

FINANCIAL CONDITION (E) COMMITTEE

Financial Condition (E) Committee August 12, 2022, Minutes

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Pending Final Adoption

Draft: 8/16/22

Financial Condition (E) Committee
Portland, Oregon
August 12, 2022

The Financial Condition (E) Committee met in Portland, OR, Aug. 12, 2022. The following Committee members participated: Scott A. White, Chair (VA); Elizabeth Kelleher Dwyer, Vice Chair (RI); Michael Conway represented by Rolf Kaumann (CO); David Altmaier (FL); Doug Ommen (IA); Timothy N. Schott and Vanessa Sullivan (ME); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers and John Rehagen (MO); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Michael Wise (SC); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek and Amy Malm (WI); and Jeff Rude (WY). Also participating was: Dale Bruggeman (OH).

1. Adopted its July 21, May 20, and Spring National Meeting Minutes

The Committee met July 21 and took the following action: 1) adopted a Request for NAIC Model Law Development to amend the *Property and Casualty Insurance Guaranty Association Model Act (#540)*; 2) adopted a document entitled of *Regulatory Considerations Applicable to (But Not Exclusive to) Private Equity (PE) Insurers*; and 3) adopted the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation (GCC)*. During its May 20 e-vote, the Committee adopted a memorandum of support for certain work performed related to various workstreams created because of the low interest rate environment and ongoing pressure from certain assets.

Commissioner Caride made a motion, seconded by Commissioner Ommen, to adopt the Committee's July 21 (Attachment One), May 20 (Attachment Two), and Spring National Meeting (*see NAIC Proceedings – Spring 2022, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

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

Commissioner White stated that the Committee usually takes one motion to adopt the Committee's 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 subsequent to 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 Summer National Meeting as part of the Financial Condition (E) Committee Technical Changes report. Pursuant to the Technical Changes report process previously adopted by the NAIC 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 White asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the Members for consideration as part of the Financial Condition (E) Committee Technical Changes report; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or working groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner White also noted that the Financial Analysis (E) Working Group met July 22, July 6, June 29, and June 15 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. 9, March 23, and Feb. 8 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

Pending Final Adoption

Commissioner Caride made a motion, seconded by Ms. Malm, 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; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment Three); Group Solvency Issues (E) Working Group (Attachment Four); Mutual Recognition of Jurisdictions (E) Working Group (Attachment Five); and National Treatment and Coordination (E) Working Group (Attachment Six). The motion passed.

3. Adopted Agenda Item 2021-21 and Blanks Proposal 2021-22BWG

Mr. Bruggeman said that included in the materials were agenda item 2021-21: Related Party Reporting, which adds reporting codes to identify related party transactions in several investment schedules, from the Statutory Accounting Principles (E) Working Group and blanks proposal 2021-22BWG from the Blanks (E) Working Group. Both proposals were previously summarized to the Committee during its July 21 meeting. They had now been unanimously adopted by the Accounting Practices and Procedures (E) Task Force and were ready for the Committee's consideration.

Ms. Walker made a motion, seconded by Mr. Kaumann, to adopt agenda item 2021-21: Related Party Reporting and blanks proposal 2021-22BWG (Attachment Seven). The motion passed.

4. Heard a Presentation from the Federal Reserve on their Supervisory Framework

Matt Walker (Federal Reserve Board—FRB) provided a summary of some of the updates the FRB has made recently to its supervisory framework (Attachment Eight) as it relates to insurance groups. The summary included discussion of how the revised framework recognizes differences with the banking industry and more specifically the role of state insurance regulators and the role of the FRB in such situations where a depository institution is also included within the holding company structure. In particular, the new guidance emphasizes the importance of collaborating with state insurance regulators and describes how FRB supervisory teams do this. The summary also discussed how the guidance distinguishes between complex groups and non-complex groups and how the guidance for each differs. Finally, the update describes how supervisory teams coordinate with state insurance regulators in order to minimize supervisory burden without sacrificing effective oversight.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2022-2-Summer/081222 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2022-2-Summer/081222%20E%20Minutes.docx)

Draft: 7/28/22

Financial Condition (E) Committee
Virtual Meeting
July 21, 2022

The Financial Condition (E) Committee met July 21, 2022. The following Committee members participated: Scott A. White, Chair (VA); Elizabeth Kelleher Dwyer, Vice Chair (RI); Doug Ommen represented by Kevin Clark (IA); Timothy N. Schott represented by Robert Wake (ME); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers and John Rehagen (MO); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Michael Wise represented by Daniel Morris (SC); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek represented by Amy Malm (WI); and Jeff Rude (WY). Also participating were: James J. Donelon (LA); and Dale Bruggeman (OH).

1. Heard Opening Comments

Commissioner White highlighted the last agenda items related to the bond proposal project as a project that has been extensive and in existence for some time. He noted that the Statutory Accounting Principles (E) Working Group has made considerable progress, and he is pleased with that given that it is related to the elevated asset risk topic resulting from lower interest rates, which has been a priority of the Committee.

2. Adopted a Request for NAIC Model Law Development

Commissioner White noted that this model law request was from the Receivership and Insolvency (E) Task Force, but it was related to the work Superintendent Dwyer has been leading at the Restructuring Mechanisms (E) Working Group, and he asked for a summary of the model law request. Commissioner Donelon summarized the model law request before the Committee by noting that on June 2, the Task Force adopted a Request for NAIC Model Law Development to amend the *Property and Casualty Guaranty Insurance Association Model Act* (#540). This model law request was originally proposed by the Working Group, who is charged with reviewing state laws regarding insurance business transfers (IBTs) and corporate divisions (CDs). Commissioner Donelon described that one area that was identified where model laws need to be amended is regarding how policyholders retain guaranty fund coverage after such transactions. He noted that the Receivership Law (E) Working Group and the Task Force sought input from state insurance regulators and industry, including the National Conference of Insurance Guaranty Funds (NCIGF) and the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). The model law request seeks to make amendments to address possible technical gaps that may exist in states that have adopted Model #540 within certain definitions to ensure there is guaranty fund coverage after the IBTs and CD transaction. Commissioner Donelon noted that the model law request was exposed by the Task Force for a 30-day public comment period. He noted that there was no opposition at either the Working Group or the Task Force to amend Model #540. He indicated that there was discussion on whether similar amendments are needed for the Life and Health Insurance Guaranty Association Model Act (#520), but it was decided that Model #520 does not require amendment.

Director Lindley-Myers made a motion, seconded by Commissioner Caride, to adopt the Request for NAIC Model Law Development (Attachment One-A). The motion passed unanimously.

3. Adopted Regulatory Considerations Applicable to (But Not Exclusive to) PE Insurers

Commissioner White noted that this item received a great deal of attention, including from Senator Sherrod Brown (D-OH), and he asked for a summary of the work. Commissioner Caride summarized the work leading to

consideration of adoption of the proposed document, which includes the “Regulatory Considerations Applicable to (But Not Exclusive to) Private Equity (PE) Insurers.” She reminded the Committee that the Financial Stability (E) Task Force previously charged the Macroprudential (E) Working Group with coordinating all NAIC efforts related to PE ownership of insurers. She noted that the Working Group quickly put together a list of 13 considerations state insurance regulators need to address after being charged with such work, noting that some NAIC committee groups were already working on issues related to some of the considerations. These considerations include activities frequently attributed to PE firms, but the Working Group members clearly specified that the list of 13 considerations is not limited to any specific ownership structure, PE or otherwise.

