Draft date: 10/31/24

2024 Fall National Meeting
Denver, Colorado

FINANCIAL CONDITION (E) COMMITTEE
Tuesday, November 19, 2024
8:00 – 9:00 a.m.
Gaylord Rockies Hotel—Aurora Ballroom A—Level 2

ROLL CALL

Nathan Houdek, Chair	Wisconsin	Mike Chaney	Mississippi
Michael Wise, Co-Vice Chair	South Carolina	Chlora Lindley-Myers	Missouri
Cassie Brown, Co-Vice Chair	Texas	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
Holly W. Lambert	Indiana	Judith L. French	Ohio
Doug Ommen	Iowa	Elizabeth Kelleher Dwyer	Rhode Island
Vicki Schmidt	Kansas	Scott A. White	Virginia
Michael T. Caljouw	Massachusetts		

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

AGENDA

1. Consider Adoption of its Oct. 24, Aug. 29, and Summer National Meeting Minutes—*Commissioner Nathan Houdek (WI)* — Attachment One

2. Consider Adoption of its Task Force and Working Group Reports —*Commissioner Nathan Houdek (WI)*
   A. Accounting Practices and Procedures (E) Task Force — Attachment Two
   B. Capital Adequacy (E) Task Force — Attachment Three
   C. Examination Oversight (E) Task Force — Attachment Four
   D. Financial Stability (E) Task Force — Attachment Five
   E. Receivership and Insolvency (E) Task Force — Attachment Six
   F. Reinsurance (E) Task Force — Attachment Seven
   G. Valuation of Securities (E) Task Force — Attachment Eight
   H. NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group — Attachment Nine
   I. National Treatment and Coordination (E) Working Group — Attachment Ten
   J. Restructuring Mechanisms (E) Working Group — Attachment Eleven
   K. Risk-Focused Surveillance (E) Working Group — Attachment Twelve

3. Consider Adoption of Qualified Jurisdictions and Reciprocal Jurisdictions —*Robert Wake* (ME) — Attachment Thirteen

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4. Receive a Status Report on the Draft Reinsurance Asset Adequacy Actuarial Guideline—*Fred Andersen (MN)*

5. Receive a Status Report from the Valuation of Securities (E) Task Force —*Kenneth Cotrone (CT)*

6. Receive a Status Report from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*

7. Discuss Any Other Matters Brought Before the Committee —*Commissioner Nathan Houdek (WI)*

8. Adjournment

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Draft: 10/29/24

Financial Condition (E) Committee
Virtual Meeting
October 24, 2024

The Financial Condition (E) Committee met Oct. 24, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway represented by Rolf Kaumann (CO); Doug Ommen and Carrie Mears (IA); Holly W. Lambert and Roy Eft (IN); Vicki Schmidt represented by Justin McFarland (KS); Kevin P. Beagan (MA); Chlora Lindley-Myers and John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman represented by Nakia Reid (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Elizabeth Kelleher Dwyer represented by John Tudino (RI); and Scott A. White represented by Doug Stolte (VA).

1. Adopted its 2025 Proposed Charges

Commissioner Houdek stated the Committee had exposed its 2025 proposed charges for comment in September and received two comment letters. The first letter was from the American Council of Life Insurers (ACLI) (Attachment One-A), and the second was from Athene (Attachment One-B). Commissioner Houdek said the ACLI comment letter was generally supportive and indicated that the charges reflect the NAIC's stated commitment to promoting coordination with regulators who are working on related issues in different groups, specifically reinsurance. The Athene comment letter suggested a charge be added to address the Committee's work on the Investment Framework. Commissioner Houdek said that language has since been added to address the comment from Athene. Carrie Haughawout (ACLI) stated the ALCI had no additional comments and thanked the Committee for including their comments in the materials. Michael Consedine (Athene) said the added language seemed appropriate given the significant level of commitment and resources the NAIC has dedicated to the framework and the potential it creates for long-term improvement to risk-based capital (RBC) and to the sector at large, as it represents a real opportunity for the NAIC to demonstrate international leadership in an important area. He noted that the language developed appropriately reflects Athene's supportive stance.

Commissioner Ommen made a motion, seconded by Walker, to adopt the Task Force's 2025 proposed charges (Attachment One-C). The motion passed unanimously.

2. Discussed Comments on the Draft RFP

Commissioner Houdek directed the Committee to the draft request for proposal (RFP) that had been exposed for comment by the Committee at the Summer National Meeting. The RFP is for engaging a consultant to design and help implement a new process under which the NAIC would develop a due diligence program over the ongoing use of credit rating providers (CRPs). Commissioner Houdek thanked all parties that commented, including ACLI, Anderson Insights, Bridgeway Analytics, National Association of Mutual Insurance Companies (NAMIC)/American Property Casualty Insurance Association (APCIA), Kroll Bond Rating Agency (KBRA), and Moody's Ratings (Attachment One-D). He directed attendees to review changes that were made to incorporate the suggestions from interested parties. He thanked the Investment Framework Drafting Group, which reviewed the comments and developed the modifications to the RFP and noted that Carrie Mears (IA) is the lead of the drafting group.

Amnon Levy (Bridgeway Analytics) emphasized certain aspects of Bridgeway Analytics' comments that he felt were worth highlighting. He noted its comments are extremely technical, and there are sometimes misconceptions about how different agencies could be compared and how their products could be quantitatively assessed. He also emphasized the amount of effort it often takes to manage some of these processes. He also noted that certain

jurisdictions in the European Union (EU) discourage the use of agency ratings and rely on internal models instead, which comes with a significant cost, often exceeding hundreds of millions of dollars per year per institution. Regarding the quantitative aspect of the proposal, Levy encouraged the Committee to structure the initiative to assess and compare the prudence of different rating agencies and to design an effective governance framework. He also encouraged the Committee to consider what could be measured and use that as a foundation for building the quantitative oversight framework.

Commissioner Houdek stated since the Committee members were not opposed to any of the changes, he would present the revised RFP to the Executive (EX) Committee at the Fall National Meeting and, assuming they approve, the RFP would likely be made public for bidding after the Fall National Meeting. He said those interested in bidding on the RFP to send their information to Dan Daveline (NAIC) at ddaveline@naic.org.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_3Fall/Fall National Meeting Materials/102424 E Minutes.docx

Draft: 9/29/24

Financial Condition (E) Committee
Virtual Meeting
August 29, 2024

The Financial Condition (E) Committee met Aug. 29, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair represented by Jamie Walker (TX); Michael Conway (CO); Doug Ommen and Carrie Mears (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan represented by John Turchi (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dwight Radel (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White (VA).

1. Adopted Amendments to the P&P Manual to Provide Regulator Discretion Over NAIC Designations Assigned Through the Filing Exemption Process

Commissioner Houdek noted that the Valuation of Securities (E) Task Force adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) at the Summer National Meeting which the Task Force had been discussing for over a year. The proposed amendments provide regulators with discretion over securities that otherwise are exempt from filing with the NAIC Securities Valuation Office (SVO).

Mears discussed that the proposal was tied to the second item within the Investment Framework that has been discussed by the Committee over the past year. That item deals with the usage of credit rating providers and provides that regulators should retain the ability to require that insurers submit certain securities to the SVO for individualized credit assessments and utilize regulatory discretion when needed under well-documented and governed parameters. This backstop should be embedded in the regulatory regime but ideally would be rarely used if other governance is optimized. The other governance referred to in the Investment Framework is the implementation of a broader due diligence framework around credit rating providers, and a draft request for proposal (RFP) has been exposed for comment by the Committee.

Mears described how the proposed amendments to the P&P Manual underwent three iterations of exposure and comments. The Task Force received constructive comments at each state of deliberation. Proposed changes to address many of the comments were incorporated into the proposed amendments, while the Task Force provided responses to other comments that did not result in changes.

Mears highlighted some of the more noteworthy changes that were incorporated into the iterations. First, the Task Force strengthened some specific language around the regulatory oversight of the proposed process to ensure that it is clear that a subgroup of regulators will have the ultimate authority over the outcome of any given challenge. The Task Force also strengthened language regarding the expected involvement of the domiciliary regulator if they are not already part of the subgroup.

Second, the Task Force made updates to ensure clarity regarding the open dialogue expected between the insurer and the SVO, which would be performing the security level analysis. It is recognized that in many cases, more information may simply be what is needed, particularly for some private transactions, which in general can have less transparency, and the receipt of such information could result in no further action being taken. With this change, regulators asked to ensure clarity on proper feedback on the issue and what kind of information could be submitted to address the issue.

Third, language was added to clarify the anticipated frequency of the tool being used. Mears noted that given the number of steps involved in the process, it would be impossible to use this process often because the NAIC does not have enough resources. Also, given the anticipated diligence framework initiative by the Committee, this proposed amendment to the P&P Manual serves as a backstop for a broader proposed diligence process to be developed in the future.

Fourth, there were language changes implemented to clarify that the insurer may involve any authorized party in the discussion, which includes, but is not limited to, the credit rating provider. Mears noted that at the Summer National Meeting, the Task Force not only permitted the involvement of a credit rating provider from an insurer for a full discussion but absolutely encouraged it. However, as also discussed at the Summer National Meeting, the Task Force was unable to require the involvement of the credit rating provider, or even notification to the credit rating provider of a regulatory action being taken with the insurer, as the communication is confidential under the examination authority.

Mears acknowledged that although the request for notification seems reasonable, it could easily run afoul of confidentiality requirements, as the issue might be comingled with other regulatory issues. There also may be instances where information is gathered and conversations occur among regulators, but no further action taken, which occurs often with regulatory procedures. In these situations, sharing information may create undue market disruption, which has been a primary concern among market participants. However, regulators fully understand credit rating providers' concerns about visibility into the process around their provided ratings and that is why the insurer is allowed, and encouraged, to involve the credit rating provider in the process.

Mears noted there were several other edits that were made through the process, as well as the different iterations, and stated her appreciation for all the hard work, engagement, and suggested changes from members of the industry, which made the proposed amendments to the P&P Manual better. Mears stated it would take some time to implement the proposed amendments once adopted by the NAIC; therefore, the current proposed effective date of Jan. 1, 2026, is open for further change.

Director Wise asked about the process for anonymization to make sure nothing could be reverse engineered. Mears responded that this was something brought up by the Task Force, and the industry was asked to provide examples of a real-life transaction that was not confidential so that the Task Force could do some additional work with the industry. Mears noted there is a need for some transparency but, at the same time, confidentiality will be important. Mike Monahan (American Council of Life Insurers—ACLI) noted that the proposal before the Committee is not for NAIC discretion but rather for regulators' discretion conducted by the SVO. Monahan stated that the ACLI appreciates all of the work and collaboration, noting the Task Force had accepted all of its technical comments, and the ACLI suggests action at this meeting.

Jason Rapert (Egan-Jones) said he appreciates the Committee moving this proposal from the Summer National Meeting agenda to a separate meeting for the Committee to consider. He stated that he knows more discussion has been occurring among some of the commissioners in the country. He also stated his appreciation for Commissioner Ommen and Mears for their help over the last several months. Rapert stated the last remaining item for the Committee to consider is adding this sentence: "So as to ensure that regulators have all of the necessary information to evaluate the security, the credit committee shall also notify the relative credit rating provider(s) of the review and subject to the appropriate confidentiality restrictions permit them to participate in the process to explain the rating analysis and review." He stated that as having served in the state legislature and as a former president of the National Conference of Insurance Legislators (NCOIL), this P&P Manual is through a non-governmental organization, which is the NAIC, and he believes it is absolutely within the NAIC's responsibility and authority to include a credit rating agency in this important aspect of a review. He stated that credit rating

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agencies accede to a high level of confidentiality, and there could be a situation where a credit rating is undermined or questioned, and it should be allowed to stand to defend that.

He stated that while the NAIC is close, some commissioners have responded that they have heard from others about this very issue, and as articulated by the NCOIL President Tom Oliverson of Texas, they are extremely interested in this amendment. Insurance regulators do a wonderful job and having worked with many of them over the years, Rapert said he appreciates the pause to consider this. However, he said out of transparency, openness, and extreme due diligence, the Committee needs to make sure the credit rating providers are included in this review instead of simply encouraging insurers to allow them to be included. He stated that he hopes insurers do this, but that if he were a regulator, he would absolutely want to know the perspective of the credit rating provider that issued the rating. Rapert specifically requested the Committee consider the sentence he proposed but noted that there is no rush in this situation. He requested that if the Committee cannot incorporate this one sentence, the proposal be held and discussed further. Rapert stated that his last comment would be that he hoped someone on the Committee would feel led to make a motion for a substitute amendment or substitute motion for an amendment to include this sentence.

Commissioner Houdek responded that he appreciated the request and that this was an issue that has been discussed over the many months that the proposal has been reviewed, and some of the Mears's remarks addressed this issue and why the Committee is not able to include that language, given the limitations of its regulatory authority. Specifically, the NAIC does not regulate the credit rating providers, and there are concerns with providing confidential information to the credit rating providers directly. Mears noted that she understood the request and the reasoning for it but agreed with the point made by Commissioner Houdek. State regulators cannot require the insurer to involve a third party, and there are enough mitigating factors, including this proposal being part of a bigger picture of how regulators utilize credit rating providers. The due diligence process will be developed under an RFP, as previously exposed for comment by the Committee, and this could be where such communication and transparency occur.

