 2023

- If such material stressed cash flows from/to the legal entity asset manager/mutual fund exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the narrative/explanatory disclosures submitted along with the templates).

- Examples of when such legal entity asset manager/mutual fund considerations and disclosures would need to be made for a specific stress scenario include:

- If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a mutual fund/asset manager (i.e., redemptions exceed the ability to sell assets), then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements);
- If the holding company or another legal entity(ies) in the group is expected to provide capital to the mutual fund/asset manager or is expecting dividends from them, the material expected cash flows must be reflected; and
- If the asset manager manages financial instruments under which it retains some risk, such as new European CLOs, or has contractual risk retention agreements for U.S. CLOs, the required risk retention limit (5% for Europe) must be reflected if sourced from the holding company or another legal entity(ies) in the group and considered material.

- Legal entity banks (both U.S. and non-U.S.) are **excluded** from performing the 2024 LST.

Deleted: 2023

- However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity bank in their 2024 LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).
- If such material stressed cash flows from/to the legal entity bank exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the explanatory disclosures submitted along with the templates).
- Examples of when such legal entity bank considerations and disclosures would need to be made for a specific stress scenario include:
 - If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a bank, then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements); and
 - If the holding company or another legal entity(ies) in the group is expected to provide capital to the bank or is expecting dividends from them, the material expected cash flows must be reflected.

Deleted: 2023

For 2024, the legal entities identified in the bullets above, per a Company's ORSA and/or other materiality criteria applied to the specific stress scenario, must be considered as material or identified as carrying out material liquidity risk bearing activities and hence subject to internal liquidity stress testing requirements. Although a legal entity in the group may not be required to perform the stress test due to materiality considerations or exemptions, those entities' material cash impacts on entities performing the stress test must be captured in the sources and uses templates of the entities performing the LST. The insurer will need to disclose the materiality criteria (agreed upon by the Lead State regulator) used in determining the legal entities subject to the 2024 LST in the submission of its results. Based on the results of the 2020 initial LST exercise

Deleted: 2023

Deleted: 2023

and those of the 2021, 2022, and 2024 LST filings, the Subgroup will determine if additional materiality criteria should be developed to ensure better comparability amongst insurers.

Deleted: 2023

Section 4. Cash Flow Approach – Liquidity Sources and Uses

The Liquidity Stress Testing Framework is anchored by a cash flow approach, utilizing companies' actual cash flow projections of sources and uses of liquidity over various time horizons based upon experience and expectations. This contrasts with a Balance Sheet Approach, which employs static balance sheet amounts and generic assumptions about asset liquidity. While a Balance Sheet Approach is easier to apply and provides calculation consistency (and thus the perception of increased comparability), its 'one-size fits all' approach could result in a misleading assessment of liquidity risk and fail to capture certain asset activities or product features under different stress scenarios and time horizons. The cash flow approach is deemed more dynamic and hence to capture liquidity risk impacts more precisely.

The insurer should produce cash flow projections for sources of liquidity and uses of liquidity that cover: operating items, investments and derivatives, capital items, and funding arrangements. (See Liquidity Sources and Uses templates in Section 7). To clarify an issue regarding funding arrangements, the projected cash flows for liquidity sources and uses should include already existing funding arrangements such as FHLB draws outstanding in the current time period. Also, specific to the holding company, these projected cash flows for liquidity sources and uses should include material non-U.S. impacts as well.

The insurer will produce these liquidity sources and uses cash flow projections in a baseline, normal course of business scenario, for each time horizon. The insurer will also produce these cash flows for each time horizon for a specific number of required stress scenarios (for 2024 there are 2 stress scenarios and also an insurer-specific worst-case scenario).

Deleted: 2023

4.1 Baseline Assumptions for Cash flows

Baseline (pre-stress) cash flows are the insurer-specific cash flows from normal expected operations. Insurers should prepare cash flow projections under normal operating conditions and report the net cash flows (projected liquidity sources less uses) for each time horizon. These cash

flow projections should be consistent with those used for internal baseline liquidity forecasts, such as those used for financial planning and analysis (FP&A), risk management, etc. A positive net cash flow is presumed in the baseline cash flows since companies are usually not expected to be operating in a net cash flow deficiency state.

Section 5. Stress Scenarios and their Assumptions

For year-end 2024 there are two regulatory liquidity stress scenarios: an adverse liquidity stress scenario for insurers, and an interest rate spike scenario. There is also an insurer-specific information request for each group's own most adverse liquidity stress scenario(s). The adverse liquidity stress scenario contains a regulator provided narrative, regulator-prescribed assumptions, and company-specific assumptions. The interest rate spike scenario allows all other narrative description components and key metrics (including how much interest rates spike) to be provided by each company. The insurer-specific information request contains a company provided narrative and a description of key company metrics. The regulator provided narrative will be a qualitative description of the specified stress scenario to highlight the particular risks and sensitivities associated with that stress scenario. The regulator prescribed assumptions are specific parameters insurers should incorporate into their process for a particular stress scenario. Company-specific assumptions should be consistent with the information provided in the regulator provided narrative and regulator prescribed assumptions, and represent the detailed assumptions needed for a specific company's liquidity stress testing process. Examples of where companies should provide their assumptions include: debt issuance, lapse sensitivity, new business sensitivity and mortality sensitivity. Regulators expect insurers to utilize policyholder behavior assumptions (e.g., surrenders and policy loan withdrawals, existence of new sales activity) as well as the insurer's response (e.g., assuming delays in payment of policyholder benefits), consistent with the severity of the stress, and to provide very thorough explanatory information. All key business activities and product- type impacts to liquidity should be considered by the companies.

If the insurer's internal model does not utilize a specific economic and/or company-specific assumption included in this document, the internal model does not need to be modified to

Deleted: 2023

incorporate it. However, if the insurer’s internal model does utilize a specific economic and/or company-specific assumption included in this document, the insurer should use the approach outlined below to calculate the value for that assumption. (This emphasizes the macro surveillance benefit of the 2024 LST, allowing for a level of consistency of assumptions across the industry. As discussed previously, this is not meant to specify assumptions used by the insurers in their own internal liquidity stress testing work.) If there is no specific value included in the 2024 LST Framework and instead there is an illustrative value or suggested guidance, the company should use a value consistent with the illustrative value or suggested guidance. For example, guidance is given below on using Moody’s values for migration, default, and recoveries. However, insurers may use S&P data or other appropriate data sources.

Deleted: 2023

Deleted: 2023

5.1 Adverse Liquidity Stress Scenario for Insurers

5.1.1 Narrative

Insurers are required to apply an adverse liquidity stress scenario as one of the two stress scenarios. The following is a summary of market conditions in the adverse scenario extracted from the Federal Reserve Board’s 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule.

The adverse scenario is characterized by weakening economic activity across all economies included in the scenario. This economic downturn is accompanied by a global aversion to long-term fixed-income assets that, despite lower short-term rates, brings about a near-term rise in long-term rates and steepening yield curves in the United States and the four countries/country blocks in the scenario.

The economic indicator levels described below provide the backdrop for the economic climate insurers should assume in the adverse scenario. The actual levels insurers should use in the adverse scenario are provided in Annex 2.

- Macroeconomic
 - Real GDP falls slightly more than 2 percent from the pre-recession peak in the fourth quarter of 2016 to the recession trough in the first quarter of 2018.