Commissioner Caride stated that once the list of 13 considerations was adopted by the Task Force, the Working Group proposed ways to address each consideration, including referrals to various NAIC committee groups with current related work or at least with charges encompassing the work involved. The document was titled the “Proposed Regulator Responses to the List of MWG Considerations,” and it was released for a 45-day public comment period. Commissioner Caride indicated that five comment letters were received by the June 13 deadline from Risk & Regulatory Consulting LLC; the American Council of Life Insurers (ACLI); the American Investment Council (AIC); UNITE HERE, a labor union for the hospitality industry; and Northwestern Mutual. She stated that from the five comment letters, the Working Group identified the items specifically affecting one or more of the 13 considerations. These were inserted into the exposed document along with state insurance regulators’ suggestions for how to respond to the comments, resulting in a new document. She noted that only key comments from the five comment letters are included in the new document. For example, the state insurance regulators appreciated the general comments of support but did not include them in the new document. Similarly, some high-level comments were excluded because the Working Group members did not see them as viable or actionable. On June 27, the Task Force held a joint meeting with the Working Group. The primary purpose of this joint meeting was to address comments received on the “Proposed Regulator Responses to the List of MWG Considerations” and consider adoption of a finalized plan for addressing the “List of MWG Considerations.” During the meeting, each of the five entities were offered the opportunity to speak to their comment letters. Additionally, during the meeting, each specific comment included in the new document was presented one at a time, and all parties were offered the chance to provide any concerns, suggestions, etc. While some comments were provided, none included concerns with moving forward with the current concepts or suggested any language changes. After reviewing all the comments inserted into the new document, a final opportunity to express any concerns with the overall document and its content was offered. There were no comments. The Working Group and the Task Force both adopted the new document unanimously. Commissioner Caride noted that upon adoption of the new document, NAIC staff finalized the language as the “Plan for List of MWG Consideration.”

Director Lindley-Myers made a motion, seconded by Mr. Kasinow, to adopt the “Plan for List of MWG Considerations” (Attachment One-B). The motion passed unanimously.

4. Adopted the *List of Jurisdictions that Recognize and Accept the Group Capital Calculation*

Commissioner White noted that this item is timely, as there are several states that made the group capital calculation (GCC) effective for year-end 2022, and this list being presented provides a pathway for some non-U.S. groups to obtain an exemption for that filing, and he asked Mr. Wake to summarize it. Mr. Wake said on June 29, the Mutual Recognition of Jurisdictions (E) Working Group met and adopted the draft *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation*. He reminded the Committee that on Dec. 9, 2020, the Executive (EX) Committee and Plenary adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450), which establish the GCC framework. The Working Group was directed to create the *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation*, which was adopted by the Executive (EX) Committee and Plenary on Dec. 16, 2021. Included in the *Process for Evaluating Jurisdictions that Recognize and*

Accept the Group Capital Calculation is a requirement for the Working Group to evaluate non-U.S. jurisdictions in accordance with the *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation*, which would then be included on the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation*, which is to be published through the NAIC committee process.

Mr. Wake noted that the draft *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* includes the five reciprocal jurisdictions, which are the European Union (EU) and United Kingdom (UK) through their covered agreements, the following separately approved by the Working Group: Bermuda, Japan, and Switzerland. He also described that Section 4L(2)(e) of Model #440 directs a lead state commissioner to require the GCC for U.S. operations of any non-U.S.-based insurance holding company system based in a Recognize and Accept Jurisdiction if after any necessary consultation with other supervisors or officials, the commissioner deems such a subgroup calculation to be appropriate for prudential oversight and solvency monitoring purposes or for ensuring the competitiveness of the insurance marketplace. Section 21E(1) of Model #450 provides that to assist with such a determination, the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* will also identify whether a listed jurisdiction requires a group capital filing for any U.S.-based insurance group's operations in that jurisdiction. He noted that the Working Group believes that the best source of this information will come from industry, as they will have direct exposure to the practices in these jurisdictions. He noted that the Working Group has asked the industry to provide any information related to this topic to their lead state insurance regulators, Jake Stultz (NAIC), and Dan Schelp (NAIC), who will bring this information to the Working Group to assess.

Mr. Wake made a motion, seconded by Commissioner Caride, to adopt the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* (Attachment One-C). The motion passed unanimously.

5. Received an Update on Related Party Disclosures

Commissioner White noted the last two items both originated at the Statutory Accounting Principles (E) Working Group, and he asked Mr. Bruggeman, chair of the Working Group, to summarize the two products and their status. Mr. Bruggeman summarized an update to the Committee (Attachment One-D) on related party disclosures. The update included a statement that both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group recently unanimously adopted new disclosures for related party reporting on the detail investment schedules. Specifically, the Statutory Accounting Principles (E) Working Group adopted clarifying language within *Statement of Statutory Accounting Principles (SSAP) No. 25—Affiliates and Other Related Parties* to better link Model #440 and Model #450 with the definitions of "Affiliate" and "Control." Mr. Bruggeman noted that the changes were done in conjunction with recent recommendations from the Macroprudential (E) Working Group regarding the risk of certain investments that involve related parties. The submission of the adopted statutory accounting and blanks revisions is planned to come before the Accounting Practices and Procedures (E) Task Force and the Committee at the Summer National Meeting.

Mr. Bruggeman provided a summary of the revisions and key discussion elements with the intent of understanding the information in advance of being asked to consider action. He noted that the primary goal of the adopted changes is to incorporate new reporting requirements for investment transactions to provide more transparency into the involvement of related parties. The intent is to provide information to state insurance regulators on whether an investment involves: 1) actual credit exposure to related parties; or 2) whether an investment involves a related party in the origination, servicing, or some other involvement with the investment. He noted that the revisions will affect all insurance reporting entities and will be effective Dec. 31. He stated that they affect all investment schedules except for Schedule A: Real Estate and will require the identification of related party involvement, for every investment, including investments captured on the affiliate reporting line. Note that an affiliate is a related party relationship for which there is control, either direct or indirect. Mr. Bruggeman stated

that there are six different codes that insurers will use to identify the type of related party involvement, or there is no related party relationship. The code is required for all investments to prevent “null” answers in which there is ambiguity on whether a response indicates no related party relationship or an inadvertent omission in reporting. Mr. Bruggeman noted that it is his experience that databases work better when they do not have to account for null fields. He noted that in addition to those new reporting codes, the Statutory Accounting Principles (E) Working Group adopted clarifications to make it clear that the existing affiliate definition applies to all types of entities and investment structures, including securitizations. He also noted that the current definition of “control” from Model #440 is already explicit that control can exist through arrangements besides voting interests. He stated that the clarifications add specificity around the application of this existing guidance to other types of non-voting entities. For example, securitization entities are typically controlled through non-voting arrangements. In addition, to the extent that such control is held by the reporting entity or its affiliates, then the securitization entity and any investments in it would be deemed affiliated.

Mr. Bruggeman summarized that most industry comments received on the disclosure part of the proposal pertained to the classification of investments as “affiliated.” Although the definition and guidance for “control” and “affiliate” distinction have not changed, the discussion highlighted that those differing interpretations seem to exist when an investment should be reported as affiliated. He also noted that the key discussion elements were noted in the memorandum at the bottom of page 2 and the top of page 3, but it is anticipated that the clarifying guidance should improve application, with an increase in reporting of affiliated investments by some insurers, and the new reporting codes will identify the nature of the related party relationship.

6. Received an Update on the Bond Proposal Project

Mr. Bruggeman summarized an update to the Committee (Attachment One-E) on the bond proposal project. He noted that during the Spring National Meeting, he provided the background and history of this project and therefore would not repeat that type of information, but he instead provided a high-level overview of the two categories for bond classification, issuer obligations (IOs), and asset-backed securities (ABS). The over-layering principle is that a bond is a creditor relationship in substance. The next level is an IO where repayment is primarily supported by the general creditworthiness of an operating entity, such as U.S. Treasuries or corporate debt. The other side is an ABS, which has the primary purpose of raising debt capital backed by collateral that provides cash flows to service the debt. Whether the collateral is a financial or non-financial asset, it must have substantive credit enhancement or put the investor in a different economic position than holding the collateral directly, usually done via overcollateralization. He noted that if the collateral is a non-financial asset, the guidance requires meaningful cash flows to service the debt; although, the guidance includes a practical expedient.

