

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

Financial Stability (E) Task Force August 12, 2025, Minutes

Macroprudential (E) Working Group July 21, 2025, Minutes (Attachment One)

## Draft Pending Adoption

Draft: 8/22/25

Financial Stability (E) Task Force  
Minneapolis, Minnesota  
August 12, 2025

The Financial Stability (E) Task Force met in Minneapolis, MN on Aug. 12, 2025. The following Task Force members participated: Justin Zimmerman, Chair (NJ); Elizabeth K. Dwyer, Vice Chair, represented by Ted Hurley and John Tudino (RI); Mark Fowler represented by Sheila Travis (AL); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by Ken Cotrone (CT); Karima M. Woods represented by Philip Barlow (DC); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen represented by Kim Cross and Carrie Mears (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Timothy J. Temple represented by Tom Travis (LA); Michael T. Caljouw represented by John Turchi (MA); Marie Grant represented by Greg Ricci (MD); Grace Arnold represented by Fred Andersen (MN); Angela L. Nelson represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Colton Schulz (ND); Eric Dunning represented by Tadd Wegner (NE); Alice T. Kane (NM); Adrienne A. Harris represented by Bob Kasinow (NY); Ned Gaines represented by Hermoliva Abejar (NV); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); TK Keen represented by Paul Throckmorton (OR); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Rachel Hemphill (TX); Scott A. White represented by Dan Bumpus (VA); and Nathan Houdek represented by Rebecca Easland (WI).

### 1. Adopted its March 17 Minutes

Schulz made a motion, seconded by Mears to adopt the Task Force's March 17 minutes (*see NAIC Proceedings – Spring 2025, Financial Stability (E) Task Force*). The motion passed unanimously.

### 2. Heard an Update on the FSOC

Ethan Sonnichsen (NAIC) provided an update on behalf of Director Dwyer on the activities of the Financial Stability Oversight Council (FSOC). Sonnichsen began by highlighting the significant turnover in FSOC membership following the change in administration. Sonnichsen explained that Tom Workman, the independent FSOC member with insurance expertise, was the only voting member who had not yet rotated off FSOC, although his term was expected to end in the coming months. This shift has left Director Dwyer, with three and a half years of service, as one of the most senior members of FSOC, alongside several state representatives.

Sonnichsen reported that FSOC had met twice since the Task Force last convened: once shortly after the Spring National Meeting and again on June 4. At his first meeting as chair, U.S. Treasury Secretary Scott Bessent outlined his vision for FSOC, emphasizing the need to enhance member agencies' supervisory and regulatory frameworks, position banks and other regulated entities to foster innovation and economic growth, and refocus supervisory attention on material financial risks. Sonnichsen also voiced support for the banking agencies' ongoing efforts to remove reputational risk as a justification for supervisory criticism.

FSOC then turned to several reports and presentations from member agencies. These included updates on developments in the Treasury market, progress on the U.S. Securities and Exchange Commission's (SEC's) central clearing rule, data collection efforts by the Office of Financial Research (OFR) on repo transactions, and the Federal Reserve's work in monitoring cyber incidents and promoting interagency coordination on cybersecurity vulnerabilities. Most relevant to the insurance sector, Director Dwyer and other state representatives presented an analysis of the homeowners insurance market, focusing on the impacts of recent natural disasters and the broader implications for the housing market and the financial system.

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During its June 4 meeting, FSOC also: 1) discussed agency efforts to strengthen bank supervision of material risks; 2) received a series of updates on digital assets, including briefings from the President Trump's Working Group on Digital Assets and progress reports from the SEC and the Commodity Futures Trading Commission (CFTC); and 3) considered developments in commercial real estate, which showed general stabilization across most sectors with continuing challenges in the office and multifamily segments. FSOC members further reviewed trends in corporate credit, noting the rapid expansion of private credit across the financial system, including within the insurance industry. While corporate fundamentals remain broadly sound, firms with lower ratings, higher leverage, and larger shares of floating-rate debt are more vulnerable to financial stress. Members considered both the opportunities and the potential vulnerabilities associated with private credit, agreeing that continued monitoring is warranted.

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

Kasinow delivered a comprehensive update on the recent activities of the Macroprudential (E) Working Group. Kasinow reported that the Working Group met July 21 to initiate discussions on funding agreement-backed note (FABN) activity in which life insurance groups are increasingly engaged. During that meeting, the Working Group reviewed: 1) the process flows associated with FABN issuances; 2) the different types of notes, including those denominated in foreign currencies, 3) the risks inherent in the structures; and 4) the reporting of such activity. NAIC staff presented their understanding of FABN transactions, and the American Council of Life Insurers (ACLI) offered a presentation confirming this understanding while providing additional background on the genesis and purpose of the product. Kasinow explained that further meetings will be scheduled to continue this dialogue with interested parties.