- *Unemployment rate increases.*
- *Headline CPI falls and then rises over the scenario period.*
- Interest Rates and Credit Spreads
 - *Short-term Treasury rates fall and remain near zero throughout the stress.*
 - *10-year Treasury yields rise.*
 - *Investment Grade (IG) corporate credit spreads widen.*
- Asset Valuations
 - *Equity prices decline by roughly 40%.*
 - *The Volatility Index (VIX) peaks at approximately 35.*
 - *Housing prices and commercial real estate prices decline through 8 quarters.*
- Description of International Market Conditions
 - *Recessions and slowdowns in growth are experienced in the Euro area, United Kingdom, Japan, and developing Asia economies.*
 - *All foreign economies experience a decline in consumer prices.*
 - *U.S. Dollar appreciates against the Euro, British Pound, and developing Asia currencies.*
 - *U.S. Dollar depreciates modestly against the Japanese Yen, driven by flight-to-safety capital flow.*

5.1.2 Regulator-Prescribed Assumptions

Insurers should utilize the values for the economic indicators from the Federal Reserve Board's annual Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule as the basis for scenario assumptions, Table A.1 Historical data and Table A.5 (Annex 2i, A) Supervisory adverse scenario. Insurers should use the version published in February 2017 (refer to the tables in Annex 2i). Specifically, insurers should run the adverse liquidity stress scenario using the deltas for the Treasury curve, Corporate spreads, GDP, Unemployment, U.S. Inflation (CPI), Housing Price Index (HPI), S&P 500 index (SPX SPOT), Commercial Real Estate Index (CREI) and VIX index. These economic variables should be used to

the extent these variables are included in an insurer's internal liquidity stress test process or models.

Insurers should apply the same change in economic variables experienced between Q4 2016 Table A.1 and the stress scenarios in Table A.5 to current economic variable levels (Annex 2i, D). Insurers should use the tables in Annex 2i for an illustrative example of how the deltas from the 2017 Fed's CCAR are applied to the current reference quarter (Q4 2020) for the 2020 LST (Annex 2i, B). For example, insurers should use 2024 (or most recent year-end) 10 Yr. Treasury rates and apply the same percentage or absolute b.p. change shown from Q4 2016 to the 2017 Table A.5 amounts in their 2024 LST stress scenarios. Table C (Annex 2i, C) shows the 2017 deltas applied to 2021 year-end levels on an absolute and percentage basis for 3 month and 1-year horizons for ease of use. The deltas to apply are provided for the 30-day, 90-day and 1-year horizons. Note, the tables also include structured spread assumptions described below in section 5.1.4. The tables are included in Annex 2i of this document.

Deleted: 2023

Deleted: 2023

In addition, other market indicators are necessary for insurers to apply to stressed cash flows and to assess the impact on expected asset sales. These are as follows (with details to be found in Annex 2):

- Market Capacity Assumption
- Economic Variables for Adverse Scenario
- SWAP Spreads
- Swaption Volatility
- Credit Assumptions: Moody's Transition Matrix/Migration Rates
- Credit Assumptions: Moody's Default Table
- Credit Assumptions: Moody's Recovery Rate Table

Necessary edits for 2024 year-end values will be posted as Lead State Guidance to the Annexes in early 2024.

Deleted: 2023

5.1.3 Market Capacity Assumption

The following is suggested guidance to determine market constraints on asset categories to be sold in times of stress. It represents standards followed by many insurers to estimate assets sales by stress scenario, asset category and time horizon that can be sold without meaningfully impacting the entire market by widening bid-offer spreads. We recognize each company has its own individual methodology for determining potential asset sales under stress, and we request a written narrative be provided as to how they make their determination.

Once an asset class has been identified as available to be sold to satisfy a cash deficiency from cash flow stress testing, the insurer should calculate its percentage of the total amount issued and outstanding. Next the insurer should obtain average daily trading volumes (ADTV) and make an assumption for the haircut amount to apply to that volume to reflect stressed conditions (the “haircut ADTV”). Next, the insurer would apply its calculated percentage of total outstanding owned to the haircut ADTV, and the result would be divided by the number of days in the stress testing time horizon to arrive at a daily amount that can be sold. This daily amount able to be sold would be multiplied by the number of days in the prescribed time horizon: 30 days for the 30-day horizon, 60 days for the 90-day horizon (31-90 days) and 274 days for the 1-year horizon (91-365 days). An illustrative example best explains the above-described process.

Illustrative example (also included in Appendix 2ii):

Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a \$100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A’s unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	10%	97	\$9.7 B	\$440 M
31-90 Days	20%	94	\$18.8 B	\$430 M

91-365 Days	50%	90	\$45.0 B	\$230 M
--------------------	------------	-----------	-----------------	----------------

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been \$13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to \$8.0 B per day. Since Insurer A is 5% of the market, Insurer A can only trade \$400 M per day (\$8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

DRAFT

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	\$440 M	\$400 M	(\$40 M)
31-90 Days	\$430 M	\$400 M	(\$30 M)
91-365 Days	\$230 M	\$400 M	\$0

5.1.4 Economic Variables for Adverse Scenario

Insurers should use Annex 2i and 2iii to assist in determining cash flows, asset values and the quantity of assets to be sold in stressed markets. For baseline values, the industry shall submit year-end spreads to the regulators shortly after year-end. The regulators will review and approve the values for use in the table for liquidity stress testing purposes. Structured spread data was derived from the JPMorgan ABS Weekly Asset Spread Datasheet. The spreads were scaled to a stressed economic environment consistent with an adverse scenario as described by the Fed, described above and adopted for this stress testing. For the 2020 LST, economic conditions experienced in March of 2020 were deemed consistent with an adverse scenario. Therefore, structured spreads from March 2020 were used as the basis for the stressed spreads assumptions for insurers to use in their stress testing scenario for the 30-day, 90-day and 1-year horizons. Note, to calculate structured spreads for CLO/CDO 5.5-7 year and ABS Auto3 year, it was necessary to construct a Treasury yield curve with 3-year and 7-year points. These points were calculated using a straight-line linear interpolation method. For the 2024 LST, the same March 2020 structured spreads were deemed appropriate for use.

Deleted: 2023

Regulators ask industry members to agree on one set of structured spread values amongst themselves to submit for approval, not each insurer submitting values that each need to be approved. Regulators and/or the NAIC need to do a reasonableness check of current baseline/market levels of spreads insurers use before applying the stressed amounts in the JPMorgan spreadsheet. For example, if current spreads are already greater than the JPMorgan stressed spread amounts, regulators may have to consider alternatives or additional stressed levels. One agreed upon set of values will help provide uniformity, consistency, and comparability of stress testing results across insurers.

When utilizing these spreads, insurers should assume the percentage increase in spreads experienced in March 2020 from the JPMorgan ABS Weekly Asset Spread Datasheet; and apply the absolute increase to the agreed upon December 31 baseline spreads. These tables are provided in Annex 2i, B.

Since the reasonableness check is merely a check of current market rates, it is not anticipated that it will be burdensome for insurers to provide an agreed upon set of December 31 baseline values to regulators by January 31 of each year or for the regulators to be able to respond by February 28 of every year to allow insurers sufficient time to incorporate into their stress testing framework. Baseline amounts are included in Annex 2i, B.

For the 2024 LST – NAIC values are to be established as Lead State guidance in early 2024 after the 2024 LST Framework has been adopted. These NAIC values will be established using the industry developed process.

Deleted: 2023

Deleted: 2023

5.1.5 SWAP Spreads

Stressed spread levels may impact assets prices for expected sales calculations necessary for the stress scenarios. Insurers should complete the SWAP Spread table in Annex 2iv to document assumptions used in determining asset values and the quantity of assets to be sold in stressed markets. SWAP spread source data is no longer provided in the Federal Reserve’s H.15 FRED data. Use of Bloomberg Swap Spreads is preferred – if options exist within Bloomberg, identify which option was used. If a different source from Bloomberg is used, then identify the source and option.

5.1.6 Swaption Volatility

Insurers should use the table in Annex 2v to assist in determining asset values and the quantity of assets to be sold in stressed markets. Insurers should obtain the information to populate the table using Bloomberg’s Swaption Volatility for various time horizons and expiry. For consistency, insurers should use the table found on Bloomberg at NSV [Go].