Mr. Bruggeman summarized the progress on the project by noting that state insurance regulators and key industry representatives have been working on this project as a top priority to improve accounting and reporting and ensure that regulators have transparency to the investment risks held by insurers. At this time, the key state insurance regulator and industry individuals involved in the project believe that the main principles are set. Mr. Bruggeman noted that during a Statutory Accounting Principles (E) Working Group call on July 18, a representative from the main interested party group reiterated comments that state insurance regulators and industry are aligned with key concepts. As a result, NAIC staff were asked to prepare documents for changes to *SSAP No. 26R—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities* so those can hopefully be exposed during the Summer National Meeting. He noted that this is a key next step, as the statutory guidance reflects the authoritative literature for investment classification and accounting concepts. Also from the July 18 call, the Working Group exposed documents until Oct. 7, proposing significant revisions to the reporting of bond investments to improve the granularity of investment reporting. This is a significant change from the current reporting approach, but it will provide valuable information to state insurance regulators on the actual investments held by insurers.

Mr. Bruggeman highlighted key aspects of this exposure. He noted that the bond detail list schedule, known as Schedule D Part 1, is proposed to be expanded from one to two separate schedules. He noted that Schedule D Part 1 Section 1 will include issuer obligations, and Schedule D Part 1 Section 2 will include ABS. The sum of the two schedules will still roll up to the Bonds line on the Assets page. He stated that rather than classifying all bonds into one of four generic reporting groups, new reporting groups have been proposed to separate investments based on underlying characteristics. To provide examples, instead of classifying all ABS as either residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), or other ABS, reporting lines are proposed to identify collateralized loan obligations (CLOs), equity-backed ABS, and lease-backed ABS. He noted that with the separation of the schedules, different data columns can be designed based on the broad investment classification. A review of the reporting instructions has been completed, and several revisions are proposed to streamline reporting, eliminate elements not applicable to certain securities, and propose new columns to capture desired information. Mr. Bruggeman stated that the revisions should result in an improvement to state insurance regulators on provided information and eliminate inconsistency or uncertainty for industry in compliance.

Mr. Bruggeman noted that with the steady progress by the Working Group and the exposure of statutory accounting revisions, one of the key questions received pertains to the effective date and transition. He noted that based on time parameters for incorporating blanks reporting changes, the earliest the guidance could be effective would be Jan. 1, 2024. This would require that the reporting revisions be adopted by the Blanks (E) Working Group by May 2023. Mr. Bruggeman noted that as that deadline is quickly approaching, it is likely that revisions will be effective Jan. 1, 2025. For transition, it should be important to note that investments that do not qualify as bonds after the guidance is adopted will not be permitted to be reported as bonds under statutory accounting principles. There is no grandfathering planned for investments to continue to be reported as bonds that do not comply. This approach is necessary to ensure consistency with reporting across reporting entities. Although grandfathering guidance is not expected, some practical transition assessments will be considered. For example, it is recognized that historical "time of acquisition" assessments may not be feasible for existing investments; therefore, reasonable accommodations are anticipated to prevent undue hardship for reporting entities in complying with the guidance. Mr. Bruggeman summarized that he is pleased to share the progress on this key project and encourage Committee members, as well as all state insurance regulators and interested parties, to actively follow this project as we move forward with key statutory accounting and reporting revisions.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Spring National Meeting/Committee Meetings/FINANCIAL CONDITION (E) Committee/4-5-22 E min.docx

REQUEST FOR NAIC MODEL LAW DEVELOPMENT

This form is intended to gather information to support the development of a new model law or amendment to an existing model law. Prior to development of a new or amended model law, approval of the respective Parent Committee and the NAIC's Executive Committee is required. The NAIC's Executive Committee will consider whether the request fits the criteria for model law development. Please complete all questions and provide as much detail as necessary to help in this determination.

Please check whether this is: New Model Law or Amendment to Existing Model

1. Name of group to be responsible for drafting the model:

Receivership Law (E) Working Group of the Receivership and Insolvency (E) Task Force to complete the drafting. Referred by the Restructuring Mechanisms (E) Working Group.

2. NAIC staff support contact information:

Jane Koenigsman
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816-783-8145

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3. Please provide a brief description of the proposed new model or the amendment(s) to the existing model. If you are proposing a new model, please also provide a proposed title. If an existing model law, please provide the title, attach a current version to this form and reference the section(s) proposed to be amended.

- ***Property and Casualty Insurance Guaranty Association Model Act (#540)***

In 2019, the Financial Condition (E) Committee formed the Restructuring Mechanisms (E) Working Group who was charged with the following:

1. Evaluate and prepare a white paper that:
 - a. Addresses the perceived need for restructuring statutes and the issues those statutes are designed to remedy. Also, consider alternatives that insurers are currently employing to achieve similar results.
 - b. Summarizes the existing state restructuring statutes.
 - c. Addresses the legal issues posed by an order of a court (or approval by an insurance department) in one state affecting the policyholders of other states.
 - d. Considers the impact that a restructuring might have on guaranty associations and policyholders that had guaranty fund protection prior to the restructuring.
 - e. Identifies and addresses the legal issues associated with restructuring using a protected cell.

Background for Proposed Change

This proposed change is being precipitated by discussions within the NAICs Restructuring Mechanisms (E) Working Group initiative, which is focused on documenting in the form of a White Paper, the various issues related to insurance business transfers (IBT) and corporate division (CD) transactions. The number of states adopting laws that permit either of these transactions is still relatively low; however, one of the most significant issues that has been discussed during the meetings of the Working Group is the need for policyholders subject to such transactions to retain guaranty fund coverage. Representatives of the National Conference of Insurance Guaranty Funds (NCIGF) have suggested that an amendment to a state's guaranty fund act, or other related law, is necessary to address this issue. They have specifically suggested that the NAIC update the Property and Casualty Insurance Guaranty Association Model Act, and they have developed specific language to address this issue. An amendment will better enable those states that have incorporated #540 into their laws to update their laws for this important issue, to ensure policyholders in all states

retain their coverage. Because guaranty association coverage follows the state of licensure rather than the state of domicile, adequately addressing these concerns is necessary regardless of the type of transfer and regardless of how few states adopt changes to their laws to allow IBT and CD transactions.

Scope of the Proposed Revisions to Model 540

The scope of the request is limited to addressing the issue of continuity of guaranty fund coverage when a policy is transferred from one insurer to another. The request is therefore to the specific proposal to revise the definition of “Covered Claim” within #540, or other language determined to be appropriate to address the need for continuity of protection. The following is the additional language (underlined language) that has been proposed to be added to Section 5, Definitions, within #540.

H. “Covered claim” means the following:

- (a) The claimant or insured is a resident of this State at the time of the insured event, provided that for entities other than an individual, the residence of a claimant, insured or policyholder is the State in which its principal place of business is located at the time of the insured event; or
- (b) The claim is a first party claim for damage to property with a permanent location in this State.
- (c) Notwithstanding any other provision in this Act, an insurance policy issued by a member insurer and later allocated, transferred, assumed by or otherwise made the sole responsibility of another insurer, pursuant to a state statute providing for the division of an insurance company or the statutory assumption or transfer of designated policies and under which there is no remaining obligation to the transferring entity (commonly known as “Division” or “Insurance Business Transfer” statutes), shall be considered to have been issued by a member insurer which is an Insolvent Insurer for the purposes of this Act in the event that the insurer to which the policy has been allocated, transferred, assumed or otherwise made the sole responsibility of is placed in liquidation.
- (d) An insurance policy that was issued by a non-member insurer and later allocated, transferred, assumed by or otherwise made the sole responsibility of a member insurer under a state statute described in subsection (a) shall not be considered to have been issued by a member insurer for the purposes of this Act.

4. Does the model law meet the Model Law Criteria? Yes or No (Check one)

(If answering no to any of these questions, please reevaluate charge and proceed accordingly to address issues).

a. Does the subject of the model law necessitate a national standard and require uniformity amongst all states? Yes or No (Check one)

If yes, please explain why:

This proposed change is needed to ensure policyholders in all states retain their guaranty fund coverage, which is necessary regardless of how few states adopted changes to their laws to allow IBT and CD transactions.