Rapert responded that he appreciated the wrestling that is occurring and noted that this is a process being conducted by the NAIC SVO office, which is a non-governmental entity, which in and of itself has no statutory authority. Its only authority is from the office of the commissioners in each of the states. He said the Committee is noting the heart of the issue, which is that it does not have regulatory authority over the credit rating providers, and this has been a concern from the beginning. However, credit rating providers, including Egan-Jones, have represented as consultants, and they are happy to ascent to this, but they should have a seat at the table. He said he does not see the rationale. However, to protect their reputation, the credit rating providers are willing to assent to any confidentiality because they have a reputational risk associated with this process.

Commissioner Ommen asked Rapert that from a practical perspective, given state regulator authority is over the insurer and, therefore, its investment, why an insurer would not bring a credit rating organization into the discussion at their option. Commissioner Ommen repeated that the insurer is to whom their regulatory authority applies. Rapert stated appreciation to Commissioner Ommen but noted its possible the insurer may not want to go through the process of defending a rating, particularly if it is a relatively small portion of their overall investment portfolio, which often is the case. This creates due process issues, and more information is always better. He reiterated his suggestion to insert the sentence into the amendment proposal. He reiterated that this process should not be used since credit rating providers are regulated by the U.S. Securities and Exchange Commission (SEC).

Commissioner Houdek stated he appreciates both Commissioner Ommen and Rapert and said he believes there is a disagreement on this issue. However, once the process is implemented, regulators can address issues that have become known. Birny Birnbaum (Center for Economic Justice) stated disagreement with Rapert and

explained how the NAIC uses a process of working through the regulated entity for a variety of purposes, including if an insurance company comes in with a rate filing that relies on a third-party model. The state goes through the insurance company to seek a review of that third-party model. Birnbaum also noted they would be concerned if the NAIC was being used to shield state regulators from their particular legal and statutory responsibilities. It seems bizarre for a state to use the NAIC to circumvent the state confidentiality requirement. He stated his support for the proposal as written.

Mears made a motion, seconded by Commissioner White, to adopt the proposed changes to the P&P Manual (Attachment One-B1). The motion passed unanimously.

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

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Draft: 8/20/24

Financial Condition (E) Committee
Chicago, Illinois
August 15, 2024

The Financial Condition (E) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway (CO); Doug Ommen and Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt (KS); Kevin P. Beagan represented by John Turchi (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Chad Bridges (MS); Justin Zimmerman represented by John Sirovetz (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Dwight Radel and Tom Botsko (OH); Elizabeth Kelleher Dwyer and John Tudino (RI); and Scott A. White and Doug Stolte (VA).

1. Adopted its Aug. 2, June 12, and Spring National Meeting Minutes

The Committee met Aug. 2, June 12, and March 15. During its Aug. 2 meeting, the Committee adopted risk-based capital (RBC) proposal 2024-20-CR-MOD. During its June 12 meeting, the Committee discussed and exposed RBC proposal 2024-20-CR and discussed RBC proposal 2023-17-23.

The Committee also met July 15 with representatives of the Federal Insurance Office in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Kasinow, to adopt the Committee's Aug. 2 (Attachment One), June 12 (Attachment Two), and March 15 (*see NAIC Proceedings – Spring 2024, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

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

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

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

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met Aug. 12, July 10, June 26, June 6, June 3, May 8, and May 7 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group

met Aug. 12, May 10, and April 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies. The Group Solvency Issues (E) Working Group met July 15 and March 20 in regulator-to regulator session, pursuant to paragraph 8 (strategic planning issues related to international regulatory matters) of the NAIC Policy Statement on Open Meetings.

Walker made a motion, seconded by Eft, that with the exception of the proposed Securities Valuation Office (SVO) discretion policy adopted by the Valuation of Securities (E) Task Force, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; National Treatment and Coordination (E) Working Group (Attachment Three); and Risk-Focused Surveillance (E) Working Group (Attachment Four). Commissioner Houdek noted that the proposed SVO discretion policy would be considered by the Committee during a meeting subsequent to the Summer National Meeting. The motion passed unanimously.

3. <u>Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group</u>

Botsko reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group heard an update from the American Academy of Actuaries (Academy) on its work toward developing a methodology for addressing collateralized loan obligations (CLOs). He noted that the Working Group had previously asked the Academy for support in creating an RBC framework for asset-backed securities (ABS). In connection with that, the Academy presented a list of six principles that would guide their work, and the Working Group supports these principles. The Academy is now working to identify a set of comparable attributes that can be used to segregate CLOs into risk buckets. Botsko noted that the Academy would likely identify different sets of comparable attributes for debt tranches versus residual tranches, and the Academy expects to present its findings in early 2025 on the CLOs. Subsequent to that, the Working Group is expected to make decisions on comparable attributes for the CLOs, and then ultimately, the Academy will develop factors and extend from CLOs to other ABS. Botsko noted that there was a slight delay in this timeline from the original estimates due to some data issues, and this is the reason the initial work by the Academy won't be ready by year-end as originally estimated.

4. <u>Received an Update from the Valuation of Securities (E) Task Force</u>

Mears reported that since the Spring National Meeting, the Valuation of Securities (E) Task Force adopted a host of administrative updates and finalized a definition of an NAIC designation. Regarding the proposed SVO discretion proposal, the Task Force adopted it after a multitude of exposure drafts, comments, and engagement with interested parties. Mears thanked all the commenters and all who were engaged in the process. Mears noted that hearing all the concerns and enhancements allowed the Task Force to incorporate many suggestions. Mears stated that the proposed SVO discretion proposal was unanimously adopted by the Task Force at this national meeting. Mears also reported that the Task Force heard an update on the CLO modeling process and how that was being aligned with the work from the Academy in terms of actual methodology and modeling procedures. She noted that the Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group would likely continue to hear updates that demonstrate the two workstreams are aligned on CLO work. Commissioner Houdek stated appreciation to Mears and the Task Force and all engaged parties for the work in finalizing the SVO discretion proposal.

5. <u>Exposed a Draft RFP for Assistance with the Due Diligence Process of Rating Agencies</u>

Commissioner Houdek reminded the Committee that at the Spring National Meeting, he highlighted a memorandum that he presented to the Executive (EX) Committee. The memorandum requested approval to start

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working on a request for proposal (RFP) to hire a consultant who would assist in developing a strong due diligence framework in its retention and ongoing utilization of credit rating providers. He stated that included in the materials was a draft RFP, and the Committee would like to provide all interested parties the opportunity to offer input and feedback. He directed meeting participants to the cover memo of the draft RFP, which asks a number of questions in order to receive specific input that will help make the product better. Commissioner Houdek suggested the Committee expose the RFP and cover memo (Attachment Five) for a 60-day comment period ending Oct. 14. The Committee agreed.

6. Exposed a Revised Investment Framework and Related Documents

Commissioner Houdek said that included in the materials was a memorandum summarizing the Investment Framework Drafting Group's responses to the comments received on the prior exposure of the investment framework. Also included was a revised investment framework and revised investment framework work plan. Finally, a chart was also included that summarizes ongoing work related to the investment framework.

Mears noted that most of the updates to the documents were minor and included, for example, simply updating the documents to remove the factors that led to the creation of the framework and replacing them with some of the principles that have been discussed in prior drafts. Therefore, the language is not new, but the updates ensure those points are reflected in the investment framework. She noted that the investment framework is not yet in its final form but is closer, and what is more relevant now is the investment framework work plan, which has been updated to include the status of the draft RFP. Mears also noted that originally the work plan included little on RBC and still does not include a great deal, but the language has been updated to be more current, and future recommendations will be included.

Mears noted that the Committee welcomes comments in line with the open and deliberative process, and it is open to several comment periods. She also noted that part of the process is for the Committee to continue to receive updates from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group and the Valuation of Securities (E) Task Force.

The Committee agreed to expose the revised investment framework documents (Attachment Six) for a 60-day public comment period ending Oct. 14.

7. Heard a Federal Update from NAIC Staff on Basel III

Shana Oppenheim (NAIC) provided an update on the federal activities related to Basel III. She noted that the recent Basel III endgame proposal has significant implications for the insurance industry. U.S. federal banking regulators, including the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve, issued a proposed rule in July 2023 to revise large bank capital requirements. This proposal targets banks with $100 billion or more in assets and signals a shift away from tailored regulations, applying a consistent set of requirements across the board. For insurance, the impact is profound. Banks will be required to hold more capital for owning life insurance policies from non-publicly traded insurers, severely impacting the bank-owned life insurance (BOLI) market. This change threatens banks' ability to provide vital employee benefits. Additionally, the increased costs associated with hedging will require life insurers to tie up more capital in the futures and derivatives markets. These changes could restrict life insurers' ability to manage risk effectively and may result in less innovative products for consumers.

Capitol Hill has raised several concerns about the proposal, particularly its lack of economic analysis, transparency, and the potential for U.S. institutions to be disadvantaged compared to their European counterparts. The proposal, based on an agreement among U.S. and global regulators, was never submitted to the U.S. Senate or formally approved by the OCC, FDIC, and Federal Reserve. This lack of transparency has led to bipartisan concerns

and numerous hearings. In March 2024, Federal Reserve Chair Jerome Powell informed Congress that "broad and material changes" to the proposal were forthcoming. Further, Republicans on both the Senate Banking and House Financial Services committees have called for a full re-proposal, arguing that significant changes without a new comment period would violate the Administrative Procedure Act (APA). Powell has expressed openness to this idea, prioritizing accuracy over speed. The process is further complicated by the requirement that all three banking agencies must agree on the proposal. The FDIC's leadership is in flux, with Chair Martin J. Gruenberg announcing his resignation once the Senate confirms his successor. As Nov. 5 approaches, the Senate Banking Committee's delayed vote on President Biden's nominee, Christy Romero, adds uncertainty to the FDIC's future leadership. Looking ahead, if Republicans regain the White House, this proposal will be scrapped entirely. If Democrats retain the White House, finalization on a scaled-back proposal is expected in early 2025, with implementation easing in at the beginning of 2026.

8. <u>Heard a Presentation from BlackRock on Commercial Mortgages</u>

Dan Harnick (BlackRock) stated his appreciation for partnering with the NAIC Structured Securities Group (SSG) for the past 10 years and supporting the annual RBC assessment of commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS) securities. FMA is Blackrock's institutional advisory group, which works with a unique set of clients across a range of customized capital markets, advisory capital markets, and risk advisory-related services. FMA is subject to long-standing information barriers to segregate projects.

Harnick and Alex Symes (BlackRock) provided a presentation (Attachment Seven) on BlackRock's views of the commercial mortgage market. He noted that in summary of where the market sits, there are three main points. One, the capital markets have been dislocated, which is influencing the valuations of real estate. Two, looking at the fundamentals for the property market, last year's trends are relatively consistent with this year's and are likely going to stay consistent over the next year. Three, in the office market, he said there is a lot more color and interesting things happening.

Symes noted that in terms of the overall economy, inflation has decelerated but remains elevated. Looking at goods and services, the service component remains positive, and goods inflation has turned negative. Inflation in the services sector remains relatively sticky. Services include residential housing. Employment and economic growth have been moving along at a steady pace. It has been 52 months since the last recession, which is a pretty lengthy period, but the economy has not returned to pre-COVID-19 trends.

Symes noted the main four property types are office, industrial, apartments, and retail, and for all four, rent is being paid. For office, anyone trying to reduce their office space size has to wait until their lease ends, so BlackRock is expecting office growth return on investment to continue to decelerate and turn negative, but it is going to be a slow burn. Increased supply is coming, which is slowing down rent growth. However, after what is currently under construction gets delivered, there is nothing behind it. Developers cannot get financing, at least at the current valuation, which is driven by interest rates. The economy went from a low-interest-rate environment to a high-interest-rate environment, which is having a drastic effect on the overall values of real estate.

Symes said that transaction volume has declined quite a bit. He used the example of buying an apartment property for $100 million dollars in 2021. A buyer would receive 75% loan-to-value (LTV) financing on top of that amount, resulting in $75 million in debt. Moving forward to the present day, the loan would be due, and the values have shifted down, while the net operating income (NOI) has moved up; however, because of where the capital market sits, the valuation has to shift as well and is now at $91 million. If the loan were to be refinanced with a 75% LTV loan, the loan would be much lower. As a result, there is a gap between equity and what could be obtained in lending in a finance deal, and this needs to be filled somehow. He continued, saying it becomes a bigger problem if the lender is not willing to give a 75% LTV loan because many lenders want to keep the debt service coverage

ratio (DSCR) between income and interest constant, which means instead of a 75% LTV ratio, it would go down to a 40% LTV ratio. He said there are a few ways to fill that, such as a mezzanine loan or extending the loan.

Symes continued, saying that transaction volume has declined quite a bit because landlords and buyers have not been able to come to terms with where the value is. Last year at this time, there were a lot of green shoots in the in the transaction market. People were getting excited post-Labor Day, and a lot of properties went on the market. Then, the Treasury moved to 5%, and once that happened, everything got pulled, and transaction volume that would have closed in January and February basically disappeared. This forced transaction volume to fall to the lowest level since the Great Financial Crisis (GFC). In terms of total returns for apartments and industrial, the valuation of these properties is the same as it would have been in 2014. Meanwhile, retail is back to 2013 evaluation levels, and office is back to 2010 or earlier levels.

Harnick discussed the makeup of the non-agency CMBS universe both in terms of issuance and outstanding volumes, with a focus on conduit loans (secured by a mortgage) and single-asset, single-borrower (SASB) transactions. Conduit was the dominant non-agency CMBS product. Issuance hit an all-time high of right around $200 billion running up to the start of the GFC. During the crisis, securitization markets essentially came to a halt, and non-agency CMBS issuance plummeted before increasing to about $50 billion annually as the market rebounded and, once again, became comfortable with securitization. Then, COVID-19 shocked the market, and since then, issuance levels have been fairly muted in the conduit space. SASB deals came into the picture following the GFC, as investors looked for trophy assets with simpler structures than conduit deals. The SASB market has also been utilized heavily by the larger alternative asset managers, in particular, Blackstone, which now makes up about 40% of the outstanding non-agency CMBS universe. More recently, issuance in both products dropped dramatically in 2023. Following more rate volatility, the market has gotten comfortable with the higher-for-longer paradigm, and issuance in both products has picked up this year and is likely on track to reach near 2021 volumes.