Commented [EB1]: This was modified as Lead State Guidance # 1 (March 2024)

5.1.7 Moody's Transition Matrix/Migration Rates

Insurers should use the table in Annex 2vi to assist in determining corporate credit migrations, asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 36 - Average one-year alphanumeric rating migration rates, 1983-2024. If available, insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

Deleted: 2023

5.1.8 Moody's Default Table

Insurers should use the table in Annex 2vii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 41 - Average cumulative issuer-weighted global default rates by letter rating, 1983-2024. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

Deleted: 2023

5.1.9 Moody's Recovery Rate Table

Insurers should use the table in Annex 2viii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 8 - Average corporate debt recovery rates measured by ultimate recoveries, 1987-2024. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

Deleted: 2023

If relevant for a given insurer, the adverse liquidity stress scenario for insurers can be run considering sources other than expected asset sales (e.g., FHLB credit line draws, bank lines of credit and holding company contributions). Should that be the case, the insurer must clearly identify the sources other than asset sales utilized to meet expected liquidity deficiencies.

5.1.10 “What If” Modification

The “What if” modification to the adverse liquidity stress scenario removes the ability for insurers to use extraordinary internal and external funding sources to satisfy any liquidity deficiency under stress, i.e., no actions taken in response to the stress (as opposed to ongoing operational funding agreements included in the insurer’s baseline templates) or in response to a liquidity deficiency. Intragroup “keep well” agreements would be considered extraordinary transactions. Thus, expected asset sales will be the primary source of meeting any liquidity deficiency for the “What if” scenario. Any existing funding such as commercial paper will not be assumed to roll, nor will FHLB facilities ability to roll upon maturity.

5.1.11 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above adverse liquidity stress scenario for insurers. Company specific assumptions should be consistent with the above scenario as narrative and regulator prescribed assumptions. Examples include the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).

5.2 Interest Rate Spike Scenario

5.2.1 Narrative

Insurers should run an interest rate spike stress test that resembles the late 70’s/early 80’s inflationary period as it most closely mirrors the regulatory desired interest rate spike scenario. Historical data from the late 70’s/early 80’s show the following economic conditions:

- Inflationary forces caused interest rates to rise quickly.
- Investors rotated out of fixed income and into equities, real estate, and commodities.
- Central bank responded by tightening monetary policy in tandem, eventually causing the yield curve to invert.

Insurers should provide a detailed narrative outlining their scenario and assumptions around general economic conditions bulleted above and specific assumptions for economic variables for each time horizon. The economic variables in the table below and the amount of expected

movement in each variable should be fully described in the narrative to the extent are used in a company's internal model. The table outlines the directional movement of the relevant economic indicators. Insurers should specify the amount of movement for each variable they consider to be part of the scenario for a severe interest rate spike. For example, insurers may indicate a parallel shift in Treasury rates up 100bps in the first 30 days, up 200bps in 90 days and 300bps over 12 months. The table is a guide and not to be interpreted as a strict template and may be supplemented or customized by the insurer. Narrative/Explanatory disclosures should explain these assumptions.

5.2.2 Regulator-Prescribed Assumptions

Regulators did not adopt any regulator-prescribed assumption values for this stress scenario. Instead, they provided the below regulator guidance for insurers to use when establishing their own company specific assumptions for this stress scenario.

Economic Variable	Expected Movement	Comments
Treasury rates	Increase rapidly	Critical factors for modeling impacts to asset prices, collateral flows, and product cash flows
Equity prices	Increase rapidly	
Credit spreads	Increase moderately	
Inflation rates	Increase rapidly	These factors help define the macroeconomic conditions of the scenario
Real GDP growth	Flat	These factors help define the macroeconomic conditions of the scenario
Unemployment rate	Flat	
Real estate prices	Increase	
Swap spreads	Increase	Impact derivative collateral requirements
FX rates	Unclear	
Implied volatility	Increase	
Credit assumptions (transition, default, recovery rates)	Unclear	May not be an important assumption to define for the scenario

5.2.3 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above stress scenario. Companies are encouraged to provide more information beyond these guidelines as they feel is appropriate to help regulators understand their assumptions for the scenario.

Company specific assumptions should be consistent with the stress scenario’s narrative and regulator prescribed assumptions. Based on the 2022 significant increases to inflation and interest rates, insurers should consider appropriately stressed interest rates in the 2024 LST to ensure a “severe interest rate spike.”

Deleted: 2023

5.3 Insurer Specific Information Request - Worst-Case Scenario

5.3.1 Narrative

This information request requires insurers to provide a detailed narrative of their most severe liquidity stress scenario(s) to obtain greater insight to the drivers of liquidity risk for specific insurers. The most severe scenario should be one that results in the largest liquidity deficiency (liquidity sources less uses) from their existing internal liquidity stress testing process. The scenario should be focused on the insurer’s internal model scenario with the worst-case outcome for the group. Regulators may use this information to inform future prescribed stress scenarios.

Insurers should provide a comprehensive narrative describing the stress scenario(s) and the economic environment(s). This stress scenario(s) could be a combination of multiple stressors. Insurers should review these scenarios to ensure they are worst case for their business model, products, etc., particularly if no liquidity deficiencies are identified.

Section 6. Available and Expected Asset Sales

Once the stressed sources and uses of liquidity have been established, and the net cash flows calculated, insurers then project the assets available at the end of the time horizon by asset category (please refer to the asset categories in the Assets Template in Section 7). The valuation of available assets for the baseline scenario utilizes current and projected asset values for a normal operating environment. The valuation of available assets for a stress scenario will be based upon fair value haircuts per the specific stress scenario narrative, its regulatory prescribed assumptions, and/or the company assumptions based on the narrative and regulatory prescribed assumptions (e.g., fair market value haircuts and capacity indicators). Note: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and

considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

To the extent that stressed cash inflows are insufficient to meet the anticipated cash outflows, the insurer must provide for cash flows to meet the deficiency. Unless a stress scenario (or “What-if” modification of a stress scenario) indicates otherwise, the insurer can utilize internal and external funding sources (e.g., FHLB new draws) as well as asset sales to satisfy a liquidity deficiency. Any expected asset sales must be reported in the appropriate column(s) of the template. Insurers decide which categories of available assets to sell, as well as the quantity to sell. (Please refer to the Assets Template in Section 7.)

Asset sales will appear in two different places - 1) within the liquidity sources template for expected/planned activity during the time horizon (pre-liquidity deficiency calculation), and 2) in the assets template for any amount of asset sales used to meet a liquidity deficiency (Liquidity Sources less Liquidity Uses). If an insurer has no liquidity deficiency, then there are no asset sales needed in the Assets Template (though available assets still apply). Similarly, if cash on hand was sufficient to meet the liquidity deficiency and the insurer chose to utilize that cash, then no asset sales would be reported in the Assets template.

The expected asset sales amounts calculated based on the insurer’s own models should also be subjected to portfolio manager and/or Chief Investment Officer (CIO) feedback. This feedback may take the form of “topside” adjustments to the expected asset sales. Regulators expect robust disclosures around the chief investment officer’s (or equivalent title or designee) assumptions and decisions on expected asset sales. The intent is for these asset sales to most accurately represent what actions the insurer could reasonably take in the given scenario, market conditions, and the company’s anticipated investment policy and/or strategy.

Section 7. Reporting

Insurers should submit data in the reporting template for liquidity sources, liquidity uses, and assets (available assets and expected asset sales) in U.S. dollars. These templates utilize

categories for 30-day, 90-day and 1-year time horizons. The assets template further illustrates available assets and final expected asset sales by asset sub-category to cover any liquidity deficiency (negative amounts of net liquidity sources less liquidity uses over the prescribed time horizons). Use of these consistent sub-categories of assets is critical for allowing the Task Force to aggregate the asset sales results.

DRAFT

Liquidity Sources and Liquidity Uses Templates:

A liquidity sources report and a liquidity uses report should be generated for each legal entity within the group that was subjected to liquidity stress testing, using the NAIC templates. These legal entity amounts should also be aggregated into a group liquidity sources report and a group liquidity uses report for submission (the LST is not performed at the group level; rather it is performed at the legal entity level and those results are aggregated to present a group level report).