It should be noted that with respect to guaranty fund coverage for life and health insurance, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) is suggesting a different approach to address the same issue in the life and health context. NOLHGA’s proposal centers around the need for such transaction to require the assuming or resulting insurer to be licensed in all states where the issuing insurer was licensed or ever was licensed to retain the needed coverage for policyholders.

b. Does Committee believe NAIC members should devote significant regulator and Association resources to educate, communicate and support this model law?

Yes or No (Check one)

5. What is the likelihood that your Committee will be able to draft and adopt the model law within one year from the date of Executive Committee approval?

1 2 3 4 5 (Check one)

High Likelihood

Low Likelihood

Explanation, if necessary:

6. What is the likelihood that a minimum two-thirds majority of NAIC members would ultimately vote to adopt the proposed model law?

1 2 3 4 5 (Check one)

High Likelihood

Low Likelihood

Explanation, if necessary: See previous discussion.

7. What is the likelihood that state legislatures will adopt the model law in a uniform manner within three years of adoption by the NAIC?

1 2 3 4 5 (Check one)

High Likelihood

Low Likelihood

Explanation, if necessary:

At this juncture, the changes in concepts being considered are simple and because they have the potential to reduce expenses incurred by receivership estates, we believe such changes will be widely supported by all parties.

8. Is this model law referenced in the NAIC Accreditation Standards? If so, does the standard require the model law to be adopted in a substantially similar manner?

Not referenced in Accreditation Standards.

9. Is this model law in response to or impacted by federal laws or regulations? If yes, please explain.

No.

Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers

A summary of currently identified regulatory considerations follows with no consideration of priority or importance (green underlined font indicates current or completed work by another NAIC committee group). Most of these considerations are not limited to PE owned insurers and are applicable to any insurers demonstrating the respective activities. A summary of the regulatory process has been added to this document since it is being used by individuals less familiar with the state insurance regulatory system, and the results of regulator discussions on how to move forward have been added to specific considerations in blue font. **The proposed regulator responses are exposed for a 45-day comment period.**

State insurance regulators monitor the solvency of each legal entity insurer, including assessing risks from the broader holding company when an insurer is part of a group, making use of routinely required disclosures, both public, such as the statutory financial statements, and confidential, such as the Risk-Based Capital (RBC) supplemental filing and Holding Company form filings. Regulators also use many analysis and examination tools and procedures for each insurer and/or insurance group. Regulatory responses to the analysis and examination work depend upon the results of those reviews. One specific area of solvency monitoring work focuses on potential acquisitions of a US legal entity insurer, involving a Form A filing. In 2013, guidance was added to the NAIC Financial Analysis Handbook for Form A reviews when a private equity owner was involved, although these considerations are not limited to PE acquisitions. The guidance provides examples of stipulations, both limited time and continuing, regulators could use when approving the acquisition to address solvency concerns, as well as for use in ongoing solvency monitoring. Examples follow:

Limited Time Stipulations:

- Requiring RBC to be maintained at a specified amount above company action level/trend test level. Because capital serves as a buffer that insurers use to absorb unexpected losses and financial shocks, this would better protect policyholders.
- Requiring quarterly RBC reports rather than annual reports as otherwise required by state law.
- Prohibiting any dividends, even ordinary.
- Requiring a capital maintenance agreement or prefunded trust account.
- Enhancing the scrutiny of operations, dividends, investments, and reinsurance by requiring material changes in plans of operation to be filed with the commissioner (including revised projections), which, at a minimum, would include affiliated/related party investments, dividends, or reinsurance transactions to be approved prior to such change.
- Requiring a plan to be submitted by the group that allows all affiliated agreements and affiliated investments to be reviewed, despite being below any materiality thresholds otherwise required by state law. A review of agreements between the insurer and affiliated entities may be particularly helpful to verify there are no cost-sharing agreements that are abusive to policyholder funds assessment.

Continuing Stipulations:

- Requiring prior commissioner approval of material arms-length, non-affiliated reinsurance treaties or risk-sharing agreements.
- Requiring notification within 30 days of any change in directors, executive officers or managers, or individuals in similar capacities of controlling entities, and biographical affidavits and such other information as shall reasonably be required by the commissioner.

- Requiring filing of additional information regarding the corporate structure, controlling individuals, and other operations of the company.
- Requiring the filing of any offering memoranda, private placement memoranda, any investor disclosure statements or any other investor solicitation materials that were used related to the acquisition of control or the funding of such acquisition.
- Requiring disclosure of equity holders (both economic and voting) in all intermediate holding companies from the insurance company up to the ultimate controlling person or individual but considering the burden on the acquiring party against the benefit to be received by the disclosure.
- Requiring the filing of audit reports/financial statements of each equity holder of all intermediate holding companies but considering the burden on the acquiring party against the benefit to be received by the disclosure.
- Requiring the filing of personal financial statements for each controlling person or entity of the insurance company and the intermediate holding companies up to the ultimate controlling person or company. Controlling person could include for example, a person who has a management agreement with an intermediate holding company.

Among many other concepts, regulators are considering the need for any additional stipulations, if there are some stipulations that should be required instead of used subjectively, and use of some stipulations beyond the Form A acquisition process (e.g., for insurers acquired in the past).

RRC Comments “In a Form A transaction” (7 bullet points) – Suggest including these in the referrals to the NAIC Group Solvency Issues (E) Working Group and the NAIC Risk-Focused Surveillance (E) Working Group for consideration when addressing Consideration numbers 1, 2, 4 and 5.

1. Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer’s risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).

Regulator discussion results:

- Refer this item to the NAIC Group Solvency Issues (E) Working Group. Items discussed:
 - o Instead of requiring for all Form A acquisitions to provide additional disclosures, structure an optional disclosure requirement that can be used when unresolved regulatory concerns exist with the acquisition. For example:
 - Disclosures to allow regulators to assess the goal of the potential owner in acquiring the insurer, how the potential owner will be paid and in what amounts, and the ability of the potential owner to provide capital support as needed.
 - Copies of disclosures provided to the potential owner’s investors.
 - o Provide training as needed to states with less experience reviewing complex Form A transactions and refer those states to more experienced states for live help.

- These options include highlighting the need to use external expertise for complex transactions, especially to understand non-U.S. affiliations and when assessing multiple complex Form A applications, and at the expense of the Form A applicant.

AIC Comment (recommended 2 items) – Suggest including this recommendation in the referral to the NAIC Group Solvency Issues (E) Working Group for its work on Consideration #1.

- Recommendation: The Working Group should assess, among other items: (i) the need to provide regulatory certainty *vis a vis* when and on what basis additional disclosures could be required; and (ii) whether the additional disclosures would extend approval timelines. We believe such items are critical to insurers being able to access the capital markets effectively and efficiently.

2. Control is presumed to exist where ownership is $\geq 10\%$, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.

Regulator discussion results:

- Refer this item to the NAIC Group Solvency Issues (E) Working Group. Regulators recognized the integral connection of the first two considerations. Items discussed:
 - o An emphasis on training and providing detailed examples to address the complexity and creativity involved in some of these Form A agreements and holding company structures.
 - o It is not practical to get copies of operating agreements from every entity in a group to assess control impacts to the insurers. Consider ways of better targeting the pertinent agreements to assess, including a potential list of questions about less than 10% owners for use when considering Form A applications and/or ongoing analysis.
 - o Consider if Form B (Insurance Holding Company System Annual Registration Statement) disclosure requirements should be modified to address these considerations.

AIC Comment (2 primary concerns) – Suggest asking the AIC to follow the work of the NAIC Group Solvency Issues (E) Working Group on Consideration #2 and make comments on specific recommendations if needed.

- Concerns: The 10% presumption of control needs to remain; and contractual terms contained in service agreements that are negotiated on an arm's length basis are not sufficient to convey the power to direct or cause the direction of an insurer, so long as they are subject to the ultimate supervision and control by the insurer.

3. The material terms of the IMA and whether they are arm's length or include conflicts of interest — including the amount and types of investment management fees paid by the insurer, the termination provisions (how difficult or costly it would be for the insurer to terminate the IMA) and

the degree of discretion or control of the investment manager over investment guidelines, allocation, and decisions.