Harnick said that historically, retail and office were the largest property types in the conduit space, followed by multifamily with lodging and industrial rounding out the balance. In the mid-2010s, the first big shift was seen in property type concentrations, as retail decreased due to concerns about the future of malls. There was continued fallout from the GFC, including large-scale store closures and bankruptcies. More recently, during the peak of COVID-19, lodging volumes initially declined but rebounded as business and leisure travel resumed. Most notably, in recent years, office exposure has drastically fallen, as the world adjusts to a new post-pandemic normal. This is seen most acutely in the SASB space where office exposure has now fallen to low single digits. Offices had been 40% of the market over the past 40 years, and now over the last three years, office has decreased to 20% of the market.

Harnick said that DSCRs dropped from a high of 2.8 times in 2021 to 1.8 times more recently. However, the ratios are still above the low that was seen during the peak of pre-GFC issuance, which gives borrowers a buffer and protection from defaulting in the event of cash flow disruptions. There is also better underwriting in the form of higher debt yields. Regarding the uncertainty of the future of office space, delinquency levels are expected to increase over the next few quarters but should stay well short of the level seen during the GFC, assuming the economy continues to perform at its current level.

Going into the COVID-19 pandemic, Harnick said that delinquencies in all issuances were quite low for both conduit and SASB, but then, as COVID-19 hit and everything went into lockdown, delinquency on lodging and retail immediately shot up, as cash flows on these properties took a hit because they were essentially closed. Once retailers reopened and travel resumed, the performance of many of these assets quickly recovered, and the delinquency rate started the trend back down for those asset types. Industrial and multifamily continue to perform quite well, but there has been a slight uptick in multifamily delinquencies in some markets recently, as the current rate environment in the oversupply is impacting asset values and refinancing. The good news is that all sectors are still well below the peak level of the GFC.

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Harnick continued, saying that lodging and retail have seen some decline in payoffs over the past few years, as some portion of those assets continue to struggle from COVID-19. However, the real standout is office where payoff rates have dropped over the past year, as these assets have struggled to refinance due to poor performance and the unwillingness of lenders to extend credit. This low payoff rate has pushed delinquencies up, and the rise in office severities is likely driven by the fact that at least some portions of the office liquidations are the result of functional obsolescence rather than solely poor performance or being over-levered.

Harnick asked what this all means for projected losses on post-GFC vantages, as BlackRock is concerned about this. First, largely because of deteriorating underwriting standards during the four years pre-GFC, as well as inflated valuations leading up to the GFC, the later vintages would experience greater price decline with less de-leveraging than earlier vintages. Considering how losses on post-GFC vantages will stack up, with current delinquency levels still lower than peak-GFC, more conservative underwriting, the lack of a broader session, and generally lower severity, losses on post-GFC vintages will be toward the lower end, with the exception of office. Losses in office are likely to be more in line with the 2005 vintage experience and, in more pessimistic scenarios, could approach levels seen in 2006 and 2007 vintages, which were above 10%.

Harnick pointed to a historical context, as well as a benchmark, for future potential loss levels on the last slide of the slide deck. Within each of these vintages, three bars represent the average deal losses for that vintage in dark blue, with the 75th percentile loss deal loss in gray, and the 90th percentile loss in lighter blue. Looking within the 2005 vintage, the average cumulative deal loss was 6.7%, and the 90th percentile loss was quite a bit higher at 10.8%.

Along the Y axis, Harnick said that there is deal cumulative loss percent, but there are also red horizontal lines that correspond to the average or indicative levels of credit enhancement in post-GFC deals for senior triple-A through original triple-B-minus tranches. This attempts to capture which tranches of post-GFC deals are at risk of taking a loss if they were subjected to the various ranges of losses. Looking back at the 2005 vintage, the triple-B-minus class of post-GFC deals would not be expected to take a loss if losses came in close to the average of that vintage. However, the 90th percentile loss experience would result in some losses to the triple-B-minus class of new vintages but would not be enough to reach the single-A-minus class.

Harnick noted that post-GFC deals also benefit from higher levels of credit enhancement for a given rating as compared to pre-GFC issuance, with credit enhancement generally three to five points higher now compared to where it was pre-GFC, e.g., the triple-B minus-class in pre-GFC deals used to attach at around 3.8%, whereas now, it is generally closer to 7 to 7.5%, providing some additional credit and protection for investors of those classes. He said that BlackRock generally believes that, on average, losses in post-GFC vantages will look much more like 2004, 2005, 2006, and 2007 vintages, and as such, it generally expects extremely limited losses in the single-A and up portion of the capital stack. In fact, losses even in the triple-B-minus space, should be fairly muted given the levels of credit enhancement in these deals. However, there will be some individual deals with particularly bad assets that may end up looking more like the 2006 and 2007 vintages, and there could be some losses in the single-A and potentially up to the double-A level, but on average, again, he said to expect losses to be quite a bit lower than that. Harnick concluded, saying that despite the headwinds currently facing the CMBS market, BlackRock believes that the overall level of losses should be reasonable and manageable, especially from an investment-grade standpoint.

Commissioner Schmidt asked if BlackRock has noticed a larger average default on large real estate. Symes responded no because, with larger deals, servicers are more willing to collaborate with the borrowers to produce a better outcome. Generally, with smaller assets, it is not worth the special servicer's time, effort, and money to work through those assets, so those are the ones that see more liquidations.

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Commissioner Houdek asked if BlackRock has noticed any difference in geographic location in terms of risk due to states and cities having different policies on return to work versus remote work. Harnick responded not really, but that is a function of not just the demand but also the supply. He said developers got excited about areas with higher demand, and so that is where they are seeing greater amounts of supply.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/081524 E Minutes.docx

NATIONAL MEETING
FALL / DENVER
2024 NAIC

2024 Fall National Meeting
Denver, Colorado

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Monday, November 18, 2024
11:30 a.m. – 12:00 p.m. MT

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met on Nov. 18, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Nov. 17, 2024. During this meeting, the Working Group took the following action:
   A. Adopted its Summer National Meeting minutes.
   B. Adopted its Sept. 12 minutes. During this meeting, the Working Group adopted, via e-vote, revisions to *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* and Issue Paper No. 169 to incorporate guidance for debt securities issued by funds that represent operating entities with a Jan. 1, 2025, effective date. (Ref #2024-01)
   C. Adopted its Oct. 4 minutes. During this meeting, the Working Group exposed, via e-vote, the updated *Principles-Based Bond Definition Implementation Questions & Answers* (Q&A) for a public comment period ending Oct. 28. (Ref #2019-21)
   D. Adopted the following clarifications to statutory accounting guidance:
      i. Adopted clarifications expand and update guidance on tax credit investments effective Jan. 1, 2025. (Ref #2024-18)
      ii. Adopted revisions reject, with modification, *Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures*. The adoption also removes an existing *SSAP No. 101—Income Taxes* disclosure. (Ref #2024-11)
      iii. Adopted revisions update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to Valuation Manual (VM)-01, Definitions for Terms in Requirements. (Ref #2024-17)
      iv. Adopted the exposed Q&A, updated with interested parties' comments, in a new *Interpretation (INT) 24-01: Principles-Based Bond Definition Implementation Questions & Answers (Q&A)*. (Ref #2019-21)
      v. Rejected *ASU 2024-02, Codification Improvements* as not applicable to statutory accounting. (Ref #2024-19)
   E. Exposed the following statutory accounting principle (SAP) concepts and clarifications for a public comment period ending Jan. 31, 2025, except for agenda item 2024-26EP, which is exposed for a public comment period ending Dec. 9. 2024.
      i. Exposed revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* and the existing *Annual Statement Instructions/Illustrations* for the restricted asset disclosure in Note 5L specify how modified coinsurance and funds withheld assets reported within a ceding company's financial statements shall be captured. This exposure also

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includes a reconciliation of items reported as restricted between Note 5L and the general interrogatories. (Ref #2024-20)

ii. Exposed revisions clarify *SSAP No. 16—Electronic Data Processing Equipment and Software* references to accounting standards codification (ASC) by including the relevant ASUs. (Ref #2024-25)

iii. Exposed editorial revisions clarify the scope of the annual audited disclosure for investments receiving bond treatment by reporting categories. (Ref #2024-26EP)

iv. Exposed revisions for consistent terminology for financing derivatives and clarify that derivative premium shall not be captured as a realized gain or loss and shall not be included in the interest maintenance reserve (IMR). (Ref #2024-23)

v. Exposed concept agenda item with requests for comments on the options offered to include: 1) clarifying statutory accounting guidelines (and resulting reporting impacts) for investment subsidiaries; 2) sponsoring a blanks proposal to capture new investment schedules, or perhaps expansions to existing investment schedules, to detail the underlying assets held by an investment subsidiary; or 3) referrals to the Capital Adequacy (E) Task Force and related risk-based capital (RBC) working groups to incorporate details that allow regulators to verify the RBC calculation for the underlying assets within an investment subsidiary. (Ref #2024-21)

vi. Exposed revisions to adopt with modification *ASU 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards,* which provides clarifications on the application of the guidance to profit interests and similar awards. (Ref #2024-22)

vii. Exposed *INT 24-02: Medicare Part D Prescription Payment Plans* and *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* to provide accounting and reporting for the Medicare Part D prescription payment plans. Directed notice of the exposure to the Health Insurance and Managed Care (B) Committee and the Health Risk-Based Capital (E) Working Group, and directed an annual statement blanks proposal and disclosures to be developed for future discussion. (Ref #2024-24)

viii. Re-exposed annual statement revisions to provide more granular reporting lines on Schedule BA Other Invested Assets for Collateral Loans to allow for concurrent exposure with the corresponding blanks proposal. (Ref #2023-28)

F. Directed NAIC staff on the following items:

i. Directed NAIC staff to prepare an agenda item to classify issue papers in level 5 of the statutory hierarchy.

ii. Directed NAIC staff to modify the agenda item to remove a proposal to bifurcate embedded derivatives and instead capture limited revisions to clarify reporting when a bond is sold and reacquired from a special purpose vehicle (SPV) with derivative wrappers (or other components). (Ref #2024-16)

G. Received updates on the following:

i. U.S. generally accepted accounting principles (GAAP) exposures, noting that items will be addressed during the normal maintenance process.

ii. IMR Ad Hoc Group activities, noting that its discussions have focused on IMR from reinsurance transactions and has directed a reassessment of existing guidance.

iii. The Bond Project Implementation Small Group, which concluded its regular meetings as it addressed the items presented and referred the Q&A guide to the Working Group. The Small Group may resume future discussions if necessary.

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iv. Use of third-party vendors and checklists to determine bond definition compliance and classification.
v. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities, including notice of the application paper on climate risk.
vi. The comment deadline for three reinsurance-related agenda items (2024-05, 2024-06, and 2024-07) exposed at the Summer National Meeting was delayed to Dec. 9 and Dec. 16 at the request of the American Council of Life Insurers (ACLI). The ACLI provided short verbal comments on these items.
vii. Lloyd's has submitted requests that resulted in the removal of several inactive syndicates from the NAIC *Listing of Companies*. NAIC staff is coordinating with Lloyd's to determine if a guidance memorandum needs to be sent to the Blanks (E) Working Group regarding year-end reporting instructions.

3. Adopted the report of the Blanks (E) Working Group, which met Nov. 6, 2024. During this meeting, the Working Group took the following action:
   A. Adopted its Aug. 7 minutes, which included the following action:
      i. Adopted its May 23 minutes.
      ii. Adopted the following proposals:
         a. 2024-11BWG—Update the annual and quarterly statement instructions and blanks for the new market tax credit changes. Changes that will be made to the annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; Asset Valuation Reserve (AVR); Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.
         b. 2024-12BWG—Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2). Update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the *Annual Investment Schedule General Instructions*. *(Reference adopted proposal 2023-06BWG.)*
      iii. Received a Statutory Accounting Principles (E) Working Group memorandum regarding instructional changes to the AVR to allow collateral loans backed by mortgage loans to flow through AVR as an "Other Invested Asset with Underlying Characteristics of Mortgage Loans."
      iv. Adopted its editorial listing.
   B. Exposed eight new proposals for a 90-day public comment period ending Feb. 6, 2025.
   C. Adopted its editorial listing.
   D. Received a Statutory Accounting Principles (E) Working Group memorandum regarding the reporting of debt securities issued by funds representing operating entities.

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2024 Fall National Meeting
Denver, Colorado

CAPITAL ADEQUACY (E) TASK FORCE
Monday, November 18, 2024
1:00 – 2:00 p.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met Nov. 18, 2024. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.

2. Adopted its Sept. 26 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its revised procedure document, which the Task Force had exposed for a 30-day public comment period ending Sept. 13.
   B. Adopted its 2025 proposed charges, which the Task Force had exposed for a 30-day public comment period ending Sept. 13.

3. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met Oct. 22. During this meeting, the Working Group took the following action:
   A. Adopted its Summer National Meeting minutes.
   B. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
   C. Heard an update from the American Academy of Actuaries (Academy) on the structured securities risk-based capital (RBC) project.
   D. Discussed referrals related to funds.

4. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Oct 23. During this meeting, the Working Group took the following action:
   A. Adopted its Summer National Meeting minutes.
   B. Received updates from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, Longevity Risk (E/A) Subgroup, and Variable Annuities Capital and Reserve (E/A) Subgroup.
   C. Exposed proposal 2024-21-L (Tax Credit Investments) for a 75-day public comment period ending Jan 6, 2025.
   D. Exposed proposal 2024 -24-L (Principles-Based Bond Project) for a 75-day public comment period ending Jan 6, 2025.
   E. Received updates from the Academy on covariance and C-3 risk.

5. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group, which met Nov. 18. During this meeting, the Working Group took the following action:
   A. Adopted its Summer National Meeting minutes.
   B. Adopted proposal 2024-22-CR, which adds severe convective storm data for 2015–2023 to the catastrophe event list.

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C. Adopted proposal 2024-23-CR, which adds catastrophe events for January through October 2024 to the catastrophe event list.
D. Heard an update on the CoreLogic wildfire model review.
E. Discussed its working agenda.
F. Heard the panel discussion "The State of the Flood Insurance Market: Trends, Challenges, and Opportunities."

6. Heard an update from the Health Risk-Based Capital (E) Working Group regarding H2 review and development.

7. Adopted proposal 2024-22-CR, which adds severe convective storm data for 2015–2023 to the catastrophe event list.

8. Adopted proposal 2024-23-CR, which adds catastrophe events for January through October 2024 to the catastrophe event list.

9. Exposed proposal 2024-25-CA (Principle Based Bond Project for P/C and Health) for a 75-day public comment period ending Feb. 1, 2025.

10. Exposed proposal 2024-26-CA (Tax Credit Investments for P/C and Health) for a 75-day public comment period ending Feb. 1, 2025.

11. Adopted its working agenda with a few edits to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Property and Casualty Risk-Based Capital (E) Working Group, and Capital Adequacy (E) Task Force sections.

12. Heard an update on collateral loans from the Statutory Accounting Principles (E) Working Group.

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Virtual Meeting
(in lieu of meeting at the 2024 Fall National Meeting)

EXAMINATION OVERSIGHT (E) TASK FORCE
Tuesday, November 12, 2024
3:00 – 3:30 p.m. ET / 2:00 – 2:30 p.m. CT / 1:00 – 1:30 p.m. MT / 12:00 – 12:30 p.m. PT

Meeting Summary Report

The Examination Oversight (E) Task Force met Nov. 12, 2024. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.

2. Adopted its Sept. 25 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its 2025 proposed charges, which remain unchanged from the Task Force's 2024 charges.

3. Adopted the report of the Electronic Workpaper (E) Working Group, which has not met this year. However, monthly Tele-Talk sessions continue in lieu of formal working group meetings to support states as they transition from TeamMate AM to TeamMate+.

4. Adopted the report of the Financial Analysis Solvency Tools (E) Working Group, which met Nov. 7 and Sept. 26. During these meetings, the Working Group took the following action:
   A. Adopted the following revisions to guidance within the *Financial Analysis Handbook*:
      i. Revisions to the property/casualty (P/C) catastrophe reinsurance program.
      ii. Revisions to the credit risk assessment guidance.
      iii. Revisions to the pricing and underwriting risks of health insurers.
      iv. Revisions to Form A and disclaimer of control/affiliation guidance.
      v. Revisions to guidance pertaining to the Own Risk and Solvency Assessment (ORSA) and Form F exemptions.
      vi. Revisions regarding recovery and resolution planning to align the guidance with the current Insurance Core Principles (ICPs).
      vii. Revisions that include new procedures for analysts to consider:
         a. When reviewing applications for capital or surplus notes.
         b. Parental guarantees and capital maintenance agreements as part of the Form A review.
      viii. Revisions regarding merged branded risk guidance and repositories.
      ix. Revisions to incorporate best practices to existing guidance on the monitoring of run-off insurers.

5. Adopted the report of the Financial Examiners Coordination (E) Working Group, which met Aug. 7 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings.

6. Adopted the report of the Financial Examiners Handbook (E) Technical Group, which met Oct. 31 and Sept. 23. During these meetings, the Technical Group took the following action:
   A. Adopted the following revisions to guidance within the *Financial Condition Examiners Handbook*:

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i. Revisions to provide guidance to regulators in reviewing affiliated investment management agreements and services.
ii. Revisions to incorporate best practices to existing guidance on the monitoring of run-off insurers.
iii. Revisions to provide a sample prospective risk and potential interview questions to help examiners gain insight into a company's executive compensation structure and related risks.
iv. Revisions to provide guidance that encourage examiners to review manual adjustments made to risk-based capital (RBC), including those related to modified-coinsurance (modco) reinsurance and separate account assets.

7. Adopted the report of the Information Technology (IT) Examination (E) Working Group, which met Oct. 31 and Oct. 10. During these meetings, the Working Group took the following action:
   A. Adopted revisions to Exhibit C, Part 2 within the *Financial Condition Examiners Handbook*, which update IT review guidance to further align it with the Cybersecurity Framework (CSF) 2.0 of the National Institute of Standards and Technology (NIST).

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NATIONAL MEETING
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2024 Fall National Meeting
Denver, Colorado

FINANCIAL STABILITY (E) TASK FORCE
Sunday, November 17, 2024
11:15 a.m. – 12:00 p.m.

Meeting Summary Report

The Financial Stability (E) Task Force met Nov. 17, 2024. During this meeting, the Task Force:

1. Adopted its Oct. 17 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its 2025 proposed charges.

2. Adopted its Summer National Meeting minutes.

3. Received an update on Financial Stability Oversight Council (FSOC) developments.

4. Adopted its Macroprudential (E) Working Group update.

5. Exposed the proposed 2024 Liquidity Stress Testing Framework (LST Framework) for a 30-day public comment period ending Dec. 17, 2024.

6. Received a Valuation Analysis (E) Working Group update.

7. Received an international update, which included an update on the International Association of Insurance Supervisors (IAIS) Global Monitoring Exercise (GME). The GME includes the individual insurer monitoring exercise and the sector-wide monitoring exercise. Other updates on IAIS key initiatives were discussed, including cross-border reinsurance, alternative assets, level 3 assets, and climate risk.

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NATIONAL MEETING
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Denver, Colorado

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE
Monday, November 18, 2024
11:00 a.m.– 12:00 p.m.

Meeting Summary Report

The Receivership and Insolvency (E) Task Force met Nov. 18, 2024. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.

2. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met Nov. 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.

3. Heard a proposal for enhancements to the Global Receivership Information Database (GRID). The Task Force directed NAIC staff to add links on the GRID webpage to the NAIC's insurance data services and the NAIC's states' receivership contacts list, and to send more frequent reminders for states to update information in GRID.

4. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) Resolution Working Group will consider adopting the revisions to Insurance Core Principles (ICPs) #12 and #16 related to recovery and resolution in December 2024. The Insurance Recovery and Resolution Directive is expected to be published in December 2024 or January 2025.The Resolution Working Group will begin review of application papers related to recovery and resolution in 2025.

5. Reminded interested parties to submit their requests to NAIC staff by Dec. 9, 2024, if they wish to be included in the next edition of the *Directory of Receivership and Runoff Resources*.

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Draft: 11/4/24

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)
October 24, 2024

The Reinsurance (E) Task Force met Oct. 24, 2024. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Ricardo Lara, Vice Chair, represented by Monica Macaluso (CA); Lori K. Wing-Heier represented by David Phifer (AK); Alan McClain represented by Chris Erwin (AR); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Bryce Rawson (GA); Gordon I. Ito (HI); Doug Ommen represented by Kim Cross and Kevin Clark (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Shantell Taylor (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Grace Arnold represented by Fred Andersen (MN); Mike Chaney represented by Chad Bridges (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning (NE); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Don Gilbert (NM); Adrienne A. Harris represented by Michael Campanelli (NY); Judith L. French represented by Dale Bruggeman (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Summer National Meeting Minutes

Wolf made a motion, seconded by Phifer, to adopt the Task Force's July 22 minutes (*see NAIC Proceedings—Summer 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

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

Kaumann stated that the Reinsurance Financial Analysis (E) Working Group met Sept. 26 and Aug. 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 93 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the certified and reciprocal jurisdiction reinsurer web page.

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

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

Macaluso stated that the Mutual Recognition of Jurisdictions (E) Working Group met Oct. 24 in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, and reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions that are not subject to an in-force covered agreement. She noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

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

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

Andersen stated that the Life Actuarial (A) Task Force met several times over the past months to discuss the AAT project. He stated that the regulatory focus of the project is on gaining insight into reserve adequacy when business is ceded, with a particular focus on U.S. policyholders. He noted that reinsurance may result in a lowering of transparency in terms of the amount of reserves held and the types and risks associated with the assets supporting reserves. The progress at this point includes establishing the goals of the project, which are to provide U.S. state regulators with what is needed to review the reserves of U.S. life insurers while avoiding conflicts with reciprocal jurisdictions and covered agreement issues and to prevent work by U.S.-ceding companies where there is immaterial risk. He noted that there has been progress on establishing scope and materiality thresholds, aggregation of analysis between treaties and or counterparties, and analysis considerations and alignment with the level of risk. He stated that the overall goal is to have an actuarial guideline adopted by mid-2025 and for it to be effective for year-end 2025.

Patricia Matson (Risk & Regulatory Consulting—RRC) stated that her firm has been involved with many transactions that involve moving business offshore and noted that based on what they have seen firsthand, the amount of assets that back the policyholder obligations declined significantly. She noted that she strongly believes that there does need to be a solution to address the decline in assets and is in favor of requirements for the appointed actuary to directly assess the adequacy of the invested assets and reserves in order to make sure that the assets are sufficient to support the policyholder obligations even after a reinsurance transaction. She stated that she does not believe that evaluation of counterparty risk or disclosures alone is sufficient to address the issue. She noted that there are already many disclosures required as those transactions occur, and counterparty risk has to be evaluated by the actuary under existing standards and that despite those requirements that already exist, there are cases where assets after the transaction are not sufficient to cover the obligations to the customer under moderately adverse conditions.

Peter Gould (Unaffiliated) stated that he is a retiree and end user of insurance products. He said he depends on annuity income for a substantial portion of his retirement income. He stated that his recommendation is for regulations that can be used proactively and effectively to prevent the impairment of solvency so the contractual obligations to policy owners are paid.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with the state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He noted that this is an opportunity to have an educational tool around these types of reinsurance transactions to bring greater awareness and transparency to the ceding insurers and domestic regulators with respect to these transactions. He stated several issues have been addressed so far, but a several more remain that need to be addressed.

Jason Kehrberg (PolySystems), on behalf of the American Academy of Actuaries (Academy), stated that the Academy developed its comments to balance the view that the appointed actuary should be able to apply principles and judgment in their AAT and that they understand the need for regulators to provide additional guidance on AAT in certain situations, such as those outlined in the exposure. He recognized that reinsurance has

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proved to be an effective risk mitigation tool and believes that any changes to AAT requirements should avoid incentivizing insurance companies from implementing appropriate reinsurance solutions.

Karalee Morell (Reinsurance Association of America—RAA) stated that she agrees with the comments that were provided by the other commenters.

5. Discussed Ongoing Projects at the NAIC That Affect Reinsurance

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He noted that the worksheet allows for more consistent and thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force's policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook.* He said that the work completed using the reinsurance worksheet will remain confidential. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group.

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

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force. The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals will be addressed by the Statutory Accounting Principles (E) Working Group over the next several months. Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Summer National Meeting.

Stultz stated that in 2023, there was an issue with Vesttoo, a reinsurance broker, where fraudulent letters of credit (LOCs) had been used for collateral purposes. He noted that several groups at the NAIC had discussed the issue and are continuing to monitor the situation and that the NAIC's current understanding is that all the LOCs have been replaced. There have been several legal settlements between Vesttoo and the impacted companies.

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

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NATIONAL MEETING
FALL / DENVER
2024 NAIC

2024 Fall National Meeting
Denver, Colorado

VALUATION OF SECURITIES (E) TASK FORCE
Sunday, November 17, 2024
2:30 – 3:30 p.m.

Meeting Summary Report

The Valuation of Securities (E) Task Force met Nov. 17, 2024. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.

2. Adopted its Oct. 1 minutes. During this meeting, the Task Force took the following action:
   A. Exposed a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis* Office (P&P Manual) to remove references to Subscript-S and update references to investment risk for a 30-day public comment period that ended Nov. 1.
   B. Exposed a proposed P&P Manual amendment to update the list of NAIC Credit Rating Providers (CRPs) and the NAIC Policy on the Use of CRP Credit Ratings for a 14-day public comment period that ended Oct. 16.

3. Adopted a proposed P&P Manual amendment to require annual review of regulatory transactions, which the Task Force had previously exposed for a 30-day public comment period that ended Sept. 13.

4. Adopted a proposed P&P Manual amendment to update the list of NAIC CRPs and the NAIC Use of CRP Credit Ratings., which the Task Force had previously exposed for a 14-day public comment period that ended Oct. 16.

5. Adopted a proposed P&P Manual amendment to remove references to Subscript-S and update references to investment risk, which the Task Force had previously exposed for a 30-day public comment period that ended Nov. 1.

6. Received a report on Statutory Accounting Principles (E) Working Group projects.

7. Received a report on the status of private letter rating (PLR) rationale report filings for 2024. The Task Force directed the SVO to deactivate private rating securities issued after Jan. 1, 2022 that do not have a required corresponding rating rationale report but to permit a 30-day grace period for private rating securities that were renewed in December. If material discrepancies are found with the data, the SVO will defer deactivation until the issue is remediated.