- For the Baseline, the Adverse Liquidity stress scenario, and the Interest Rate Spike stress scenario, Liquidity Sources and Liquidity Uses templates at both the individual entity level and the aggregated group level are to be submitted.
- For the “What If” Variation of the Adverse Liquidity stress scenario, a group level Liquidity Sources template and/or a group level Liquidity Uses template is only required if there is a material difference from the Adverse Liquidity stress scenario’s group level Liquidity Sources and Liquidity Uses templates.

Assets Template:

As with the Liquidity Uses and Liquidity Sources templates, the Assets template is to be generated for each legal entity performing the LST. For the 2024 LST, the insurer may submit the assets template at the group level only, without submission of the legal entity asset sales templates.

Deleted: 2023

- A group level assets template is required for the Baseline and all stress scenarios, including the “What If” variation of the Adverse Liquidity stress scenario.

Modification of Templates:

Insurers are allowed to add lines to the templates to provide more detailed breakdown of existing categories (e.g., for cash flows to/from legal entity asset manager/mutual funds as well as banks), but deletions of existing lines/categories are highly discouraged.

Submission Deadline:

The reporting templates and many other narrative disclosures referenced in this document are to be submitted to the Lead State by June 30 of every year.

Section 8. Templates

8.1 Liquidity Sources Template

Cash Flow Sources	CF Type	CF Category	Group Summary			Legal Entity 1		
			1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
Sources	Operating	Premiums and Deposits (Renewal / New Business)	-	-	-	-	-	-
		Cash Charges / Fees	-	-	-	-	-	-
		Reinsurance Recoverables	-	-	-	-	-	-
		Expenses - Interscompany Settlements	-	-	-	-	-	-
		Tax Payments (Inflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Investment and Derivatives	Principal and Interest	-	-	-	-	-	-
		Dividends / Distributions	-	-	-	-	-	-
		Initial and Variation Margin Received	-	-	-	-	-	-
		Other Collateral Received	-	-	-	-	-	-
		Asset Sales (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Capital	Capital Contributions	-	-	-	-	-	-
		Commitments	-	-	-	-	-	-
		Dividends from Subsidiaries	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Funding	Debt Issuance / Refinancing	-	-	-	-	-	-
		GLICs	-	-	-	-	-	-
		FFLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
Credit Facilities (incl. Contingency Funding Facilities)		-	-	-	-	-	-	
Intercompany Loans		-	-	-	-	-	-	
Commercial Paper		-	-	-	-	-	-	
Other Flows		-	-	-	-	-	-	
Total Sources (before Asset Sales)			-	-	-	-	-	-

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Sales (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/30 trade date and 01/03 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company's best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

8.2 Liquidity Uses Template

Cash Flow Uses	CF Type	CF Category	Group Summary			Legal Entity 1		
			1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
	Operating	Non-Selective Benefits / Claims	-	-	-	-	-	-
		Elective Benefits / Claims	-	-	-	-	-	-
		Commissions	-	-	-	-	-	-
		Reinsurance Payables	-	-	-	-	-	-
		Expenses - Other	-	-	-	-	-	-
		Expenses - Intercompany Settlements	-	-	-	-	-	-
		Insurance Product Commitments	-	-	-	-	-	-
		Tax Payments (Outflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Investment and Derivatives	Asset Commitments	-	-	-	-	-	-
		Initial and Variation Margin Paid	-	-	-	-	-	-
		Other Collateral Pledged	-	-	-	-	-	-
		Asset Purchases (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Capital	Shareholder/Policyholder Dividends	-	-	-	-	-	-
		Capital Contributions to Subsidiaries	-	-	-	-	-	-
		Dividends to Parent	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Funding	Debt Maturities / Debt Servicing	-	-	-	-	-	-
		GICs Benefits / Maturities	-	-	-	-	-	-
		FHLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
		Credit Facilities (incl. Contingency Funding Facilities)	-	-	-	-	-	-
		Intercompany Loans	-	-	-	-	-	-
Other Flows		-	-	-	-	-	-	
		Total Uses	-	-	-	-	-	-

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Purchases (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/30 trade date and 01/03 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company’s best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

8.3 Assets Template

Cash and Invested Assets Available for Sale		Group Summary		
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month
Cash	Cash & Cash Equivalents	-	-	-
Government Securities	Treasury Bonds	-	-	-
	Agency Bonds	-	-	-
	Other IG Sovereigns & Regional Government	-	-	-
	Below IG Sovereigns & Regional Government	-	-	-
	Agency CMO	-	-	-
	Agency MBS	-	-	-
	Agency CMBS	-	-	-
Public Bonds	Agency ABS	-	-	-
	IG Public Corporate Bonds	-	-	-
	IG Municipal Bonds	-	-	-
	Below IG Public Corporate Bonds	-	-	-
Private Bonds	Below IG Municipal Bonds	-	-	-
	IG Private Placement Bonds	-	-	-
	IG 144As	-	-	-
	Below IG Private Placement Bonds	-	-	-
Non-Agency Structured Debt	Below IG 144As	-	-	-
	IG CMO	-	-	-
	IG MBS	-	-	-
	IG CMBS	-	-	-
	IG ABS	-	-	-
	IG CLO	-	-	-
	Below IG CMO	-	-	-
	Below IG MBS	-	-	-
	Below IG CMBS	-	-	-
	Below IG ABS	-	-	-
Equity	Below IG CLO	-	-	-
	Common Stock	-	-	-
	Preferred Stock	-	-	-
Other	Other Equity and Alternative Investments	-	-	-
	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-
	Other	-	-	-
Total Invested Assets Available for Sale		-	-	-

Confidential--For Discussion Purposes Only, Do Not Distribute

Scenario As of Date	Summary	Group Summary			Legal Entity 1		
		1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
	Total Sources (before Asset Sales)	-	-	-	-	-	-
	Total Uses	-	-	-	-	-	-
	Net Sources & Uses (Deficit before Asset Sales)	-	-	-	-	-	-
	Total Invested Assets Available for Sale	-	-	-	-	-	-
	Cash applied to deficit	-	-	-	-	-	-
	Deficit Sub-total	-	-	-	-	-	-
	Total Assets Sold	-	-	-	-	-	-
	Deficit satisfied if zero or greater	-	-	-	-	-	-

Final Expected Asset Sales After Adjustments		Group Summary		
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month
Cash	Cash & Cash Equivalents	-	-	-
Government Securities	Treasury Bonds	-	-	-
	Agency Bonds	-	-	-
	Other IG Sovereigns & Regional Government	-	-	-
	Below IG Sovereigns & Regional Government	-	-	-
	Agency CMO	-	-	-
	Agency MBS	-	-	-
	Agency CMBS	-	-	-
Public Bonds	Agency ABS	-	-	-
	IG Public Corporate Bonds	-	-	-
	IG Municipal Bonds	-	-	-
	Below IG Public Corporate Bonds	-	-	-
	Below IG Municipal Bonds	-	-	-
Private Bonds	IG Private Placement Bonds	-	-	-
	IG 144As	-	-	-
	Below IG Private Placement Bonds	-	-	-
	Below IG 144As	-	-	-
Non-Agency Structured Debt	IG CMO	-	-	-
	IG MBS	-	-	-
	IG CMBS	-	-	-
	IG ABS	-	-	-
	IG CLO	-	-	-
	Below IG CMO	-	-	-
	Below IG MBS	-	-	-
	Below IG CMBS	-	-	-
	Below IG ABS	-	-	-
	Below IG CLO	-	-	-
Equity	Common Stock	-	-	-
	Preferred Stock	-	-	-
	Other Equity and Alternative Investments	-	-	-
Other	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-
	Other	-	-	-
Total Invested Assets Final Sale		-	-	-

Note 1: Insurers will enter "Illiquid" in a data field for any asset category deemed such within a specific time horizon. (Regulators can then follow up with questions later if there are concerns, etc.)