Regulator discussion results:

- Refer this item to the NAIC Risk-Focused Surveillance (E) Working Group. Regulators recognized similar dynamics to the first two considerations, but this Working Group was selected because it is already currently focused on a project involving affiliated agreements and Form D filings. Items discussed:
 - o Consider training and examples, such as unique termination clauses and use of sub-advisors with the potential for additive fees, and strategies to address these.
 - This included addressing pushback on obtaining sub-advisor agreements as Form D disclosures and some optional disclosures for the Form A.
 - o Given the increasing prevalence of bespoke agreements, does it make sense to tie this work in to the work of the NAIC Valuation of Securities (E) Task Force and/or the NAIC Securities Valuation Office? If yes, how best to do so?
 - o Surplus Notes and appropriate interest rates given their special regulatory treatment, including whether floating rates are appropriate; follow any Statutory Accounting Principles (E) Working Group projects related to this topic and provide comments needed.

RRC Comments “With respect to an Investment Management Agreement (IMA” (3 bullet points) - Suggest including these in the referral to the NAIC Risk-Focused Surveillance (E) Working Group for Consideration #3.

AIC Comments on “Conflict of Interest, Fees, Termination” (3 individual comments) – Suggest including these comments in the referral to the NAIC Risk-Focused Surveillance (E) Working Group for its work on Consideration #3.

4. Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities in life products. For example, investment management fees, when not fair and reasonable, paid to an affiliate of the owner of an insurer may effectively act as a form of unauthorized dividend in addition to reducing the insurer’s overall investment returns. Similarly, owners of insurers may not be willing to transfer capital to a troubled insurer.
 - a. Life Actuarial (A) Task Force (LATF) work addresses this – helping to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.

Regulator discussion results:

- In addition to LATF’s work, refer this item to the NAIC Risk-Focused Surveillance (E) Working Group, as it is already looking at some of this work related to affiliated agreements and fees. Items discussed:
 - o Capital maintenance agreements, suggesting guidance for the appropriate entities to provide them and considering ways to make them stronger.

5. Operational, governance and market conduct practices being impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. For example, a reliance on TPAs due to the acquiring firm's lack of expertise may not be sufficient to administer the business. Such practices could lead to lapse, early surrender, and/or exchanges of contracts with in-the-money guarantees and other important policyholder coverage and benefits.
 - a. The NAIC Financial Analysis Handbook includes guidance specific to Form A consideration and post approval analysis processes regarding PE owners of insurers (developed previously by the Private Equity Issues (E) Working Group).

Regulator discussion results:

- Regulators considered referring this consideration to the NAIC Risk-Focused Surveillance (E) Working Group but opted to keep developing more specific suggestions for now. Items discussed:
 - o Consider optional Form A disclosures and guidance for less experienced states; review EU conduct of business language and consider if similar concepts would help target the optional use.
 - o Consider more detailed guidance for financial examinations.
 - o Besides just inexperience, the consideration also includes intentional actions that ignore known concerns to achieve owner's results; might need to consider Market Conduct group(s).
6. No uniform or widely accepted definition of PE and challenges in maintaining a complete list of insurers' material relationships with PE firms. (UCAA (National Treatment WG) dealt with some items related to PE.) This definition may not be required as the considerations included in this document are applicable across insurance ownership types.

Regulator discussion results:

- Regulators do not believe a PE definition is needed, as the considerations are activity based and apply beyond PE owners.
7. The lack of identification of related party-originated investments (including structured securities). This may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. For example, a CLO which is managed or structured by a related party.
 - a. An agenda item and blanks proposal are being re-exposed by SAPWG. Desire for 2022 year-end reporting to include disclosures identifying related-party issuance/acquisition.

Regulator discussion results:

- Regulators are comfortable the SAPWG's work is sufficient as a first step since it involves code disclosures to identify various related party issues. They also recognize that existing and/or referred work at the Risk-Focused Surveillance (E) Working Group may address some items in this consideration. Once regulators work with these SAPWG disclosures and other regulatory enhancement, further regulatory guidance may be considered as needed.

8. Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party.
 - a. An agenda item and blanks proposal are being re-exposed by SAPWG. The concept being used for investment schedule disclosures is the use of code indicators to identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments.

Regulator discussion results:

- Like the previous consideration, regulators are looking forward to using these code disclosures to help target areas for further review. However, specific to CLO/structured security considerations, regulators support a referral to the Examination Oversight (E) Task Force. Specific items discussed include:
 - o Since investors in CLOs obtain monthly collateral reports, regulators should consider asking for such reports when concerns exist regarding a company's potential exposure to affiliated entities within their CLO holdings.
 - o Regulators would like to have more information regarding the underlying portfolio companies affiliated with a CLO manager to help quantify potential exposure between affiliates and related parties.
 - o Regulators request NAIC staff to consider their ability to provide tools and/or reports to help regulators target CLOs/structured securities to consider more closely.

RRC Comments on "collateralized loan obligations (CLOs)" (2 bullets) – Suggest including these in the referrals to the NAIC Examination Oversight (E) Task Force and the NAIC Risk-Focused Surveillance (E) Working Group for Consideration numbers 7, 8 and 9, but also sending to the NAIC Statutory Accounting Principles (E) Working Group for its existing work related to these Considerations.

9. Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. A new Schedule Y, Pt 3, has been adopted and is in effect for year-end 2021. This schedule will identify all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation. It will also identify the ultimate controlling party.
 - a. Additionally, SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to use principles to determine what reflects a qualifying bond and to identify different types of investments more clearly. For example, D1 may include issuer credits and traditional ABS, while a sub-schedule of D1 could be used for additional disclosures for equity-based issues, balloon payment issues, etc. This is a much longer-term project, 2024 or beyond.

Regulator discussion results:

- Regulators recognize the new Schedule Y, Part 3, will give them more insights for owners of greater than 10%, but it does not provide insights for owners of less than 10%. However, regulators also

recognize that existing and/or referral work of the Risk-Focused Surveillance (E) Working Group may help with some of this dynamic. Additionally, since the SAPWG 2022 code project and its longer-term Schedule D revamp project will help provide further disclosures that will assist with this consideration, regulators are comfortable waiting to see if further regulatory guidance is needed after using the resulting disclosures and other enhancements from these projects.

- Specific to owners of less than 10%, regulators discussed the April 19, 2022, Insurance Circular Letter No. 5 (2022) sent by the New York Department of Financial Services to all New York domiciled insurers and other interested parties. This letter highlights that avoiding the levels deemed presumption of control, e.g., greater than 10% ownership, does not create a safe harbor from a control determination and the related regulatory requirements. The circular letter was distributed to all MWG members and interested regulators.

10. The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)

- a. LATF's exposed AG includes disclosure requirements for these risks as well as how the insurer is modeling the risks.
- b. SVO staff have proposed to VOSTF a blanks proposal to add market data fields (e.g., market yields) for private securities. If VOSTF approves, a referral will be made to the Blanks WG.

Regulator discussion results:

- Regulators focused on the need to assess whether the risks of these investments are adequately included in insurers' results and whether the insurer has the appropriate governance and controls for these investments. Regulators discussed the potential need for analysis and examination guidance on these qualifications.
- To assist regulators in identifying concerns in these investments, regulators expressed support for the VOSTF proposal to obtain market yields to allow a comparison with the NAIC Designation. Once such data is available, regulators ask NAIC staff to develop a tool or report to automate this type of initial screening. Also, regulators again recognized the SAPWG Schedule D revamp work will help in identifying other items for initial screening.
- The regulators discussed LATF's exposed AG, noting the Actuarial Memorandum disclosures that would be required for these privately structured securities along with the actuarial review work, and recognizing how those would be useful for analysts and examiners when reviewing these investments. Additionally, the Valuation and Analysis (E) Working Group would be able to serve as a resource for some of these insights for states without in house actuaries.
- As a result of the above discussions, regulators agreed to a referral to the Examination Oversight (E) Task Force to address the disclosures that will be available from LATF's exposed AG. They agreed to wait for any further work or referral until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project.