8. Received a report on the proposed collateralized loan obligation (CLO) modeling methodology.

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NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group
Virtual Meeting
September 24, 2024

The NAIC/AICPA (E) Working Group of the Financial Condition (E) Committee met Sept. 24, 2024. The following Working Group members participated: Doug Stolte, Chair (VA); Sayaka Dillon (CA); Rylynn Brown (DE); Kevin Clark (IA); Judy Weaver (MI); Shannon Schmoeger (MO); Andrea Johnson (NE); Cameron Piatt (OH); Diana Sherman (PA); and Johanna Nickelson (SD).

1. Discussed the Premium Threshold

Stolte said the Working Group is responsible for reviewing the premium threshold amounts contained within the *Annual Financial Reporting Model Regulation* (#205) on an annual basis. Bruce Jenson (NAIC) gave an update on the results of the annual review, noting that as of Dec. 31, 2023, more than 93% of all direct written premiums and more than 95% of all gross written premiums would be subject to reporting requirements. Jenson stated that premium growth and inflation have pushed a greater number of insurers over the premium threshold and that state insurance regulators should keep that in mind in compliance reviews.

Stolte noted that these results are within the Working Group's expectations, and no action to adjust the threshold is deemed necessary at this time.

2. Heard an Update from Ernst & Young on Recent Auditing Pronouncements

Dave Osborn (Ernst & Young) provided an overview of recent accounting and auditing pronouncements affecting statutory audits. Osborn stated that *Statement on Auditing Standard (SAS) No. 148—Amendment to AU-C Section 935* amends AU-C Section 935 to conform the standard with other auditing standards that were recently issued. Some of these amendments were effective for compliance audits with fiscal periods ending on or after Dec. 15, 2022; all other amendments are effective for compliance audits with fiscal periods ending on or after Dec. 15, 2023.

Osborn stated that *SAS No. 147—Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations* clarifies the requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement. Specifically, the standard requires the auditor to inquire of the predecessor auditor regarding identified or suspected fraud or noncompliance with laws or regulations (NOCLAR). Once an engagement is accepted, the auditor should document the inquiries of the predecessor auditor and the results of those inquiries.

Osborn also provided an update on the status of the Public Company Accounting Oversight Board's (PCAOB's) proposed auditing standard that would expand the auditor's responsibility for considering a company's NOCLAR, including those related to fraud in the performance of the audit. The PCAOB initially exposed its proposed standard related to NOCLAR on June 6, 2023. Much of the feedback received on this initial exposure expressed some level of disagreement with aspects of the proposed standard.

Given the significant public interest in the proposal, including the recommendation from commenters for additional public outreach, the PCAOB staff held a virtual public roundtable March 6. In conjunction with the roundtable, the PCAOB reopened the public comment period on the proposal from Feb. 26 through March 18.

The PCAOB has been reviewing the additional feedback received to determine whether revisions will be made to the proposed standard. It has indicated that it expects to issue a final standard in 2024.

Osborn indicated an intent to address this standard's impact on the audit process once it has been finalized. However, state insurance regulators should be aware that statutory audits of individual legal entity insurers are generally performed in accordance with AICPA generally accepted auditing standards (GAAS), while the U.S. generally accepted auditing principles (GAAP) audit of their parent entities could be performed under PCAOB auditing standards if they are U.S. Securities and Exchange Commission (SEC) registrants. At this time, the AICPA Auditing Standards Board does not have a convergence project with respect to the proposed PCAOB standard.

Finally, Osborn stated that the AICPA Professional Ethics Executive Committee (PEEC) adopted a revised definition of public interest entity (PIE) to be included in the AICPA Code of Professional Conduct. The revised definition is effective for periods beginning on or after Dec. 15, 2024, with early implementation allowed.

In April 2022, the International Ethics Standards Board for Accountants (IESBA) revised its definitions of a listed entity and PIE. The IESBA code includes separate and, in many cases, more restrictive independence provisions for PIEs. The IESBA's new PIE definition contains three mandatory categories of PIEs: 1) a publicly traded entity; 2) an entity, one of whose main functions is to take deposits from the public; and 3) an entity, one of whose main functions is to provide insurance to the public.

The PEEC monitors and considers IESBA's projects to evaluate whether related changes will enhance the AICPA code and serve to better protect the public interest in the U.S. In December 2023, the PEEC adopted a revised definition of PIE that includes IESBA's mandatory categories but defers to the relevant U.S. regulators for purposes of the specific independence requirements. PEEC refined the insurance entity category to include insurers that: 1) are subject to the *Annual Financial Reporting Model Regulation* (#205) as adopted by the respective state insurance department; and 2) meet or exceed $500 million in direct and assumed premiums, which is the same threshold for management to file a report on internal control over financial reporting under Model #205.

A member who does not belong to a firm or network that voluntarily agrees to comply with the IESBA code will continue to comply only with the AICPA code and rules of the relevant regulator, where applicable. However, firms that voluntarily join the International Federation of Accountants (IFAC) Forum of Firms may have certain commitments to comply with the Forum of Firms Constitution, including the new independence requirements. These new requirements will not conflict with any requirements applicable to the independent certified public accounting firm under Model #205.

Stolte thanked Osborn for the overview and requested that AICPA representatives keep the Working Group updated on emerging developments in these areas.

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

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National Treatment and Coordination (E) Working Group
Virtual Meeting
November 4, 2024

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met Nov. 4, 2024. The following Working Group members participated: Debbie Doggett, Co-Chair (MO); Cameron Piatt, Co-Chair (OH); Jacline Nguyen (CO); William Mitchell (CT); Jennifer Milam (FL); Matthew Stewart and Lorie Gasior (LA); Ursula Almada (NM): Karen Feather (PA); Amy Garcia (TX); Jay Sueoka (UT); Ron Pastuch (WA); and Amy Malm (WI).

1. Discussed Comments Received on the Handbook Exposure

Jane Barr (NAIC) provided a summary of comments received on the *Company Licensing Best Practices Handbook* (Handbook) and recommended modifications related to the comments. She indicated that the phrase “if Medicare line is provided” was removed from page nine. The coding issues also apply to other federal Affordable Care Act (ACA) business, so the reference to Medicare was not needed. A phrase from the Financial Analysis (E) Working Group memorandum was added to page nine for clarification.

Barr also indicated that page 28 was modified to add a section at the top with some of the same guidance on page 9. The intent of the Financial Analysis (E) Working Group’s referral was not just for multi-state companies but also any new entrant, so adding some of the same business plan reviews to this section covers all health insurers.

Doggett stated that although the Handbook was exposed for a 45-day public comment period with only one comment received, the Working Group is aware that additional changes related to corporate amendments, redomestication applications, and other areas need to be made. Therefore, the chair would not call for a vote on the changes. Instead, the Handbook would be made available to state insurance regulators for review and additional comments through SharePoint. Approval was given to post the draft Handbook to SharePoint.

2. Adopted Proposal 2024-07 (Expansion Application Instructions)

Piatt stated that edits to proposal 2024-07 to remove references to the checklist and add references to the new application modify instructions that no longer make sense. No major changes were made to the process. Piatt said the Working Group hopes to adopt the proposal without exposing the editorial changes.

Barr clarified that the instructions have already been posted on the website. She said changes were made to add references to the new attachment buttons in the portal where they used to reference the legacy applications. The how-to-file instructions, which are a user guide for the companies to access the legacy application, have now been updated to a user guide for the new portal.

Stewart made a motion, seconded by Pastuch, to adopt proposal 2024-07 (Attachment Two-A and Attachment Two-B). The motion passed unanimously.

3. Discussed Pre- and Post-Notification of the Redomestication Application

A. Pre-Notification

Barr stated that pre- and post-notification of the redomestication application is a new change type being added as a domestic corporate amendment. The process can be automated with the new system and new change type. When a company creates a redomestication application, it will select the state it wants to redomesticate to, which is a required question in this section. States mentioned they needed a no-objection letter on pre-notification, so an attachment button for a no-objection letter was added. When the application is created, an email will be generated to the current domiciliary state stating, "A redomestication application has been initiated," for the application jurisdiction and include the status of the application and the attachment. If no attachment, it will indicate no attachment.

Doggett said a no-objection letter is provided by the current state, not the new state. The current state would provide it to the new state. Malm said she does not issue a letter before the application is filed. Nguyen confirmed they would need to have an application to review before they would issue a no-objection letter. Doggett said she was fine with the pre-notice.

Barr asked if any jurisdiction required a no-objection letter from the proposed domestic jurisdiction. New Jersey indicated that it did. Barr suggested that a state-specific requirement be added for New Jersey, and the attachment will be provided under jurisdiction attachments so the current domestic state can provide the no-objection letter before the application is submitted to the proposed domestic jurisdiction.

B. Post-Notification

Barr said that when a new jurisdiction has approved the redomestication application, a system-generated email is sent to the applicant company and former domestic state with the effective date of approval. In addition, a separate email notification is sent to the applicant company with the following message: "A post-notification application has been system generated." A tracking number of the domestic corporate amendment will be included in the notification. The applicant company must complete the post-notification application before sending it to the previous domestic state. All state-specific requirements will be required under jurisdiction attachments.

A state chart for pre- and post-notification requirements was developed based on results from a recent survey. States were asked to review and provide Barr or Bon Rector (NAIC) with any modifications needed to the chart. States will be given 30 days before the chart will be posted on the website.

4. Discuss Biographical Affidavits and Background Reports

A. Biographical Affidavits Acceptance

Doggett discussed the timeliness of the biographical affidavits and whether they needed to be dated within six months of the submission date or six months of the date the state begins its review. It was determined that states should accept biographical affidavits when the signature was valid at the time of submission and not when they started their view.

B. Background Report Consistency

During the Forum call, background report consistency was discussed. Concerns were raised regarding the reports' quality and inconsistencies across vendors. It is important to note that vendor reports should identify all discrepancies, and it is up to the state to determine if that discrepancy is material enough to cause concern regarding the competency and trustworthiness of the person submitting the bio.

C. Vendor Vetting Process/Guidelines

Doggett said that in the past, the Working Group had a subgroup that looked at vendor qualifications and provided recommendations. The subgroup was disbanded several years ago, and since then, processes have changed. There is a need to review the guidance and update it. Doggett asked if the Working Group preferred to set up a subgroup or do the work within the Working Group.

No objections were raised to setting up a subgroup. Those interested in being part of the subgroup should let Barr or Rector know.

5. Discussed Any Other Matters Brought Before the Working Group

Barr said the new expansion application was released into the new portal and became available for use. Updated instructions and user guides are on the website. Industry training videos will be uploaded to the website, and training videos on the state side will be posted on SharePoint. Any state needing additional training should reach out to Barr to schedule training.

Barr noted that she will be retiring Dec. 4. The Working Group members thanked her for all her work and knowledge and wished her the best.

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

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Restructuring Mechanisms (E) Working Group
Virtual Meeting
October 3, 2024

The Restructuring Mechanisms (E) Working Group of the Financial Condition (E) Committee met Oct. 3, 2024. The following Working Group members participated: Glen Mulready, Co-Chair, represented by Andy Schallhorn (OK); Elizabeth Kelleher Dwyer, Co-Chair, and Matt Gendron (RI); Mel Anderson (AR); Rolf Kaumann (CO); Jack Broccoli and Jared Kosky (CT); John Street (IL); Judy Weaver (MI); Fred Andersen (MN); John Rehagen (MO); Tadd Wegner (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Amy Garcia (TX); Dan Bumpus, Greg Chew, and Doug Stolte (VA); Steve Drutz (WA); and Amy Malm (WI).

1. Discussed Comments Received on Exposures

The Working Group reviewed seven comment letters received (Attachment A) on the May 10 exposure of the Best Practices Procedures for IBT/Corporate Divisions (Best Practices) and the 2024 *Restructuring Mechanisms* white paper. Both documents had an extended public comment period that ended July 12. Director Dwyer stated that the comments would be discussed by key topic summary, with NAIC staff providing the initial summary (Attachment B). She stated there was no need for commenters to reiterate their views unless they wished to provide additional comments.

A. UK Part VII

Robin Marcotte (NAIC) stated that the *Restructuring Mechanisms* white paper included a footnote requesting comments on whether any United Kingdom (UK) Part VII insurance liability transfers had resulted in insolvencies. She stated that comments from the Association of Insurance and Reinsurance Run-Off Companies (AIRROC) and Norton Rose Fulbright (Norton) indicated that they were not aware of any "unplanned" insolvencies regarding an insurance business transfer (IBT) in the UK. AIRROC and Norton noted that similar mechanisms are used in some European countries. Norton's comments noted that the transfers are often used as a finality mechanism as part of a solvent winddown of business. Norton's comments referenced that Aetna International Inc. transferred liabilities to Allianz Partners as part of its exit strategy for non-core international operations, leading to the deauthorization of the UK entity ahead of a solvent liquidation. Marcotte stated that Robert Wake's (Maine) comments inquired if the Allianz Partners case, discussed on pages 17 and 18 of the white paper, represented an insolvency from a UK Part VII transfer.

Marcotte stated that Enstar's comments suggested limiting information on global frameworks, such as UK Part VII in the white paper, to footnotes or appendices. Finally, Norton's comments noted that although schemes of arrangement and IBTs and corporate divisions can have similar objectives (to provide legal finality to legacy risks), they are quite different. Schemes of arrangement terminate liabilities via a forced commutation, while IBTs/corporate divisions terminate one insurer's obligation in exchange for the assumption of that liability by another. There were no additional industry comments in response to an inquiry from Director Dwyer.