Note 2: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

Note 3: Reminder that regulators want robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales. Might need to supplement the template comments with additional narrative disclosures.

Note 4: Excluding the "What If" variation, insurers are to provide disclosures indicating when affiliated amounts are provided to assist a legal entity in addressing a liquidity deficiency.

Narrative/Explanatory Disclosures noted in the 2024 LST

Deleted: 2023

Narrative/explanatory disclosures are expected to be in English.

- Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars.
- Specific disclosures on material stressed cash flows to/from legal entity banks/asset managers/mutual funds if needed.
- Company-specific narrative on assumptions and metrics used for the adverse liquidity stress scenario for insurers, for example the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).
- Company-specific narrative on the interest rate shock scenario, assumptions around general economic conditions bulleted in 5.2.1 Narrative, and specific metrics for economic variables for each time horizon. The economic variables in the table in 5.2.2 Regulator-Prescribed Assumptions should be fully described in the narrative, to the extent they are use in the company's internal model.
- Insurers should provide a comprehensive narrative describing their worst-case liquidity stress scenario(s) and the economic environment(s), including assumptions, key metrics and results.
- Written narrative on the insurer's own individual methodology for determining asset sales under stress.
- Robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales, if needed.
- Excluding the "What If" variation, disclosures to identify when affiliated amounts are contributed to assist a legal entity in addressing a liquidity deficiency.
- Disclose when a regulatory prescribed variable is not used for the LST because it is not used in the internal liquidity stress testing process or models.

[End of 2024 Liquidity Stress Testing Framework – to be included as an appendix in the NAIC Financial Analysis Handbook]

Deleted: 2023

Data Aggregation

Given the NAIC’s primary focus is on macroprudential impacts of a liquidity stress impacting the life insurance sector, the NAIC will aggregate final expected asset sales data across the insurance groups subject to the liquidity stress test. The aggregation will be done by asset category. The NAIC aims to compare the aggregated results against various benchmarks, potentially including normal and/or stressed trading volumes and asset values for various asset classes, to determine the impact such sales may have on the capital markets in times of stress. Findings from this analysis may also inform expected asset sale assumptions utilized in future runs of the liquidity stress test.

As part of its macroprudential surveillance, the insurance regulators and/or NAIC may reach out to other regulatory agencies to discuss aggregate results that may impact other regulated industries such as banks, securities brokers, and asset managers. Insurance regulators may also coordinate with other agencies to identify appropriate and perhaps coordinated action they may take to prevent or minimize the effect large asset sales may have on the financial markets and overall economy.

Regulatory Authority

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers and to keep the data confidential. A long-term solution was developed at the Financial Stability (EX) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the 2024 LST as well, while others may rely upon adopted revisions to their Holding Company Act.

Deleted: 2023

Confidentiality

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers identified by the scope criteria. Existing protocols for collecting confidential/sensitive data for each state and insurer were utilized. A long-term solution was developed at the Financial Stability (EX) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the 2024 LST as well, while others may rely upon adopted revisions to their Holding Company Act.

Deleted: 2023

Timeline

- December 2024 – Adopt the 2024 LST Framework.
- Regulators agreed to make no substantive changes for the 2024 LST Framework, including the Scope Criteria. Minor template revisions and Annex updates to the 2024 LST Framework document need to be finalized early in 2024 as Lead State Guidance to allow insurers adequate time to generate the 2024 LST filings in time for the June 30, 2024, filing deadline; ideally by the end of January 2024.
- June 2024 – Incorporate all appropriate Lead State Guidance into the 2024 LST Framework document as the starting place for the 2024 LST Framework and begin work on changes specific to the 2024 LST.

Deleted: 2023

Deleted: 2023

Deleted: 2023

Deleted: 2023

Deleted: 2023

Deleted: 2023

Annex 1: Original Scope Criteria with Annual Statement References

The Subgroup proposes to include in the scope of the Liquidity Stress Testing Framework any insurer/group that exceeds the following thresholds for any of the noted activities (or account balance as a proxy for that activity). The thresholds have been established taking into consideration both the account balance of the insurer/group to the total balance for the life insurance sector, as well as the aggregate account balance of insurers/groups within scope to the aggregate account balance for the life insurance sector.

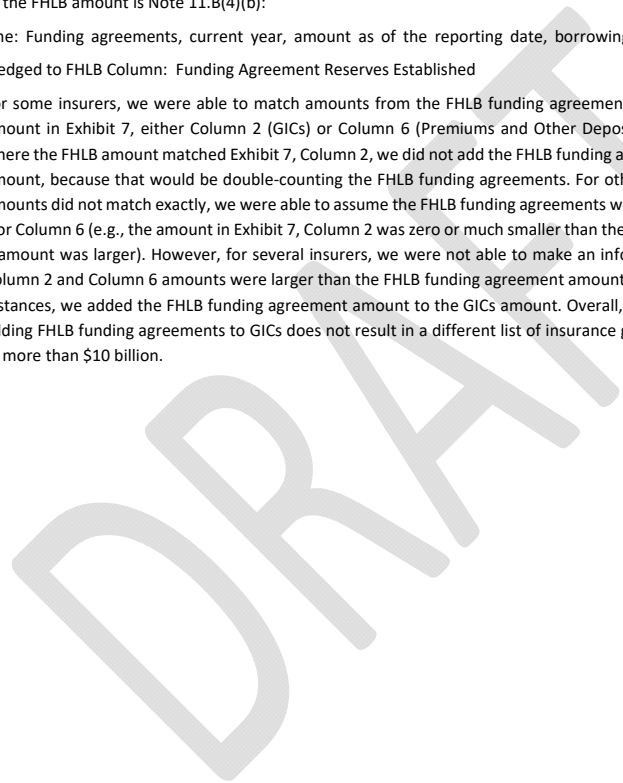
Account Balances	Threshold in \$B "greater than"	Reference to 2022 NAIC life/accident and health (A&H) annual financial statement blank
Fixed and Indexed Annuities	25	Analysis of Increase in Annuity Reserves Page: Analysis of Increase in Reserves Line: Reserves December 31, current year (15) Column: Sum of Individual Fixed Annuities, Individual Indexed Annuities, Group Fixed Annuities, and Group Indexed Annuities
Funding Agreements and GICs ⁱ	10	Deposit-Type Contracts Page: Exhibit 7 – Deposit-Type Contracts Line: 9 Column: Guaranteed Investment Contracts (Column 2) + Column: Premium and Other Deposit Funds (Column 6) IF the amount of FHLB Funding Reserves from Note 11.B(4)(b) suggests funding agreements are not reported in Column 2 of Exhibit 7 + Synthetic GICS Page: Exhibit 5 – Interrogatories Line: 7.1
Derivatives–Notional Value (absolute value)	75	Derivatives – Notional Value (absolute value) Pages: Schedule DB, Part A; Schedule DB, Part B, Section 1 Column: Notional Value (sum all)
Securities Lending	2	Securities Lending Collateral Assets Pages: Schedule DL, Part 1; Schedule DL, Part 2 Line: Total (9999999) Column: Fair Value
Repurchase Agreements	1	Repurchase Agreements Page: Notes to Financial Statement Investments Restricted Assets Line: Sum of 05L1C, 05L1D, 05L1E, 05L1F Column: Total (General Account Plus Separate Account)

Borrowed Money (includes commercial papers, letters of credit, etc.)	1	Borrowed Money Page: Liabilities Line: Borrowed Money (22) Column: Current Year
--	---	---

¹In performing the addition of the FHLB funding agreement amount to the GICs amount, NAIC staff discovered that the reporting of FHLB funding agreements is not consistent in Exhibit 7, Deposit-Type Contracts. The source of the FHLB amount is Note 11.B(4)(b):

Line: Funding agreements, current year, amount as of the reporting date, borrowing from FHLB, collateral pledged to FHLB Column: Funding Agreement Reserves Established

For some insurers, we were able to match amounts from the FHLB funding agreement footnote to the exact same amount in Exhibit 7, either Column 2 (GICs) or Column 6 (Premiums and Other Deposit Funds). For those insurers where the FHLB amount matched Exhibit 7, Column 2, we did not add the FHLB funding agreement amount to the GICs amount, because that would be double-counting the FHLB funding agreements. For other insurers, even though the amounts did not match exactly, we were able to assume the FHLB funding agreements were reported in either Column 2 or Column 6 (e.g., the amount in Exhibit 7, Column 2 was zero or much smaller than the FHLB note, while the Column 6 amount was larger). However, for several insurers, we were not able to make an informed assumption (e.g., both Column 2 and Column 6 amounts were larger than the FHLB funding agreement amount). To be conservative in these instances, we added the FHLB funding agreement amount to the GICs amount. Overall, for the \$10 billion threshold, adding FHLB funding agreements to GICs does not result in a different list of insurance groups from the list with GICs of more than \$10 billion.