RRC Comments on “privately structured securities” (2 bullets, 1 with 2 sub-bullets) – Suggest including these in the referral to the NAIC Examination Oversight (E) Task Force for Consideration #10 but also sending to the NAIC Valuation of Securities (E) Task Force for its existing work related to this Consideration.

AIC Comment on “Privately Structured Securities” (6 bullets) – Suggest asking the AIC to follow the work of the NAIC Examination Oversight (E) Task Force and the NAIC Valuation of Securities (E) Task Force and provide comments on specific recommendations if needed.

RRC Comment on the work by the NAIC Life Actuarial (A) Task Force (LATF) – Suggest adopting this recommendation as an addition to the Regulatory Discussion results and sending the referral.

- Recommendation: Since reserves are not intended to capture tail risk, refer this item to the NAIC RBC Investment Risk and Evaluation (E) Working Group and monitor the Working Group’s progress.

11. The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, and transparency).
 - a. VOSTF has previously addressed and will continue to address this issue. A small ad hoc group is forming (key representatives from NAIC staff, regulators, and industry) to develop a framework for assessing rating agency reviews. This will be a multi-year project, will include discussions with rating agencies, and will include the inconsistent meanings of ratings and terms.

Regulator discussion results:

- Regulators agreed to monitor the work of the ad hoc group in lieu of any specific recommendations at this time. Recognizing this will likely be a multi-year project, regulators reserve the right to raise specific concerns that may arise as the various NAIC committee groups work to address this list of considerations.

12. The trend of life insurers in pension risk transfer (PRT) business and supporting such business with the more complex investments outlined above. (Enhanced reporting in 2021 Separate Accounts blank will specifically identify assets backing PRT liabilities.) Considerations have also been raised regarding the RBC treatment of PRT business.
 - a. **LATF has exposed an Actuarial Guideline** to achieve a primary goal of ensuring claims-paying ability even if the complex assets (often private equity-related) did not perform as the company expects, and a secondary goal to require stress testing and best practices related to valuation of non-publicly traded assets (note – LATF’s considerations are not limited to PRT). **Comment period for the 2nd exposure draft ends on May 2.**

Regulator discussion results:

- Regulators focused on the need to have disclosures on the risks to the General Account from the Separate Account PRT business – for guarantees but also reporting/tracking when the Separate Account is not able to support its own liabilities. Regulators noted the need to address the differences between buy in PRT transactions and buy out.
- Regulators are comfortable LATF is addressing the reserve considerations. To address the disclosure considerations, regulators support sending a referral to the Statutory Accounting Principles (E) Working Group since regulators suggested it be an item in the Notes to

Financial Statements. (Regulators noted it might help to discuss such disclosure concepts with LATF's Valuation Manual 22 (A) Working Group.)

- While the exposed AG is not limited to PRT, and general disclosures may be helpful, regulators recognized additional and/or more specific disclosures may be needed for PRT business.

- b. Review applicability of Department of Labor protections resulting for pension beneficiaries in a PRT transaction.

Regulator discussion results:

- Regulators discussed concerns regarding potential differences between the pension benefit and the group annuity benefit in the PRT transaction.
- Regulators directed NAIC staff to further research this item for the MWG to address in the near future, including potential discussions with Department of Labor representatives.

- c. Review state guaranty associations' coverage for group annuity certificate holders (pension beneficiaries) in receivership compared to Pension Benefit Guaranty Corporation (PBGC) protection.

- i. NOLHGA provided 2016 study of state guaranty fund system vs. PBGC.

Regulator discussion results:

- Regulators recognized the difficulty in comparing the state guaranty system to the Pension Benefit Guarantee Corporation, as detailed in the NOLHGA study. However, they agreed policyholders should appreciate the benefit of having solvency regulators actively monitoring and working with the insurance companies in an attempt to prevent the need for any guaranty fund usage, as standard corporations holding pension liabilities have significantly less regulatory oversight.
- Regulators found the NOLHGA study responsive to this consideration, thus they suggested no further action.

- d. "Considerations have also been raised regarding the RBC treatment of PRT business."

Regulator discussion results:

- Regulators recognized the work of the Longevity Risk Transfer (LRT) Subgroup of the Life Risk-Based Capital (E) Working Group covers PRT business. A new LRT charge was included in the 2021 Life Risk-Based Capital (LRBC) formula. Regulators agreed the results of this new charge should be monitored.
- While regulators agreed to follow the work of the LRT Subgroup, they suggested no further action at this time.

13. Insurers' use of offshore reinsurers (including captives) and complex affiliated sidecar vehicles to maximize capital efficiency, reduce reserves, increase investment risk, and introduce complexities into the group structure.

- a. LATF's exposed AG was modified to require the company to provide commentary on reinsurance collectability and counterparty risk in the asset adequacy analysis memorandum.

The original concept of requiring life insurers to model the business itself even if it uses these mechanisms to share/transfer risk was deferred to allow time to consider and address concerns over potential violations with EU/UK covered agreements and the 2019 revisions to NAIC Models 785 and 786.

Regulator discussion results:

- Regulators held candid conversations about the need to understand why insurers are using these types of offshore reinsurers. If there are problems in the U.S. regulatory system that are driving insurers to utilize offshore reinsurers (e.g., “excess” reserves), we should know of those problems so we can consider if there are appropriate changes to make.
- If there are other drivers, per the common theme in the regulators’ review of this list of considerations, there isn’t a presumption that the use of these transactions is categorically bad. Rather, there is a need to understand the economic realities of the transactions so the regulators can effectively perform their solvency monitoring responsibilities.
 - o Regulators discussed the potential concept of additional Holding Company Act requirements if these are affiliated reinsurers, disclosing the insurer benefits (reserves, capital, etc.).
- Regulators deferred specifying action on this item at this time, instead noting the desire to have meetings with industry representatives using these transactions and regulators from some of the offshore jurisdictions to gain more insights.

Northwestern Mutual Comment (2 cautions) – Suggest including these cautions as part of the MWG’s future discussions and work for this Consideration.

- Caution: Reinsurance transactions can and often do serve a valuable function by reallocating risk. However, offshore reinsurance can also result in lower total reserves and capital, reduced state regulatory oversight, and diminished stakeholder transparency from what would be required by the statutory accounting and risk-based capital requirements the NAIC has established to protect policyholders in the United States.
- Caution: Without progress and action on the item pertaining to offshore reinsurance, the Working Group’s progress on other MWG Considerations could further incentivize even more utilization of offshore reinsurance transactions and undercut the NAIC’s efforts to close other solvency regulatory gaps domestically. In the long run, a system that encourages companies to transfer business to a related offshore entity in order to alter their reserves and capital from uniform standards diminishes the strength of reserve and capital regulation in the United States. If capital standards are deemed to be too conservative in the US, they should be addressed transparently and uniformly through the NAIC and not through the alternate means of offshore reinsurance.

• **Additional regulator discussion result:**

- Similar to the result of discussions for the 13th consideration, regulators expressed a desire to meet with various industry representatives to discuss the incentives behind private equity ownership of insurers and conversely the concerns other industry members may have with such ownership. Regulators believe the insights from these conversations will benefit their ability to monitor and, when necessary, contribute to the work occurring in the various NAIC committee groups regarding these considerations.



NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation

Reciprocal Jurisdictions (Model #440, Section 4L(2)(c))

Jurisdiction	Group-Wide Supervisor	Effective Date	Model #440, Section 4L(2)(e) Determination Explanatory Note
Member States of the European Union	Respective Member State Supervisory Authorities	January 1, 2022	
United Kingdom (UK)	Prudential Regulation Authority of the Bank of England (PRA)	January 1, 2022	
Bermuda	Bermuda Monetary Authority (BMA)	January 1, 2022	
Japan	Financial Services Agency (FSA)	January 1, 2022	
Switzerland	Financial Market Supervisory Authority (FINMA)	January 1, 2022	

Recognize and Accept Jurisdictions (Model #440, Section 4L(2)(d))

Jurisdiction	Group-Wide Supervisor	Effective Date	Model #440, Section 4L(2)(e) Determination Explanatory Note
None currently			

Group Capital Calculation. On December 9, 2020, the NAIC adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implement the Group Capital Calculation (GCC) filing requirements for insurance groups at the level of the ultimate controlling person for the purposes 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 detailed in the [Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation](#)) if its groupwide supervisor “recognizes and accepts” the GCC for U.S. groups doing business in that jurisdiction.