Stolte asked what a planned insolvency was. Gendron indicated that based on his understanding from the comments, a company that had run off the majority of its business might have an intentional plan to wind down operations and cease business as an insurance entity. Gendron stated that the comments seem to indicate a few ways of achieving that type of finality, such as a commutation if solvent run-off or insolvency, is what. Gendron indicated that he expected to adjust the language to note the successes in UK Part VII transfers and that unplanned

insolvencies have not been identified. He indicated that Virginia's comments on the draft would be welcome. Stolte replied that the policyholders are taken care of in a planned insolvency, which sounds more like a solvent run-off, but it may be a terminology issue. Gendron agreed it resulted from a solvent run-off, with the company ultimately ceasing operations.

B. Virginia Law

Marcotte stated that AIRROC and Norton's comments suggested that the Virginia statute's description should be shortened or de-emphasized. Marcotte stated that Enstar recommended expanding the discussion of the Virginia statute. Enstar also offered to provide more details on a transaction involving Providence Washington Insurance Company (PWIC) and Yosemite Insurance Company (Yosemite), which at the time were both wholly owned subsidiaries of Enstar Group. Enstar noted that this is specific to the newly included section of the *Restructuring Mechanisms* white paper, which discusses Virginia law. Maine's comments discuss the implications of the Virginia case for IBT and the need for clarity on how IBT can be binding under Virginia law without policyholder consent.

Bumpus noted appreciation for the comments. He stated that he would defer if the Working Group chose to provide more detail on the Enstar transaction. He stated that overall, the white paper does an excellent job of providing important, high-level information and providing a summary. He noted that it is important that there is a path for IBTs and corporate divisions to comply with Virginia law. He noted that Virginia disagrees with the comments to de-emphasize the discussion of Virginia law. Virginia thinks it makes sense for the current discussion to remain with the current placement. Finally, he noted appreciation for the comments from Maine, which noted the potential for legal challenges. He stated that the Virginia law has been in effect for several decades, and its legislature expects that the Virginia State Corporation Commission (SCC) will continue to enforce the law with respect to Virginia policyholders.

C. Other Legal Issues

Marcotte stated that Maine and Enstar made comments noting that the discussion in the *Restructuring Mechanisms* white paper of the *Property and Casualty Insurance Guaranty Association Model Act* (#540) needs to be updated to reflect recent amendments to Model #540, which address the issues noted in the white paper. Enstar also noted that including the work updating Model #540 would be helpful for states looking for more information on why the updated NAIC model should be enacted. Marcotte noted that updating the description of Model #540 is relatively easy.

Marcotte stated that Enstar's comments highlight that the National Conference of Insurance Legislators (NCOIL) has developed its own Insurance Business Transfer Model Act and Insurer Division Model Act. Enstar's comments state that Illinois and Georgia have used the NCOIL IBT Model as their legislation's foundation. A bill was also introduced in Texas. Director Dwyer asked for verification of her understanding that Illinois and Georgia adopted something close but did not adopt the full NCOIL models. James Mills (Enstar) stated that Illinois limited the law's application to property/casualty. He stated that his understanding was that the NCOIL IBT Model was broadly adopted in Georgia with minor amendments to fit its statutes.

Marcotte stated that AIRROC's comments noted that it has developed a restructuring resource website.

Marcotte stated that Maine commented on the need to clarify the white paper's description of the Connecticut process. Kosky agreed with Maine's comments that they could have added clarifications to better describe the Connecticut processes in the white paper. He stated that the goal was to detail that there are three ways to effectuate a division in Connecticut. Kosky volunteered to draft some clarifying language and submit it to the

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Working Group.

Marcotte stated that Norton's comments recommend adding a footnote that would add qualifying language to the discussion of legal and constitutional issues. The proposed footnote would note that the enforcement of IBT and corporate divisions can raise significant legal issues and that the discussion is merely illustrative and not meant to be conclusive.

D. Best Practices Recommendation on Procedures/Consumer Protection/Financial Analysis

Marcotte stated that the next section is specific recommendations regarding the Best Practices document's procedures, consumer protections, and financial analysis. She stated that the primary comments for this section were from: 1) a joint letter from New York Life Insurance Company (New York Life), Western & Southern Financial Group (Western & Southern), Massachusetts Mutual Life Insurance Company (MassMutual), and The Northwestern Mutual Life Insurance Company (collectively referred to as the Four Companies); and 2) Risk & Regulatory Consulting LLC (RRC).

Marcotte stated that the Four Companies letter stressed that consumer protections should apply equally to IBTs and corporate division transactions and recommended updating the Best Practices procedures to ensure equal consumer protection. The Best Practices document currently requires certain protections for IBTs but not for corporate divisions, including updates to the Own Risk and Solvency Assessment (ORSA), description of proposed investment policies and third-party claims management and administration agreements, the form of notice to policyholders, and the use of independent experts to evaluate the transaction.

Marcotte stated that the Four Companies also noted appreciation for the existing update in the Best Practices exposure (under Section III, 2., c) related to policy line diversification and suggested strengthening the language further to ensure regular scrutiny of any transactions that would reduce policy line diversification to ensure that transactions do not adversely affect consumers.

Marcotte stated that the Four Companies' letter suggested minor clarifications to the Best Practices to enhance consumer protections. The first comments note that Section II, 4. on legal commitments was ambiguously written regarding whether Section b. is subject to Subsection a. It states that the IBT or corporate division plan should always include a parental or legally enforceable commitment for financial support to run-off operations in the event of inadequate reserves, asset deterioration, or the inability to collect on reinsurance receivables. Marcotte stated that RRC also suggested clarifying the procedures regarding financial support and when it applies.

Marcotte stated that the Four Companies recommended that Best Practices Section VI, 1. should consider including the definition of a "cut-through" provision, similar to what is defined on page 30 of the white paper (i.e., a cut-through provision provides policyholders the legal right to file a claim against the entity issuing it).

Marcotte stated that RRC's comments suggested clarifying that Section II of the document, like Section I, is a list of minimum documentation to be provided by the applicant. In addition, RRC recommended adding items to the list of minimum documentation requirements. Marcotte noted that the list of additional documentation requirements makes sense as they include identification of policies subject to the transaction, information on reserving, and the other key parties, including actuaries and policy administrators.

Marcotte stated that RRC recommended that the state insurance regulator consider requesting and reviewing other capital metrics in Section III (e.g., Best's Capital Adequacy Ratio [BCAR] or the company's own measure of economic capital for the business to be transferred/divided) in addition to risk-based capital (RBC).

Marcotte stated that RRC recommended the Working Group consider that some liabilities (such as asbestos, environmental, and other latent liabilities) are highly volatile and may not lend themselves to traditional methods of estimating percentiles for reserve stress testing. The standards as presented may not be practicable in all situations and suggested revisions (Section III, Pg 11, Item 4(b)(i), and Section IX, Page 20, Item 3(h)). RRC's comments suggested that state insurance regulators could consider focusing on stressing the reserves in a deterministic manner rather than attempting to quantify the 99.5% Value at Risk (VaR) for a one-year period, the 97% VaR for a five-year period, or the conditional tail expectation (CTE) of 90 or higher where these metrics may be difficult to estimate and/or potentially misleading.

Broccoli indicated agreement with RRC's comments. Gendron inquired about RRC's comments that environmental and asbestos liabilities are highly volatile. Gendron said he has seen some actuarial presentations indicating that asbestos is becoming less volatile over time. Jennifer Balester (RRC) replied that asbestos liabilities are not as volatile as they were in the early 2000s but are still much more volatile than other property and casualty lines. She also noted that it is much more long-tailed than other lines of business, and it just seems to keep going. She noted that it is extremely difficult to come up with high percentile numbers for those liabilities. Gendron said this was helpful information.

Marcotte stated that RRC also commented that if the proposed transaction includes ongoing operations for non-life business, RRC recommends the review include an understanding of the basis for the projected liabilities associated with the ongoing business. This review should include pricing assumptions such as rate change history, loss trends, and ongoing expenses. The independent expert should assess the potential need for a premium deficiency reserve as well as the adequacy of pricing for ongoing business.

Marcotte agreed with RRC's recommendation to generalize the Section V, Page 15, Item 3(c) procedure to consider all forms of reinsurance rather than focusing only on stop loss and excess of loss.

Marcotte stated that RRC recommended that the analysis of assets in Section V, Page 16, Item 5, include an understanding of the asset allocation strategy and reinvestment strategy, including descriptions of how those strategies will change over time.

E. <u>Guaranty Fund-Specific Comments White Paper</u>

Marcotte stated that the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and the National Conference of Insurance Guaranty Funds (NCIGF) suggested revisions that impact two interrelated paragraphs. The first revision recommended moving part of a paragraph in Section 4A to Section 6D. The next revision had an additional edit to the beginning of the paragraph in Section 4A to change a phrase from "NOLHGA recommends to "as NOLHGA advises."

F. <u>Run-Off</u>

Marcotte stated that various comments on several aspects were received, including the *Restructuring Mechanisms* white paper discussion of definitions, RBC, insolvencies, and Best Practices. Marcotte stated that Maine supports keeping the existing run-off discussion in the white paper. Maine's comments emphasize the appropriateness and necessity of using the term "run-off" in the context of insurance companies. Maine's comments argue against weakening the term with disclaimers and suggest that any disagreements about the definition of run-off are marginal and do not need to be explored in the white paper. While Maine prefers not to use a disclaimer, an alternative to the current wording was provided.

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Marcotte stated that multiple parties, including AIRROC, Enstar, and Norton, suggested a flexible definition of run-off or noted that it could be used in several different situations. AIRROC suggested keeping the distinction between insolvent and solvent run-offs when reviewing the drafts. AIRROC suggested deleting the word "involuntary" on page 21 when discussing run-off to avoid implying insolvencies. AIRROC's comments also urge the Working Group to carefully consider the use of restructuring mechanisms in insolvencies as they operate in a very different environment with specific statutory and regulatory standards. AIRROC suggested that the solvent transactions, which should be the focus of discussion and insolvency, should only be mentioned in passing.

Marcotte stated that AIRROC and Norton made similar recommendations regarding the appropriateness of the current RBC standard for run-off insurers and run-off portfolios and the need to refer this question to the appropriate NAIC committee for appropriate action. Norton also suggested changes to the Best Practices procedures to make clear that examiners should make allowances for the distortions in RBC formulas when evaluating restructuring transactions. Marcotte noted that RBC formulas do not currently allow flexibility for run-off entities.

Carolyn Fahey (AIRROC) stated that AIRROC's key point about run-off transactions is that they can vary widely. She stated that if you have seen one run-off transaction, you have seen one transaction. She stated that the value of the run-off sector is the flexibility to release capital in ways that benefit the core business. She stated that run-offs are accomplished in a variety of ways, and it was important to maintain flexibility.

Marcotte stated that the placement and applicability of the run-off guidance had diverse opinions. Enstar encourages further guidance on the subject of run-off, or consideration of developing a separate guidance document to study it in the future. Enstar's comments noted that restructuring mechanisms are useful for the run-off industry, they are only one part of it, and that they encourage the Working Group to consider whether it would be more appropriate to address the subject of run-off directly and include references to restructuring mechanisms rather than the reverse as structured in these documents.

Marcotte stated that the Four Companies' comments suggested making it clear that the separate "Run-Off Procedures" are in addition to the preceding sections in the Best Practices document. Marcotte noted a few additional comments on clarifying the Best Practice procedures regarding run-off. RRC recommended generalizing Section IX, Item 1(b) and Section IX, Item 3(i), to consider all material reinsurance agreements rather than focusing only on stop loss. AIRROC recommended clarifying that many of the restructuring mechanisms can be used for both legacy run-off and non-legacy active portfolio transfers.

G. Next Steps/Accreditation Standards

Marcotte stated that the comments in this section are possible steps or follow-ups after the documents are complete. AIRROC's comments suggested that once the drafts are adopted, referrals should be sent to other NAIC committees, which may require additional changes to the *Restructuring Mechanisms* white paper and the Best Practices procedures during the implementation and follow-up stages of the process. Norton's comments urge the NAIC to adopt the Best Practices Procedures for standardized reviews of IBTs/corporate divisions. Norton also recommended a referral to the Financial Condition (E) Committee for consideration and the Financial Analysis Solvency Tools (E) Working Group for inclusion in the *Financial Analysis Handbook*.

Marcotte stated that the Four Companies' letter urges the Working Group to establish the Best Practices as required minimum review standards as part of robust accreditation standards to promote consistent and strong solvency regulation. The letter noted that such an action is consistent with the Working Group's charge to

"recommend the best practices to the Financial Regulation Standards and Accreditation (F) Committee for its consideration." The letter included that the white paper noted several states have enacted IBT/corporate division laws and that some states have approved these types of transactions. Having accreditation standards would ensure consistent state adoption of these important protections and preclude forum shopping by companies seeking to engage in an IBT or corporate division transaction.

Director Dwyer stated that her understanding was that the Working Group would not make recommendations to the Financial Regulation Standards and Accreditation (F) Committee. She requested clarification of her understanding that the Working Group would make recommendations to its parent group, the Financial Condition (E) Committee, which would then make recommendations to other committees. Broccoli agreed that the Working Group would make recommendations to its parent group. He also noted that the Financial Condition (E) Committee could send the Best Practices to the Financial Analysis Handbook (E) Working Group to develop procedures. He stated that his understanding was that becoming part of the *Financial Analysis Handbook* did not automatically mean that the procedure is an accreditation standard. The Financial Regulation Standards and Accreditation (F) Committee would have to actually adopt standards. Director Dwyer stated that when the documents are complete, a memorandum will go from the Working Group to the Financial Condition (E) Committee. Broccoli and Director Dwyer discussed that the Best Practices would first need to be included in a handbook, such as the *Financial Analysis Handbook*, before any accreditation consideration. Dan Daveline (NAIC) confirmed this and noted that the Financial Regulation Standards and Accreditation (F) Committee considers significant changes to the handbooks at each Spring National Meeting. Director Dwyer requested that Daveline draft a memorandum for the Working Group's consideration regarding any recommendations of this type to the Financial Condition (E) Committee. Daveline said he would want to know if this is a recommendation or suggestion. Director Dwyer suggested variable language for the Working Group's consideration and voting.