Annex 2: Regulatory Prescribed Assumptions

Annex 2i. Economic and Market Variables

A. Fed reference Table A.5 Adverse Scenario

2017 CCAR Adverse Scenario

Date	Real GDP growth	Nominal GDP growth	Real disposable income growth	Nominal disposable income growth	Unemployment rate	CPI inflation rate	3-month Treasury rate	5-year Treasury yield	10-year Treasury yield	BBB corporate yield	Mortgage rate	Prime rate	Level			
													Dow Jones Total Stock Market Index	House Price Index	Commercial Real Estate Price Index	Market Volatility Index
Q1 2017	-1.5	0.9	0.7	2.4	5.2	1.8	0.1	1.7	2.3	5.6	4.7	3.3	15,960	181	291	37.1
Q2 2017	-2.8	-0.7	-0.6	1.1	5.8	1.8	0.1	1.8	2.4	5.9	4.9	3.3	15,042	179	283	32.7
Q3 2017	-2.0	0.0	-0.5	1.1	6.3	1.8	0.1	1.8	2.5	6.1	5.1	3.3	14,290	176	275	34.4
Q4 2017	-1.5	0.5	-0.5	1.2	6.8	1.8	0.1	1.9	2.5	6.2	5.2	3.2	13,982	173	267	32.0
Q1 2018	-0.5	1.4	0.2	1.9	7.1	1.8	0.1	1.9	2.6	6.0	5.2	3.2	14,367	170	259	28.5
Q2 2018	1.0	3.0	0.6	2.4	7.3	2.0	0.1	1.9	2.7	5.8	5.2	3.2	15,001	166	254	25.8
Q3 2018	1.4	3.3	1.0	2.7	7.4	2.0	0.1	2.0	2.7	5.6	5.1	3.2	15,893	163	250	23.6
Q4 2018	2.6	4.4	1.5	3.4	7.3	2.1	0.1	2.0	2.7	5.4	5.1	3.2	16,603	161	249	21.6
Q1 2019	2.6	4.3	1.6	3.5	7.2	2.1	0.1	2.0	2.7	5.2	5.0	3.2	17,519	161	249	20.1
Q2 2019	3.0	4.6	2.1	3.8	7.1	2.0	0.1	2.0	2.7	5.0	4.9	3.2	18,514	161	251	18.7
Q3 2019	3.0	4.5	2.2	3.8	7.0	2.0	0.1	2.0	2.7	4.8	4.8	3.2	19,243	162	255	18.2
Q4 2019	3.0	4.5	2.1	3.8	6.9	1.9	0.1	2.0	2.7	4.7	4.8	3.2	20,025	163	259	17.6
Q1 2020	3.0	4.5	2.0	3.5	6.8	1.8	0.1	2.0	2.7	4.5	4.7	3.2	20,867	164	262	17.3

"Adverse Scenario":
BBB corporate yield spread is 3.7% at its peak in Q4:2017 when financial conditions are generally at their most acute

Narrative: "The U.S. economy experiences a moderate recession. Real GDP falls slightly more than 2 percent from the pre-recession peak, while the unemployment rate rises steadily, peaking at about 7½ percent in the third quarter of 2018. The U.S. recession is accompanied by an initial fall in inflation through the third quarter of 2017, with the rate of increase in consumer prices then rising steadily and reaching 2 percent by the middle of 2018. Reflecting weak economic conditions, short-term interest rates in the United States fall and remain near zero for the rest of the scenario period. With the increase in term premiums, 10-year Treasury yields gradually rise to a little less than 2½ percent by the second half of 2018. Financial conditions tighten for corporations and households during the recession. Spreads between investment-grade corporate bond yields and 10-year Treasury yields widen to about 3½ percentage points by the end of 2017, while spreads between mortgage rates and 10-year Treasury yields widen to about 2½ percentage points over the same period. Asset prices decline in the adverse scenario accompanied by a rise in equity market volatility. Aggregate house prices and commercial real estate prices experience less sizable but more sustained declines compared to equity prices; house prices fall 12 percent through the first quarter of 2019 and commercial real estate prices fall 15 percent through the fourth quarter of 2018. Following the recession in the United States, real activity picks up slowly at first and then gains momentum; growth in real U.S. GDP accelerates from an increase of 1 percent at an annual rate in the second quarter of 2019 to an increase of 3 percent at an annual rate by the middle of 2019. The unemployment rate declines modestly."

Source: Federal Reserve

Source: 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule
<https://www.federalreserve.gov/publications/2017-june-dodd-frank-act-stress-test-appendix-a-supervisory-scenarios.htm>

B. Economic Variables-data deltas to apply to current levels (Including Structured)

	Inputs to Use		
	Adverse: 1 Mo	Adverse: 3 Mo	Adverse: 12 mo
Real GDP Growth	-1.5	-1.5	-1.5
Nominal GDP Growth	0.9	0.9	0.5
Real Disposable Income Growth	0.7	0.7	-0.5
Nominal Disposable Income Growth	2.4	2.4	1.2

- Use 3 month value for 1 month horizon since CCAR does not prescribe monthly values.

	Deltas to Apply		
	Adverse: 1 Mo	Adverse: 3 Mo	Adverse: 12 mo
Unemployment	0.2	0.5	2.1
CPI Inflation Rate	-0.5	-1.6	-1.6
3M Treasury	-1.3	-4.0	-4.0
3Y Treasury	-0.1	-0.2	0.2
5Y Treasury	0.0	0.0	0.2
7Y Treasury	0.0	0.1	0.5
10Y Treasury	0.1	0.2	0.6
BBB Corporate Yield	0.8	2.3	3.2
Agency MBS 10 Year Yield	0.2	0.7	2.4
Non-Agency MBS 10 Year AA Yield	0.7	2.2	8.5
CMBS 10 Year AA Yield	0.7	2.1	8.3
CLO/CDO 5.5-7 Year AA Yield	0.5	1.4	5.8
ABS -Cards 5 Year AAA Yield	0.3	1.0	4.4
ABS-Auto Near prime 3 year AAA Yield	0.4	1.1	5.3
Mortgage Rate	0.5	1.5	2.4
Prime Rate	-0.2	-0.5	-0.7
Dow Jones	-10.5%	-31.4%	-39.9%
House Price Index	-0.4%	-1.1%	-5.5%
Commercial Real Estate Price Index	-0.3%	-1.0%	-9.2%
VIX	4.9	14.6	9.5