List of Jurisdictions that Recognize and Accept the GCC. The Mutual Recognition of Jurisdictions (E) Working Group will evaluate non-U.S. jurisdictions in accordance with the “Recognize and Accept” Process. A list of “Recognize and Accept” Jurisdictions is published through the NAIC committee process. Sections 21D and 21E of Model #450 provide a general framework for how the process to identify “Recognize and Accept” Jurisdictions will work and specifically contemplates the development of a list of such jurisdictions through the NAIC Committee Process.

NAIC Listing Process. 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” (Model #440, Section 4L(2)(c)); or
- (b) If the jurisdiction has otherwise been determined to recognize and accept the GCC by procedures specified in regulation.

Evaluation of Reciprocal Jurisdictions. Under Section 4L(2)(c) of Model #440, Reciprocal Jurisdictions that recognize the U.S. state regulatory approach to group supervision and group capital are exempt from the GCC. Because a “recognize and accept” evaluation by the Mutual Recognition of Jurisdictions (E) Working Group is already part of the Reciprocal Jurisdiction review process, all Reciprocal Jurisdictions designated by the NAIC through that review process are also automatically designated as “Recognize and Accept” Jurisdictions. Likewise, in view of the terms of the EU and UK Covered Agreements, all EU Member States and the UK are automatically designated “Recognize and Accept” Jurisdictions. If there is a material change to the terms of the U.S.-EU or U.S.-UK Covered Agreement, or if the United States enters into a new covered agreement with one or more non-U.S. jurisdictions, the Mutual Recognition of Jurisdictions (E) Working Group will consider, and will consult with FIO and USTR regarding, whether and how the applicability of the procedures in this document may apply.

Prudential Oversight and Solvency Monitoring. Section 4L(2)(e) of Model #440 directs a lead state commissioner to require the group capital calculation for U.S. operations of any non-U.S. based insurance holding company system based in a “Recognize and Accept” Jurisdiction if, after any necessary consultation with other supervisors or officials, the commissioner deems such a “subgroup” calculation to be appropriate for prudential oversight and solvency monitoring purposes or for ensuring the competitiveness of the insurance marketplace. Section 21E(1) of Model #450 provides that to assist with such a determination, the “Recognize and Accept” List will also identify whether a listed jurisdiction requires a group capital filing for any U.S. based insurance group’s operations in that jurisdiction. The NAIC will identify such jurisdictions on the “Recognize and Accept” List, and may include an explanatory note in cases where a simple “Yes” or “No” response does not adequately describe the jurisdiction’s requirements. States may rely on this List when making determinations under Section 4L(2)(e) of Model #440.

The specific details of the GCC Recognize and Accept process can be found in the [Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation.](#)



MEMORANDUM

TO: Financial Condition (E) Committee
FROM: Statutory Accounting Principles (E) Working Group
DATE: July 21, 2022
RE: Related Party Reporting

This memorandum intends to provide information to the Financial Condition (E) Committee on recent adoptions by the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group regarding the identification of related party involvement with investments. This is preliminary communication to the Committee, as the revisions will impact all insurance reporting entities and the discussion included affiliate identification. Submission of the statutory and blanks revisions for adoption consideration to the Accounting Practices and Procedures (E) Task Force and Financial Condition (E) Committee will occur at the Summer National Meeting. The intent is to provide information on the action as well as key discussion elements to allow Committee members to receive this information prior to considering action during the Summer National Meeting.

In conjunction with recent recommendations from the Macprudential (E) Working Group regarding the risk of certain investments that involve related parties, in May 2022, the Statutory Accounting Principles (E) Working Group adopted its agenda item *2021-21: Related Party Reporting*.

The primary goal of this agenda item was to incorporate new reporting requirements for investment transactions with related parties in order to provide more transparency into the nature of the involvement of related parties. For example, it allows regulators to understand whether the investment involves credit exposure to related parties or whether the investment involves a related party in the origination or servicing of the investment. This reporting applies to all investments involving related parties, regardless of whether they meet the definition of an affiliate per Model #440.

With an effective date of Dec. 31, 2022, schedules: B – Mortgage Loans, D – Long-Term Bonds, DB – Derivatives, BA – Other Long-Term Invested Assets, DA – Short-Term Investments, E2 – Cash Equivalents, and DL – Securities Lending Collateral Assets will require the identification of related party involvement for every investment.

Investments Involving Related Parties:

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control / affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a **direct credit exposure**.

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2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role **and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties.**
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role and **for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties.**
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

[**Commentary** – While feedback from interested parties indicated that most investments do not involve a related party, the Statutory Accounting Principles (E) Working Group communicated support to make the related party identification field **mandatory**, thus a “blank” indication will not be permitted. This eliminates ambiguity on whether an investment does not have a related party involvement or whether the component of the investment schedule was inadvertently not completed.]

In addition to the new reporting granularity, the agenda item also adopted clarifications to SSAP No. 25 and *SSAP No. 43R—Loan-Backed and Structured Securities* to make clear that the existing affiliate definition applies to all types of entities, including securitizations. Existing guidance already made clear that control may exist through arrangements other than voting interests, such as in the case of a limited partnership where control is typically held by the general partner. The adopted clarifications simply add specificity around the application of this existing guidance to other types of non-voting entities. For example, securitization entities are typically controlled through non-voting arrangements. To the extent that such control is held by the reporting entity or its affiliates, then the securitization entity and any investments in it would be deemed affiliated.

While both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group have adopted the revisions, with a Dec. 31, 2022, effective date, consideration by the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee will occur during the Summer National Meeting. Although industry comments were submitted and considered by the Statutory Accounting Principles (E) Working Group on the proposed statutory accounting changes, the statutory revisions and support for the reporting revisions were unanimously adopted with limited changes from the exposure. No industry comments were presented at the Blanks (E) Working Group, and the reporting revisions were also adopted unanimously by that Group.

Key discussion elements in response to comments considered at the Statutory Accounting Principles (E) Working Group are summarized below.

- **There are no revisions that changes the current definition of an affiliate or reporting on the affiliate reporting line.** Although industry comments suggested that the statutory additions require a “look through” exercise that did not exist, existing statutory guidance and the holding company act already state that control includes “possession, directly or **indirectly**, of the power to direct or cause the direction of the management and policies of the investee” and that “control shall be presumed to exist if a reporting entity **and its affiliates** directly or **indirectly**, own, control, hold the power to vote, or hold proxies **representing 10% or more** of the voting interest of the entity”. The added statutory guidance did not change this existing guidance, and therefore should not introduce any new burden or requirement on

reporting entities.

- Although industry comments on what should be captured on the affiliate reporting line were submitted, that discussion was beyond the scope of the current statutory revisions and the new reporting codes to identify the involvement of related parties with investments. **The new electronic columns to capture related party relationships is applicable to all reporting lines regardless of affiliate determination.**
- **Information within submitted industry comments indicating that affiliation determination under the holding company act is based solely on the voting rights of an equity holder were incorrect under existing guidance.** The definition of an affiliate and control per the Holding Company Act (Model 440) and SSAP No. 25 are consistent and detailed below. An affiliate is determined through control, and control can occur through other means besides ownership of voting securities. **Although ownership of 10% of voting securities results in a presumption of control, voting securities are clearly not the sole basis for determining control.** For many types of entities, control is not typically held through voting securities which has long been recognized under both GAAP and statutory accounting principles. As has always been the case, determination of the affiliation of an investment is based on an evaluation of control of the investee, whether through voting interests or other means. The adopted statutory revisions do not change this guidance in any way.
- Verbal comments received during the call also indicated even when an entity has been appropriately identified as an affiliate (and reported on Schedule Y), that some reporting entities may not be reporting debt investments issued by those affiliates as affiliated investments. While Working Group members stated that this is not an appropriate application of the reporting guidance, it directed staff to evaluate any further clarifications or examples that may be warranted to make clear that all investments in affiliates (including debt investments) should be reported as affiliated, and/or to provide more specificity on how to evaluate whether non-voting arrangements result in control.