Kasinow then turned to the subject of liquidity stress testing (LST). He noted that filings were due on June 30, and although there were a few late submissions, nearly all companies had filed. As of the preceding week, one filing remained outstanding. The NAIC is in the process of aggregating and analyzing the submissions and expects to present a report to the Working Group in late September and subsequently to the Task Force at the Fall National Meeting. In addition, the Working Group will meet in the fall to review the LST guidance manual and consider whether adjustments to the required stress scenarios and assumptions are appropriate.

Kasinow also summarized the Working Group's ongoing work related to reinsurance. Members participated in a two-part educational series on cross-border reinsurance, which explored reporting requirements, transaction structures such as modified coinsurance and funds-withheld arrangements, accounting treatment, the role of sidecars, and risk-based capital (RBC) considerations. The Working Group will continue coordinating with the Task Force and other related groups to ensure appropriate monitoring of cross-border activity. Finally, members were reminded that dashboards on counterparty exposures and climate-affected investments are available to state insurance regulators on StateNet and will be migrated to NAIC Connect. Kasinow emphasized that these dashboards can serve as valuable tools for both financial analysis and examination work.

Wegner made a motion, seconded by Easland to adopt the report of Macroprudential (E) Working Group, including its July 21 minutes (Attachment One). The motion passed unanimously.

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

Andersen reported on recent developments concerning principle-based reserving (PBR) and asset adequacy analysis. He noted that asset adequacy analysis is designed to determine whether life insurers hold sufficient reserves to pay future claims under a range of economic scenarios. Andersen explained that over the past several years, the Working Group has focused on special areas of concern that have led to the development of new actuarial guidelines.

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Andersen first discussed *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), which deals with the adequacy of long-term care (LTC) reserves. Andersen stated that since AG 51 was adopted, roughly 45 companies each year have provided reports, allowing state insurance regulators to prioritize firms for review based on their exposure. The guideline has helped regulators better understand LTC reserve adequacy and solvency issues, including concerns about policy persistency, the impact of low interest rates on investment returns, and morbidity assumptions at older ages.

Andersen next described *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), adopted in 2022, which addressed the increasing use of complex assets to support life insurer liabilities. AG 53 enhanced transparency around assumptions used in cash-flow testing, particularly with respect to net yields, reinsurance collectability, and structured asset tranches. Andersen stressed the importance of preventing companies from assuming excessive yields without corresponding recognition of potential losses and noted that regulators continue to engage with companies and domestic regulators to ensure assumptions are reasonable.

Finally, Andersen reported on *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55), adopted by the Life Insurance and Annuities (A) Committee in June and scheduled for consideration by the Executive (EX) Committee and Plenary. AG 55 was developed in response to concerns that consumer protections inherent in asset adequacy analysis were being lost following certain reinsurance transactions. The guideline requires ceding companies to continue performing adequacy analyses in these circumstances. Assuming final adoption, the first filings under AG 55 will be due April 1, 2026. Andersen emphasized that AG 55 is a disclosure-only requirement; while it may not yield significant findings, if widespread issues are identified, the Working Group has committed to reopening public discussion at NAIC sessions.

### 5. Heard an International Update

Tim Nauheimer (NAIC) provided an update on international macroprudential activities. Nauheimer explained that the International Association of Insurance Supervisors (IAIS) has been preparing its annual Global Monitoring Exercise (GME). The mid-year *Global Insurance Market Report* (GIMAR) was released earlier this summer, with the year-end GIMAR scheduled for December. The main themes of this year's report include geoeconomic fragmentation, the rise of private credit, the growing use of artificial intelligence (AI), and continued focus on cyber- and climate-related risks. The IAIS also intends to release a special report on the financial stability implications of natural catastrophe protection gaps.

Nauheimer noted that the NAIC completed the U.S. portion of the sector-wide monitoring (SWM) exercise, which included aggregate industry data, a qualitative risk assessment, a climate component, and reinsurance data. Nauheimer added that the SWM includes a feedback loop through which jurisdictions report on how they are addressing the identified risk themes. Input from the Task Force and Macroprudential (E) Working Group has been incorporated into the U.S. response.

Nauheimer reported that the IAIS Macroprudential Monitoring Working Group met in April to plan this year's work and review public comments on the GME's ancillary indicators. The group continues to review its assessment methodology, with updates expected in 2025 for application in 2026. The IAIS Macroprudential Supervision Working Group is also active, working through more than 500 comments on its consultation paper addressing structural shifts in the life insurance sector, with a goal of publishing the final issues paper in the fourth quarter of 2025. Nauheimer recognized the leadership of Iowa state insurance regulators Mears and Kevin Clark, noting Mears' role as vice chair of the group. Nauheimer also mentioned that in April, the IAIS Climate Risk Steering

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Group published its application paper on the supervision of climate-related risks in the insurance sector, which provides guidance on the application of Insurance Core Principles (ICPs) to climate-related risks.