- 1 month delta is 1/3 of 3 month value

C. 2017 CCAR Economic variable delta calculations

2017 CCAR					
	12/31/2016	Adverse: Q1	Adverse: Q4	3-Month	12-Month
1	Real GDP Growth	3.1	-1.5		
2	Nominal GDP Growth	6.1	0.9		
3	Real Disposable Income Growth	1.6	0.7		
4	Nominal Disposable Income Growth	4.5	2.4		
5	Unemployment	4.7	5.2		
6	CPI Inflation Rate	3.4	1.8		
7	3M Treasury	0.4	0.1		
8	3Y Treasury	1.3	1.2		
9	5Y Treasury	1.7	1.7		
10	7Y Treasury	2.0	2.0		
11	10Y Treasury	2.2	2.3		
12	BBB Corporate Yield	4.1	5.6		
13	Agency MBS 10 Year Yield	2.9	3.2	0.92	1.56
14	Non-Agency MBS 10 Year AA Yield	3.5	4.5	2.23	5.10
15	CMBS 10 Year AA Yield	3.6	4.7	2.35	5.29
16	CLO/CDO AA 5.5-7 Year AA Yield	3.8	4.7	2.65	5.00
16	ABS -Cards 5 Year AAA Yield	2.1	2.5	0.85	2.04
18	ABS-Auto Near prime 3 year AAA Yield	1.7	2.0	0.85	2.07
19	Mortgage Rates	3.9	4.7		
20	Prime Rate	3.5	3.3		
21	Dow Jones	\$23,277.0	\$15,960.0		
22	House Price Index	183.0	181.0		
23	Commercial Real Estate Price Index	294.0	291.0		
24	VIX	22.5	37.1		

Annex 2Iii, A

Spreads (%)
2016:Q4
Averages*
0.71
1.27
1.37
1.87
0.45
0.44

*Quarterly averages;
 Spread to treasuries

Spreads over horizon (in %)*	
3-Month	12-Month
0.92	1.56
2.23	5.10
2.35	5.29
2.65	5.00
0.85	2.04
0.85	2.07

*Spread to treasuries

DRAFT

Annex 2ii. Market Capacity Assumption**Illustrative Example only**Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a \$100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A's unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	10%	97	\$9.7 B	\$440 M
31-90 Days	20%	94	\$18.8 B	\$430 M
91-365 Days	50%	90	\$45.0 B	\$230 M

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been \$13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to \$8.0 B per day.

Since Insurer A is 5% of the market, Insurer A can only trade \$400 M per day (\$8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	\$440 M	\$400 M	(\$40 M)
31-90 Days	\$430 M	\$400 M	(\$30 M)
91-365 Days	\$230 M	\$400 M	\$0

Annex 2iii, A. Year-end Structured Spread Baseline Values

Commented [EB5]: This was modified as Lead State Guidance # 1 (March 2024)

	Q4 2016 Baseline Spreads (%)	Q4 2024 Spreads (%) Averages*
Agency MBS 10 Year Yield	0.71	1.642
Non-Agency MBS 10 Year AA Yield	1.27	2.665
CMBS 10 Year AA Yield	1.37	2.565
CLO/CDO 5.5-7 Year AA Yield	1.87	2.181
ABS -Cards 5 Year AAA Yield	0.45	0.810
ABS-Auto Near prime 3 Year AAA Yield	0.44	0.851

Deleted: 2023

*Quarterly averages;
Spread to treasuries

DRAFT

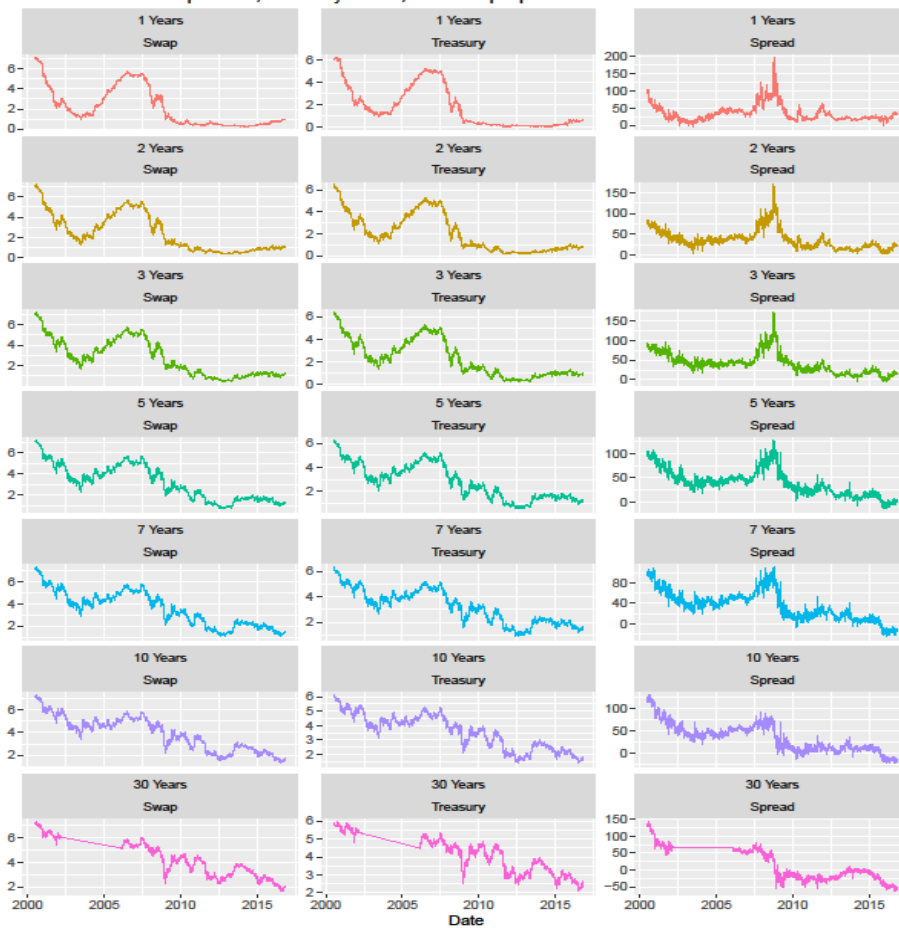
Annex 2iv. SWAP Spread Table

Maturity	Swap Spreads ^{1,2}					
	Baseline	1 Mo.	3 Mo.	6 Mo.	9 Mo.	12 Mo.
3 Mo.	X	X	X	X	X	X
5 Yr	X	X	X	X	X	X
10 Yr	X	X	X	X	X	X
20 Yr	X	X	X	X	X	X
30 Yr	X	X	X	X	X	X

1 - (Nominal) Swap Spreads (in BPS)

2 - IR Par Swap Spreads for USD, EUR, JPY, GBP, AUD and CAD

Timeseries of Swap Rates, Treasury Rates, and Swap Spreads



Spread paid by fixed-rate payer on an interest rate swap over constant maturity Treasury at the given maturities. Swap and Treasury rates from H.15 (via FRED).

Source: Federal Reserve

Annex 2v. Implied Volatility of IR Swaptions

Implied Volatility		
Implied Normal Volatility of IR Swaption by Tenor and Expiry		
Time Horizon 0		
Tenor/Expiry	3Y	7Y
3 Mo.	X	X
3Y	X	X
5Y	X	X
7Y	X	X
10Y	X	X

Annex 2vi. Credit Assumptions: Moody's Transition Matrix/Migration Rates

Commented [EB6]: This was modified as Lead State Guidance # 1 (March 2024)