Fahey stated that the Risk-Focused Surveillance (E) Working Group has also exposed drafts of run-off revisions to the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. She stated that AIRROC had made some comments regarding workstream coordination. Director Dwyer indicated that this Working Group and the others report to the Financial Condition (E) Committee. She asked Daveline about workstream coordination. He stated that before the Financial Condition (E) Committee sends a referral, NAIC staff would reach out to the appropriate working group chairs to determine which group would best address the recommendations.

Bumpus stated that the accreditation discussion was helpful. He stated that Virginia supports the Best Practices being incorporated into the *Financial Analysis Handbook* to hopefully raise the floor of review on these transactions. He stated that Virginia thinks it is premature and would not support making a recommendation to the Financial Regulation Standards and Accreditation (F) Committee for the guidance to become an accreditation standard. He stated that additional work is needed to address practical concerns such as anti-novation statutes and ensure enough time for regulatory coordination, especially for states that have not adopted IBT or CD statutes. Director Dwyer agreed that further discussion by the Financial Condition (E) Committee should occur. She stated that she would recommend that the procedures only be required for states with IBT and corporate division laws (and the procedures would not apply in states that do not have such laws).

H. <u>Editorial</u>

Marcotte recommended directing NAIC staff to review and incorporate the editorial revisions as appropriate. Most of the editorial items were provided by Maine. NAIC staff agree with 95% of the recommendations and will discuss variations on a few minor word choices with the Working Group chairs or other members. Marcotte noted that the tracked revisions from Norton should also be reviewed to determine Working Group preferences.

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Director Dwyer suggested that NAIC staff review the revisions and determine the ones that were scrivener's errors, suggestions, and substantive items. She stated that the Working Group would hold an additional meeting to review the tracked revisions. Hearing no objections, NAIC staff were directed to proceed with the drafts.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/RMWG/2024/10-3-24/Minutes/Minutes.docx

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Draft: 10/15/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
October 10, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met Oct. 10, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Kim Hudson (CA); William Arfanis (CT); Ainsley Hurley (FL); Daniel Mathis (IA); Cindy Andersen (IL); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Jackie Obusek (NC); Tadd Wegner (NE); Paul Lupo (NJ); Mark McLeod (NY); Tracy Snow (OH); Eli Snowbarger (OK); John Tudino (RI); Amy Garcia (TX); Jennifer Blizzard and Greg Chew (VA); and Steve Drutz (WA).

1. Referred Regulatory Review Guidance for Run-Off Insurers to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group

Malm stated the Working Group received a referral from the Financial Analysis (E) Working Group earlier this year with recommended best practices for monitoring insurers placed in a solvent run-off status. The Working Group utilized information in that referral to develop proposed additions to the NAIC's *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. The proposed additions were exposed for a 45-day public comment period, which ended on Aug. 30 with five comment letters being received.

Upon receipt and review of the letters, NAIC staff were asked to incorporate the comments and recommendations into an updated draft of the guidance. Bruce Jenson (NAIC) provided an overview of the updated draft, which includes a new scoping paragraph that clarifies the intended use of the guidance. The new paragraph states that the guidance is intended for use in monitoring solvent run-off insurers and is not applicable in situations where the solvency of an insurer is in question, and it has been placed into receivership. In addition, the guidance applies most directly to insurers whose entire company is in run-off, although certain procedures may be applicable in situations where one product or line of business has been placed into run-off.

In addition to the new scoping paragraph, other recommendations were incorporated into the updated draft including guidance on oversight of service providers and third-party administrators, retention of critical IT staff, review of claims data standards, and background information related to monitoring more formal restructuring mechanisms such as insurance business transfers and corporate divisions.

Malm asked those who submitted comment letters if they would like to summarize their comments and discuss how they were incorporated into the updated draft. Wayne Mehlman (American Council of Life Insurers—ACLI) raised concerns regarding whether the proposed guidance appropriately addressed the wide range of run-off situations that can occur at an insurer. Malm stated that the new scoping paragraph was intended to address this concern. Ashley Rosenberger (National Conference of Insurance Guaranty Funds—NCIGF) thanked the Working Group for addressing its comments in the updated draft.

Weaver made a motion, seconded by Snow, to refer the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group and the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

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2. <u>Exposed Proposed Regulatory Review Guidance for Oversight of Contract Regulators</u>

Malm stated that the Working Group received a referral dated July 24, 2024, from the Financial Regulation Standards and Accreditation (F) Committee on state oversight of contracted resources. While state insurance departments have utilized contract resources to assist in solvency monitoring efforts for many years, the use of contractors in financial analysis work has become more common in recent years due to staffing challenges.

The referral states that the current accreditation guidelines and expectations for a state in utilizing contract resources in financial analysis are limited, which has raised some questions during reviews. Therefore, various questions and considerations were referred to the Working Group for its consideration. In addition, although more guidance and standards exist for the oversight of contractors in financial examinations, the Committee also referred some questions to the Working Group on that topic.

After receiving the referral, the Working Group held a regulator-to-regulator meeting on Sept. 9 to discuss current state practices in overseeing contractors. This meeting was held in regulator-to-regulator session in accordance with the NAIC open meetings policy, which allows for an executive session to discuss internal administrative matters. As a result of the discussions, NAIC staff were asked to develop proposed revisions to existing handbook guidance and the accreditation review team guidelines to address the questions raised.

Jenson provided an overview of the proposed guidance, which includes three new accreditation guidelines as well as edits to several other guidelines clarifying expectations related to regulator oversight of contracted resources for financial analysis and financial examinations. In addition, the proposed guidance includes edits to the *Financial Analysis Handbook* to include guidance related to analysis timeliness expectations and various contractor oversight expectations. Finally, the proposed guidance includes minor edits to the *Financial Condition Examiners Handbook* to update contractor background and education expectations.

Malm stated that on Sept. 17, 2024, the Working Group received comments from interested parties related to the referral from the Financial Regulation Standards and Accreditation (F) Committee on state oversight of contracted resources. While those comments were not received in time to be considered in the development of the proposed guidance, Malm asked the interested parties to summarize their comment letter.

Keith Bell (The Travelers Companies) spoke on behalf of interested parties and highlighted some potential considerations to be addressed in utilizing contracted resources that were not addressed in the original referral. Bell stated that it is in the best interest of financial analysis to be fully internally staffed. However, if contractors must be used due to staffing limitations, Bell discussed the need to ensure that contracted resources are independent, free from conflicts of interest, able to maintain the confidentiality of information, and following best practices in IT security and governance. Bell also stated that the use of contractors to conduct financial analysis work could lead to unintended consequences and that regulators should exercise caution in this area. Malm asked for an example of what unintended consequences might be. Bell responded that contractors could use information they learned about an insurer's proprietary business practices in providing consulting services to another insurer.

Malm asked if the interested parties had a recommended timeline for states to move away from utilizing contractors for financial analysis. Bell stated that they did not have a recommended timeline due to workforce considerations but that state insurance departments should have a long-term goal for the financial analysis function to be fully internally staffed.

Chew stated that language in the proposed guidance indicating that regulators should consider the long-term effects of not maintaining an appropriate level of qualified staff is intended to recognize the concerns raised by

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Bell. Mathis stated that considerations related to conflict of interest, confidentiality, and other similar topics are generally covered in state procurement and contracting requirements. Malm asked Bell whether interested parties were aware of any states not following the principles outlined in those areas. Bell stated that interested parties had only heard anecdotal evidence of issues in these areas, but that they are concerned that expanded use of contractors for financial analysis could lead to more issues. Weaver stated that almost all states have experienced staffing challenges and encouraged interested parties and the insurance industry in general to support the resource needs of state insurance departments.

Malm stated that the proposed guidance would be exposed for a 60-day public comment period ending Dec. 10. She encouraged interested parties to provide specific language recommendations to address their concerns when providing comments on the exposure draft.

3. Discussed a Referral on Pandemic Risk

Malm stated that the Working Group received a referral from the Health Risk-Based Capital (E) Working Group related to pandemic risk on June 6, 2024. The Health Risk-Based Capital (E) Working Group recently studied whether any revisions to the health risk-based capital (RBC) formula might be necessary due to lessons learned from the COVID-19 pandemic. After studying the issue, they determined that revisions to the health risk-based capital (RBC) formula would not be necessary, but that additional monitoring guidance in NAIC handbooks should be considered. As such, they sent the referral to this Working Group for its consideration.

Malm stated that NAIC staff were asked to review the existing guidance in NAIC handbooks related to pandemic risks, which was summarized and presented by Jenson. Jenson stated that guidance related to pandemic risk is included in the Operational Risk, Pricing/Underwriting Risk, and Strategic Risk sections of the *Financial Analysis Handbook*. In addition, Jenson stated that guidance related to pandemic risk is included in the Business Continuity, Underwriting, and Critical Risk Category sections of the *Financial Condition Examiners Handbook*.

Malm asked Working Group members whether they felt that the existing guidance in NAIC handbooks is sufficient to address pandemic risks or if additional guidance should be developed in this area. Drutz stated that while the direct impacts of the pandemic appear to be covered, insurers experienced post-pandemic risks as insurance utilization increased in the period following the pandemic. Malm stated that post-pandemic risk considerations and other more unique considerations could be incorporated into temporary risk alert guidance as opposed to the more permanent published handbook guidance. Other Working Group members expressed their support for this approach.

4. Adopted Updated Examiner Salary Rates

Malm stated that the fourth agenda item is to consider adoption of updated examiner salary recommendations for inclusion in the NAIC's *Financial Condition Examiners Handbook*. The Working Group has received a charge to "continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff."

Newly recommended salary ranges for analysts and examiners were first added to NAIC handbooks in 2020 based on the research and work of the Working Group. At that time, the Working Group committed to reviewing and updating the recommended salary ranges as needed, with a minimum review period of every other year. As the ranges were reviewed and updated in 2023, the Working Group is not planning to review them again until 2025. However, in addition to updating the recommended salary ranges every other year, the Working Group has also been tasked with reviewing and updating the legacy per diem examiner rates published in the Handbook, which

require annual review and updates. The rates are generally updated in accordance with movements in the Consumer Price Index (CPI). As such, NAIC staff are recommending an increase to the legacy per diem rates published in the *Financial Condition Examiners Handbook* of 2.9% for the 2025 publication.

Hudson made a motion, seconded by Mathis, to adopt the proposed 2025 examiner per diem rates for publication in the *Financial Condition Examiners Handbook*. The motion passed unanimously, with Ohio abstaining.

5. Discussed NAIC/SOFE Memorandum of Understanding

Nickelson stated that the next agenda item is to provide a report to the Working Group on the recent memorandum of understanding completed by the NAIC and the Society of Financial Examiners (SOFE) related to regulator education and training. SOFE is a professional society focused on the development of professional standards for financial solvency regulators of insurance companies. SOFE maintains a strict code of professional standards, promotes uniform ethical standards, and promotes and enforces minimum requirements of conduct, training, and expertise for members engaged in financial examinations.

As the NAIC and SOFE share common goals and objectives in training and educating financial regulators, they recently entered into a memorandum of understanding to partner together in developing a pilot training course to help regulators complete a SOFE designation course while also training them on insurance operational topics that are not currently covered in the NAIC training curriculum. The goal is to leverage each other's resources and expertise to provide modernized training and educational resources for regulators.

While the memorandum of understanding calls for the development of an initial pilot course to be housed on the NAIC's new education portal; if successful, the partnership could be extended to assist regulators in completing other SOFE courses and achieving designations. This development is being reported to the Working Group as it is charged with reviewing the effectiveness of risk-focused surveillance processes, including training provided to regulators in support of the process. As this new initiative has the potential to result in more effective training for financial analysts and examiners, the Working Group requests the involvement and support of members as the NAIC and SOFE proceed with this partnership.

6. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the final peer review session of the year will be taking place next week at the NAIC central office in Kansas City, MO. It will be a financial analysis peer review session, and 10 different states are scheduled to participate. Malm stated that the Working Group hopes to identify several new sound practices during the session, particularly around the use of TeamMate+ software, as many of the files to be discussed are completed in the new software tool.