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

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Macroprudential (E) Working Group  
Virtual Meeting  
July 21, 2025

The Macroprudential (E) Working Group of the Financial Stability (E) Task Force met July 21, 2025. The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis and Ken Cotrone (CT); Philip Barlow (DC); Rylynn Brown (DE); Carolyn Morgan (FL); Lynn Beckner (MD); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Anthony Quandt (NE); Jennifer Li (NH); Paul Lupo (NJ); Ted Hurley (RI); Rachel Hemphill and Jamie Walker (TX); Greg Chew and Dan Bumpus (VA); and Aaron Kenseth (WI).

1. Heard Opening Remarks

Kasinow introduced the topic of funding agreement-backed notes (FABNs), noting the significant growth in FABN activity and the Working Group's focus on assessing potential macroprudential implications. He emphasized the importance of improving transparency and data collection, as current information is incomplete.

2. Heard a Presentation on FABNs

Tim Nauheimer (NAIC) provided an update on the volume of FABN activity, market status, regulatory concerns, and associated risks. He reported that FABN outstanding volume increased from \$217 billion at year-end 2024 to \$239 billion in the first quarter of 2025, reflecting an 18% growth rate from 2023 to 2024 and a further 10% increase in the first quarter of 2025. Nauheimer noted discrepancies between data sources, as the Federal Reserve reported \$217 billion outstanding at year-end 2024, while Bloomberg reported \$135 billion for the same period. He further observed that foreign-currency-denominated FABNs were significantly underreported by the Federal Reserve, which showed \$357 million compared to Bloomberg's \$48 billion.

Nauheimer then explained the structure of FABNs. He said life insurers issue funding agreements to special purpose vehicles (SPVs), which in turn issue FABNs to institutional investors. Proceeds are returned to the insurer for investment, creating spread-based business, with FABNs typically purchased by money market funds, asset managers, and other institutional investors. He highlighted potential risks associated with these arrangements, including liquidity risk if FABNs contained embedded options that allowed investors to demand repayment unexpectedly, asset-liability matching risk if FABN maturities did not align with funding agreements and related investments, and credit risk from the use of derivatives to hedge foreign currency exposure.

Nauheimer emphasized that although no outsized risk has been identified to date, the lack of granular statutory reporting limits regulatory visibility. He also noted that FABNs combined with Federal Home Loan Bank (FHLB) advances represent approximately \$400 billion in obligations, equivalent to about 10% of invested assets and 106% of capital and surplus for companies engaged in these activities. He contrasted the limited disclosure of FABNs with the detailed statutory reporting available for FHLB advances. Nauheimer concluded by stating that the NAIC is considering options to improve transparency through enhanced reporting and disclosure and that the Working Group will continue discussions with industry on this issue.

3. Heard Comments from the ACLI and Industry on the FABN Presentation

Marc Altschull (American Council of Life Insurers—ACLI) provided an industry perspective on FABNs and addressed points raised in the NAIC presentation. He explained that FABNs allow insurers to meet institutional investor demand for high-quality, fixed-income securities while generating spread-based earnings. These instruments

convert non-tradable funding agreements into marketable securities with secondary market liquidity and pricing transparency.

Altschull emphasized that funding agreements are insurance contracts approved by state regulators and recorded as general account liabilities, rather than corporate debt. He said FABNs are considered operational leverage rather than financial leverage because the proceeds are used to back insurance obligations rather than for general corporate purposes. State insurance laws treat funding agreements as obligations equal to other general account liabilities.

Altschull noted that FABNs and the underlying funding agreements are match-rated and match-funded, with terms aligned to minimize mismatch risk. Currently, FABNs in the market do not contain embedded put options, although such features have existed historically. If reintroduced, any optionality would be fully disclosed. Foreign currency exposure is managed through derivative hedging, primarily using foreign exchange swaps, and these arrangements are subject to robust risk management practices. Altschull underscored that insurers apply asset-liability management processes, cash flow testing, and statutory asset adequacy analysis to FABNs like other liabilities.

Altschull reiterated that insurers' contractual obligation is to the SPV that holds the funding agreement rather than directly to FABN holders. He stated that FABNs expand insurers' ability to diversify funding sources without introducing additional policyholder risk. He said the ACLI is committed to providing written responses to the NAIC's questions regarding FABN programs, risk controls, and disclosure practices. He also expressed the ACLI's willingness to work with regulators on potential transparency enhancements.

Having no further business, the Macroprudential (E) Working Group adjourned.

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