Average one-year alphanumeric rating migration rates, 1983-2023

FromTo	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Cx,C	NR	Def
Aaa	87.36%	5.11%	2.16%	0.53%	0.28%	0.14%	0.02%	0.05%	0.00%	0.02%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.30%	0.00%
Aa1	1.60%	77.50%	7.79%	5.52%	1.35%	1.00%	0.20%	0.14%	0.07%	0.01%	0.03%	0.00%	0.01%	0.04%	0.02%	0.01%	0.02%	0.02%	0.00%	0.00%	5.08%	0.00%
Aa2	0.94%	4.11%	75.12%	9.59%	3.19%	1.50%	0.40%	0.08%	0.14%	0.06%	0.03%	0.01%	0.00%	0.02%	0.01%	0.02%	0.00%	0.02%	0.00%	0.00%	4.75%	0.00%
Aa3	0.14%	0.98%	4.02%	76.30%	8.53%	3.28%	0.78%	0.23%	0.23%	0.11%	0.02%	0.03%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.26%	0.04%
A1	0.04%	0.08%	0.97%	4.94%	77.86%	7.18%	2.43%	0.55%	0.38%	0.17%	0.15%	0.11%	0.04%	0.05%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	5.14%	0.06%
A2	0.05%	0.03%	0.19%	0.93%	5.72%	77.54%	6.98%	2.33%	0.89%	0.33%	0.15%	0.12%	0.14%	0.05%	0.03%	0.01%	0.02%	0.02%	0.00%	0.00%	4.44%	0.04%
A3	0.04%	0.04%	0.08%	0.26%	1.32%	6.10%	76.86%	6.55%	2.33%	0.78%	0.30%	0.13%	0.11%	0.09%	0.04%	0.02%	0.02%	0.01%	0.00%	0.01%	4.86%	0.06%
Baa1	0.01%	0.02%	0.06%	0.09%	0.19%	1.31%	6.17%	77.64%	6.27%	1.97%	0.40%	0.25%	0.18%	0.21%	0.05%	0.02%	0.04%	0.02%	0.00%	0.02%	4.88%	0.09%
Baa2	0.02%	0.02%	0.01%	0.06%	0.14%	0.51%	1.64%	6.54%	77.21%	5.85%	1.15%	0.53%	0.38%	0.27%	0.16%	0.07%	0.08%	0.01%	0.01%	0.01%	5.13%	0.16%
Baa3	0.02%	0.01%	0.02%	0.03%	0.08%	0.14%	0.39%	1.62%	8.67%	74.56%	4.46%	1.86%	0.65%	0.68%	0.22%	0.22%	0.12%	0.08%	0.05%	0.04%	6.09%	0.26%
Ba1	0.01%	0.00%	0.01%	0.01%	0.14%	0.11%	0.20%	0.59%	2.20%	10.01%	65.87%	5.53%	3.81%	1.47%	0.55%	0.48%	0.14%	0.19%	0.04%	0.11%	8.03%	0.49%
Ba2	0.00%	0.00%	0.01%	0.02%	0.06%	0.10%	0.14%	0.31%	0.63%	3.52%	7.98%	66.12%	6.19%	3.63%	1.34%	0.81%	0.33%	0.21%	0.07%	0.12%	8.60%	0.71%
Ba3	0.00%	0.01%	0.01%	0.01%	0.05%	0.14%	0.15%	0.08%	0.38%	0.77%	2.77%	7.11%	64.91%	6.91%	3.01%	1.76%	0.69%	0.36%	0.08%	0.11%	9.41%	1.25%
B1	0.01%	0.01%	0.01%	0.01%	0.04%	0.02%	0.07%	0.08%	0.17%	0.34%	0.62%	2.68%	6.97%	63.74%	6.33%	4.35%	1.31%	0.73%	0.22%	0.24%	10.28%	1.76%
B2	0.00%	0.01%	0.00%	0.01%	0.01%	0.02%	0.08%	0.11%	0.12%	0.22%	0.19%	0.62%	2.03%	7.48%	62.51%	7.96%	3.54%	1.87%	0.42%	0.44%	9.61%	2.74%
B3	0.01%	0.00%	0.02%	0.00%	0.03%	0.03%	0.05%	0.03%	0.04%	0.08%	0.13%	0.23%	0.79%	2.47%	6.48%	60.65%	7.50%	3.35%	1.07%	0.77%	12.05%	4.23%
Caa1	0.00%	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.03%	0.05%	0.10%	0.20%	0.57%	1.25%	7.55%	59.33%	9.39%	2.82%	1.24%	13.68%	3.78%
Caa2	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.00%	0.00%	0.03%	0.05%	0.03%	0.02%	0.09%	0.25%	0.71%	1.75%	6.37%	60.43%	6.61%	2.81%	14.31%	6.49%
Caa3	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.02%	0.02%	0.08%	0.18%	0.89%	2.68%	9.92%	47.02%	9.22%	14.10%	15.82%
Cx,C	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.00%	0.06%	0.11%	0.10%	0.12%	0.07%	0.35%	1.42%	1.61%	3.30%	5.98%	38.16%	19.02%	29.67%

Source: Moody's

Annex 2vii. Credit Assumptions: Moody's Default Table

Commented [EB7]: This was modified as Lead State Guidance # 1 (March 2024)

Exhibit 40

Average cumulative issuer-weighted global default rates by letter rating, 1983-2023

Rating/Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Aaa	0.00%	0.01%	0.01%	0.03%	0.06%	0.09%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Aa	0.02%	0.06%	0.11%	0.19%	0.29%	0.37%	0.46%	0.54%	0.61%	0.69%	0.77%	0.88%	0.98%	1.05%	1.12%	1.19%	1.27%	1.39%	1.56%	1.70%
A	0.05%	0.16%	0.33%	0.50%	0.71%	0.94%	1.18%	1.43%	1.67%	1.92%	2.16%	2.40%	2.64%	2.93%	3.27%	3.60%	3.91%	4.23%	4.50%	4.78%
Baa	0.17%	0.43%	0.74%	1.08%	1.43%	1.78%	2.12%	2.51%	2.91%	3.32%	3.74%	4.19%	4.69%	5.16%	5.60%	6.06%	6.55%	6.96%	7.31%	7.61%
Ba	0.89%	2.45%	4.27%	6.18%	7.96%	9.62%	11.14%	12.56%	13.95%	15.36%	16.66%	17.96%	19.14%	20.25%	21.48%	22.59%	23.56%	24.42%	25.27%	25.78%
B	3.13%	7.52%	12.09%	16.31%	20.16%	23.62%	26.68%	29.39%	31.86%	34.04%	36.01%	37.90%	39.76%	41.64%	43.25%	44.82%	46.20%	47.54%	48.78%	50.07%
Caa-C	8.95%	16.14%	22.43%	27.87%	32.64%	36.60%	39.88%	42.79%	45.49%	47.75%	49.70%	51.08%	52.14%	52.87%	53.78%	54.80%	55.41%	55.99%	56.66%	57.24%
IG	0.09%	0.24%	0.43%	0.65%	0.88%	1.12%	1.35%	1.60%	1.85%	2.10%	2.36%	2.62%	2.89%	3.17%	3.45%	3.74%	4.02%	4.29%	4.54%	4.77%
SG	4.16%	8.40%	12.46%	16.11%	19.33%	22.12%	24.52%	26.64%	28.58%	30.34%	31.92%	33.39%	34.77%	36.08%	37.36%	38.57%	39.61%	40.58%	41.50%	42.26%
All	1.69%	3.38%	4.93%	6.28%	7.44%	8.42%	9.24%	9.97%	10.63%	11.22%	11.77%	12.28%	12.77%	13.25%	13.71%	14.16%	14.57%	14.96%	15.31%	15.62%

Source: Moody's

Annex 2viii. Credit Assumptions: Moody's Recovery Rate Table

Commented [EB8]: This was modified as Lead State Guidance # 1 (March 2024)

Exhibit 9

Average debt ultimate recovery rates, 1987-2023

Debt type	Emergence year			Default year		
	2023	2022	1987-2023	2023	2022	1987-2023
Revolvers*	75.6%	94.5%	86.5%	81.2%	82.7%	86.5%
Term loans**	54.6%	73.6%	71.1%	49.1%	67.6%	71.1%
Senior secured bonds	49.2%	81.5%	61.7%	39.0%	84.5%	61.7%
Senior unsecured bonds	19.3%	40.9%	46.9%	12.4%	46.6%	46.9%
Subordinated bonds	-	-	27.9%	-	-	27.9%

The Moody's Ultimate Recovery Database primarily covers default resolutions of US nonfinancial companies. The emergence year column refers to recovery rates of companies that resolved their defaults that year regardless of when they defaulted. The default year column refers to recovery rates of companies that both defaulted and resolved their defaults in that same year.

* Includes cash revolvers and borrowing base facilities.

** Includes all types of term loans: first-, second-lien and unsecured

Source: Moody's Ultimate Recovery Database