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

SharePoint/NAICSupportStaffHub/Member Meetings/E CMTE/2024_3Fall/RFSWG/Surveillance WG 10-10-24 Minutes.docx

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Robert Wake (ME), Chair
Mutual Recognition of Jurisdictions (E) Working Group

FROM: Jake Stultz, Manager II – Accounting Policy
Daniel Schelp, Chief Counsel, Regulatory Affairs

RE: 2024 Due Diligence Review of Qualified Jurisdictions & Reciprocal Jurisdictions

DATE: October 24, 2024

Executive Summary & Recommendation

The Mutual Recognition of Jurisdictions (E) Working Group will perform a yearly review of Qualified Jurisdictions to determine whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions. The Working Group will also perform a yearly review with respect to non-Covered Agreement Reciprocal Jurisdictions. In this regard, NAIC legal and financial regulatory services staff has performed a due diligence review of these jurisdictions, and has the following recommendations for the Working Group's consideration:

1. The following Qualified Jurisdictions should retain their status on the *NAIC List of Qualified Jurisdictions*:

    - Bermuda, Bermuda Monetary Authority (BMA)
    - France, Autorité de Contrôle Prudentiel et de Résolution (ACPR)
    - Germany, Federal Financial Supervisory Authority (BaFin)
    - Ireland, Central Bank of Ireland (Central Bank)
    - Japan, Financial Services Agency (FSA)
    - Switzerland, Financial Market Supervisory Authority (FINMA)
    - United Kingdom, Prudential Regulation Authority of the Bank of England (PRA)

2. The following non-Covered Agreement Reciprocal Jurisdictions should retain their status on the *NAIC List of Reciprocal Jurisdictions*:

    - Bermuda, Bermuda Monetary Authority (BMA)
    - Japan, Financial Services Agency (FSA)
    - Switzerland, Financial Market Supervisory Authority (FINMA)

Process for Periodic Evaluation after Initial Approval

The *Process for Evaluating Qualified and Reciprocal Jurisdictions* ("Process") provides a process for evaluating both Qualified and Reciprocal Jurisdictions after their initial approval. Pursuant to NAIC policy and procedure, the Working Group, with the assistance of NAIC staff, will perform a yearly review of Qualified Jurisdictions to assess whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions, and that this yearly review shall follow such abbreviated process as may be determined by the Working Group to be appropriate.

For this review, NAIC legal and financial regulatory services (NAIC staff) staff searched for any publicly available information that would potentially impact the jurisdictions' status as a Qualified Jurisdiction or as a Reciprocal Jurisdiction, including any changes to existing insurance and reinsurance laws and regulations in the jurisdictions. Next, NAIC staff researched whether a new Financial Sector Assessment Program (FSAP) Report prepared by the International Monetary Fund (IMF), or any other externally produced documentation was available, including the Technical Note on Insurance Sector Supervision, and any other information regarding the laws, regulations, practices, and procedures applicable to the jurisdiction's reinsurance supervisory system. This research also included any public reports from ratings agencies and any other public information that was deemed to be relevant.

Except as otherwise noted in this memorandum, NAIC staff did not engage directly with the Qualified Jurisdictions or Reciprocal Jurisdictions and relied solely on publicly available information. Additionally, NAIC staff considered any information received (if any had been received) directly from state insurance regulators, interested parties or affected U.S. insurance companies that could potentially impact the status of the Qualified Jurisdictions or Reciprocal Jurisdictions.

Life Reinsurance Placed in Qualified or Reciprocal Jurisdictions

During the past three years, there have been several regulator-only discussions regarding the regulatory practices of insurance supervisors and systems from jurisdictions outside of the U.S. focusing on private equity owned life insurers' offshore reinsurance. There have been ongoing discussions at the Macroprudential (E) Working Group, as well as other NAIC groups regarding the use of offshore reinsurance. At this time, NAIC staff does not believe that these activities rise to a level that would impact the status of any Qualified or Reciprocal Jurisdictions, but that it is appropriate that this issue be included in this discussion. NAIC staff will continue to closely monitor this issue and will provide any added information to the Working Group, as appropriate.

Jurisdictions with Upcoming Regulatory Changes

Bermuda

In early 2024, the Bermuda Monetary Authority implemented several enhancements to their regulatory regime. The changes have three main areas of focus: 1) updates to the calculation of the Bermuda Solvency Capital Requirement (BSCR), 2) the calculation of technical provisions (risk margin and scenario-based approach), and 3) updates to their supervisory regime (transaction approvals, liquidity risk management, supervision, reporting and disclosure). The reason that the enhancements were implemented were to:

1. Respond to the shifts and trends observed in the long-term sector e.g., entry of private equity firms and alternative asset managers.
2. Enhance resilience of Bermuda (re)insurers e.g., through increased emphasis on stress testing considering the increasingly fluid operating and interest rate environment.
3. Tailor supervisory intensity to align with evolving risk profiles of long-term insurers e.g., increased appetite for non-traditional assets.
4. Enhance transparency through increased disclosures and cross-border bi-lateral engagements between the BMA and cedant regulators
5. Ensure the level of policyholder protection in Bermuda continues to be comparable with that in other competent jurisdictions e.g., the US and Europe.

As these changes were implemented earlier in 2024, we do not yet have any data to show the financial impacts of the enhancements, but NAIC staff intend to work with the BMA in 2025 to get any data that is available and will share that with this Working Group when it is available. The BMA is not subject to an in-force covered agreement.

United Kingdom

In November 2022, the UK announced that they are moving away from Solvency II to a similar framework to be called Solvency UK. During 2023, there were two consultation papers issued by the Bank of England, each of which further details the upcoming changes. The expected changes are wide ranging and include matching adjustment reform (MA is a mechanism that allows insurers to recognize, upfront as capital resources, a proportion of the investment return, in excess of the risk-free rate, that they project to earn over the future lifetime on the assets matching their MA liabilities), changes to the way stress testing is performed, and a number of other minor changes that are intended to promote economic growth. The UK is subject to a covered agreement, so there is no action that needs to be taken at this time, but NAIC staff will monitor the changes and implementation of these reforms over the next year.

Japan

In June 2022, the Japan Financial Services Agency (FSA) announced its intention to reform its solvency regulation framework, effective April 1, 2025. The overall intent of these reforms is to make Japan’s regulatory regime more similar to the Insurance Capital Standards of the International Association of Insurance Supervisors (IAIS). The primary change will be to the methodology used for calculating the solvency margin ratio for Japanese companies. NAIC staff will work with the Japan FSA in early 2025 to verify the minimum solvency ratio to be used for Reciprocal Jurisdiction Reinsurers.

NAIC Staff Overall Findings

Upon review of all publicly available information, NAIC staff has reached the conclusion that the reinsurance supervisory systems of the seven Qualified Jurisdictions listed above continue to achieve a level of effectiveness in financial solvency and reinsurance regulation for purposes of reinsurance collateral reduction, that their demonstrated practices and procedures with respect to reinsurance supervision continue to be consistent with their respective reinsurance supervisory systems, and that their laws and practices satisfy the criteria required of Qualified Jurisdictions as set forth in the Credit for

Reinsurance Model Law and Regulation. NAIC staff have reached similar conclusions with respect to the three Reciprocal Jurisdictions listed above that are not subject to an in-force Covered Agreement.

Therefore, it is the recommendation of NAIC staff that the above listed jurisdictions continue to qualify for inclusion on the *NAIC List of Qualified Jurisdictions* and the *NAIC List of Reciprocal Jurisdictions*.

Summary of Findings and Determination

Canada Office of the Superintendent of Financial Institutions (OSFI)

Evaluation as a Jurisdiction that Recognizes and Accepts the U.S. Group Capital Calculation

Issued for Public Comment By:

Mutual Recognition of Jurisdictions (E) Working Group

October 24, 2024

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I. Executive Summary & Recommendation

The Mutual Recognition of Jurisdictions (E) Working Group of the National Association of Insurance Commissioners (NAIC) has completed this Summary of Findings and Determination with respect to the evaluation of the Canada Office of the Superintendent of Financial Institutions (OSFI) as a jurisdiction that Recognizes and Accepts the U.S. Group Capital Calculation ("Recognize and Accept Jurisdiction"). It is the recommendation of the Working Group that the NAIC approve the OSFI as a Recognize and Accept Jurisdiction and place it on the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation*, to be effective immediately. Finally, the Working Group recommends that the Department of Insurance and Financial Services for the State of Michigan (DIFS) be the Lead State for purposes of regulatory cooperation and information sharing with the OSFI. These recommendations are based on the following analysis:

II. Procedural History

The Working Group is responsible for overseeing the process for evaluating jurisdictions and maintaining a listing of jurisdictions that meet the NAIC requirements for recognizing and accepting the US approach to the Group Capital Calculation (GCC). As background, on December 9, 2020, the NAIC adopted revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implement the GCC filing requirements for insurance groups at the level of the ultimate controlling person for the purpose of evaluating solvency at the group level. The revisions specifically provide that the requirement to file the NAIC's GCC applies to U.S.-based groups, while a group headquartered outside the U.S. is exempt from the GCC (subject to limited exceptions) if its groupwide supervisor "recognizes and accepts" the GCC for U.S. groups doing business in that jurisdiction. Likewise, a U.S. group subject to a group capital calculation specified by the Federal Reserve Board is exempt from the GCC. This process codifies the concepts of mutual recognition and one group/one group-wide supervisor. To further implement the GCC provisions of Model #440 and Model #450, the Working Group adopted the *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation* (Recognize and Accept Process) on December 15, 2021.

Section 4L(2) of Model #440 provides two ways a non-U.S. jurisdiction may meet the standards for its insurance groups to be exempt from the GCC:

(a) If the jurisdiction has been determined to be a Reciprocal Jurisdiction for purposes of credit for reinsurance, which includes a requirement that the jurisdiction "recognizes the U.S. state regulatory approach to group supervision and group capital" or

(b) <u>If the jurisdiction has otherwise been determined to recognize and accept the GCC by procedures specified in regulation</u>.

As of this date, the only jurisdictions that have been deemed to meet the standards are the current Reciprocal Jurisdictions (European Union member states, United Kingdom, Bermuda, Japan, and Switzerland).

On November 9, 2023, the DIFS requested that the Working Group perform a review of the OSFI under the NAIC Recognize and Accept Process, and further that the DIFS agreed to act as the Lead State. The relevant provisions with respect to the review procedure are summarized, as follows:

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- The Working Group will follow the Procedure for Evaluation of Non-U.S. Jurisdictions as set forth in paragraph 8 of the Recognize and Accept Process. This will include public notice on the NAIC website, and consideration of public comments from state regulators, U.S. insurance groups, and any other interested parties. Relevant U.S. state and federal authorities will be notified of the Working Group's decision to evaluate the OSFI.

- Following these public actions, the Working Group will prepare a Preliminary Evaluation Report and Final Evaluation Report in regulator-to-regulator session, followed by a public Summary of Findings and Determination recommending that the OSFI be included on the list of Recognize and Accept Jurisdictions.

- The Working Group may rely on written confirmation by the OSFI that insurers and insurance groups whose lead state is accredited by the NAIC under the NAIC Accreditation Program shall be subject only to worldwide prudential insurance group supervision including worldwide group governance, solvency and capital, and reporting, as applicable, by the lead state and will not be subject to group supervision, including worldwide group governance, solvency and capital, and reporting, at the level of the worldwide parent undertaking of the insurance or reinsurance group by the non-U.S. jurisdiction. This may be done by signature to the letter template found in the Appendix of the Process. The Working Group will perform a due diligence review of available public and confidential documents to confirm that to the best of its determination the representations in the written confirmation are true and accurate.

- Finally, the OSFI and Michigan must have a memorandum of understanding to share applicable information with each other, which Michigan as the lead state would share with other NAIC states. Both the OSFI and DIFS are signatories to the IAIS Multilateral Memorandum of Understanding, which we have concluded to be satisfactory for these purposes.

- Upon the NAIC's adoption of an affirmative recommendation with respect to the Summary of Findings and Determination, the OSFI will be added to the NAIC List of Recognize and Accept Jurisdictions. Once approved, a Recognize and Accept Jurisdiction is subject to periodic annual review under an abbreviated process.

To conduct the review, NAIC staff reviewed any public information that was available, focusing on the *June 2019 International Monetary Fund (IMF) Financial System Stability Assessment (FSAP)* and the *January 2020 IMF FSAP Technical Note—Insurance Sector: Regulation and Supervision*. During the review, it was noted that the domestic financial regulator for insurance companies that are domiciled in Quebec is the Quebec Autorité des marchés financiers (AMF), while any companies domiciled in any of the other nine Canadian provinces are regulated by OSFI. The scope of this review only covers OSFI.

The review that was conducted only focused on any issues that would cause the jurisdiction to not meet the standards in Model #440 and Model #450 pertaining to the ability to recognize and accept the U.S. approach to the group capital calculation. During review of the IMF reports, there were no issues noted that would cause any concerns for the OSFI. In addition to the review performed by NAIC staff, the Working Group received a letter from OSFI dated April 9, 2024, confirming the following requirements in the Recognize and Accept Process:

- OSFI recognizes the U.S. state regulatory approach to group supervision and group capital, and confirms that that insurers and insurance groups whose lead state is accredited by the NAIC under the NAIC Accreditation Program shall be subject only to worldwide prudential insurance group supervision including worldwide group governance, solvency and capital, and reporting, as applicable, by the lead state and will not be subject to group supervision, including worldwide group governance, solvency and capital, and reporting, at the level of the worldwide parent undertaking of the insurance or reinsurance group by the non-U.S. jurisdiction.

- Information regarding insurers and their parent, subsidiary, or affiliated entities, if applicable, shall be provided to a lead state commissioner in accordance with a memorandum of understanding or similar document between the commissioner and OSFI, including but not limited to the International Association of Insurance Supervisors Multilateral Memorandum of Understanding or other multilateral memoranda of understanding coordinated by the NAIC.

- OSFI will immediately notify the NAIC upon any changes to the assurances provided in this letter.

III. Summary of Findings and Recommendation

Therefore, it is the recommendation of the Mutual Recognition of Jurisdictions (E) Working Group that the NAIC recognize the OSFI as a Recognize and Accept Jurisdiction and place it on the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation*, to be effective immediately. Finally, the Working Group recommends that the Department of Insurance and Financial Services for the State of Michigan (DIFS) be the Lead State for purposes of regulatory cooperation and information sharing with the OSFI.

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