Excerpts from the Holding Company Act as well as SSAP No. 25 are provided to further detail the existing guidance regarding determination of control.

Excerpt from Holding Company Act:

A. "Affiliate." An "affiliate" of, or person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

C. "Control." The term "control" (including the terms "controlling," "controlled by" and "under common control with") **means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise,** unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

Excerpt from SSAP No. 25—Affiliates and Other Related Parties

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint

ventures, and limited liability companies as defined in *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*. Those entities are accounted for under the guidance provided in *SSAP No. 48*, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity.

6. **Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by contract for goods or nonmanagement services where the volume of activity results in a reliance relationship (d) by common management, or (e) otherwise.** Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.

In summary, this memorandum intends to provide preliminary information to the Financial Condition (E) Committee on revisions to improve reporting of investments that involve related parties. Questions on the adopted revisions or discussions that occurred can be directed to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group or Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group. Submission of the adopted statutory accounting and blanks revisions for adoption consideration will be presented to the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee during the Summer National Meeting.



MEMORANDUM

TO: Financial Condition (E) Committee
FROM: Statutory Accounting Principles (E) Working Group
DATE: July 21, 2022
RE: Principles Based Bond Definition

This memo has been prepared to update the Committee on the SAPWG agenda item #2019-21, commonly referred to as the Principles Based Bond Definition Project, which will result in principally defining investments permitted to be reported on *Schedule D-1: Long-Term Bonds*. The Statutory Accounting Principles (E) Working Group, and key industry representatives, have been working dedicatedly on this project since 2020. Significant progress has been achieved, and the Working Group anticipates having adopted guidance in effect for year-end 2024 or year-end 2025. The project is robust and will include significant revisions to the existing guidance for bond reporting as well as significant revisions to the reporting of bond investments on Schedule D-1.

History / Reason to Change

Several factors have led to increased innovation in insurers' investment portfolios. This includes the low-interest rate environment that has increased pressure to seek higher yields, as well as increasing partnerships between insurers and asset originators that has enabled insurers access to more innovative asset types and structures. Often, these innovative asset structures involve the securitization of an increasing variety of collateral, which transforms the underlying collateral into a bond. Although there are benefits from increased yields, the evolution has created challenges for regulators to understand the risks, and underlying sources of cash flows, involved in bond portfolios.

The current statutory accounting bond definition allows any security that represents a creditor relationship to qualify for bond reporting as a bond or loan-backed or structured security. The current focus is on legal form, rather than substance. As a result, the opportunity exists to report any asset as a bond by acquiring it through a special purpose vehicle (SPV) as a debt instrument from the SPV. The insurer may or may not be in a different economic position as if they held the underlying assets directly. In addition to the opportunity, there is also an RBC incentive to classify otherwise non-qualifying assets as bonds. Underlying assets may be inadmissible or may receive worse RBC charges (equities) if held directly on the insurer's balance sheet. Regulators currently have little transparency into whether assets classified as bonds incorporate risks that do not reflect traditional bond risk.

The intent of this project is to establish principle-based guidance for determining bonds, with a focus of substance over form, in such a manner so that the framework will be more "futureproof." In other words, that the principles established will be able to work for an increasingly innovative market and will provide regulators and other financial statement users with the transparency to understanding the risks present in an insurer's investment portfolio.

Proposed Principles-based Bond Definition

Under the proposed definition, a bond shall be defined as any security representing a creditor relationship, whereby there is a fixed schedule for one or more future payments, and which qualifies as either an issuer credit obligation or an asset backed security. Although this definition may seem like existing guidance, the proposed definition is

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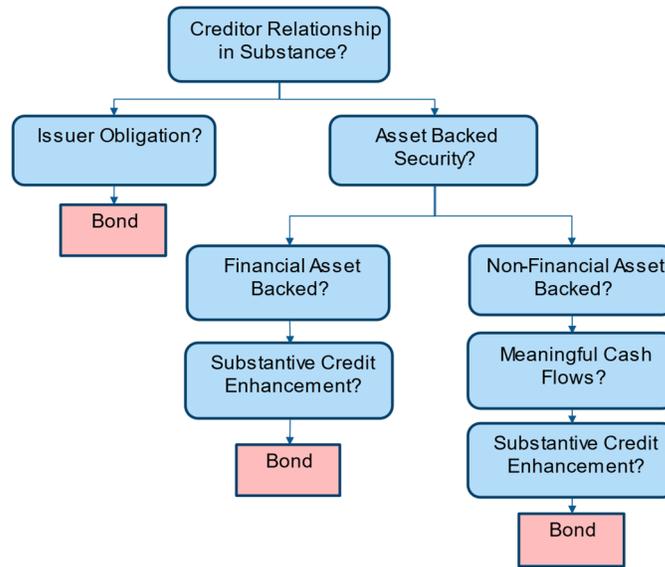
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explicit that the investment shall represent a creditor relationship in substance, not just legal form. Furthermore, it specifies that investments with equity-like characteristics or that represent ownership interests in substance, are not bonds.

Application of the bond definition is described below, however, may best be visualized in the following simplified flowchart. This simplified visual collapses certain steps in the decision for simplicity but showcases the overarching concepts of the principles-based bond definition.

Bond Principles Flowchart



Issuer Obligations or Asset Backed Securities:

Bonds are either issuer obligations or asset-backed securities. Investments that do not fit within either category or that are not named as specific non-bond inclusions shall not be reported as bonds. (Examples of non-bond named inclusions would include certificates of deposit and SVO-Identified Bond ETFs which have historically been reported on Schedule D-1.)

- **Issuer Obligation:** A bond will be classified as an **issuer obligation** if the investment represents an instrument where the repayment is primarily supported by the general creditworthiness of an operating entity (an entity with underlying operations), and the note is an obligation that has direct or indirect recourse to the operating entity. (Examples of Issuer Obligations include U.S. Treasuries, corporate debt, or securities where repayment is supported by an underlying contractual obligation of an operating entity.)
- **Asset Backed Security:** A bond will be classified as an **asset backed security (ABS)**, if the instruments are issued by entities that have a primary purpose of raising debt capital backed by collateral (financial assets or non-financial assets) that provides cashflows to service debt. All ABS are required to have substantive credit enhancement.
 - **Substantive Credit Enhancement:** All ABS securities (regardless of backed by financial or non-financial assets) must result in the holder being in a different economic position than had they held the underlying collateral directly. If the holder would be in the same economic position if they held the underlying collateral directly, the investment is not an ABS and not a bond. Rather, the characteristics are more aligned with that of the collateral itself. This requirement will ensure RBC arbitrage will be curtailed as

the security must explicitly possess bond-like risks. In order to support that an insurer is in a different economic position, there must be substantive credit enhancement, through overcollateralization / subordination or other form of guarantee or recourse, to support that the underlying collateral risks have been recharacterized to bond risk. In essence, in a securitization, there must be a level of subordination that is expected to absorb losses **before** the debt instrument being evaluated would be expected to absorb losses.

There are additional assessments required for ABS based on whether the ABS is backed by financial or non-financial assets:

- **Financial assets** are cash, evidence of an ownership interest in an entity, or a contract that conveys a right to receive cash or another financial instrument or exchange other financial instruments on potentially favorable terms. Loans or receivable-backed securities (RMBS, CMBS, CLOs, etc.) are financial asset-backed as the collateral represents rights to payment without any further performance obligation of any other party.
- **Non-financial assets** reflect collateral assets that are expected to generate a meaningful source of cash flows for repayment of the bond through use, licensing, leasing, servicing or management fees, or other similar cash flow generation. When a performance obligation exists, the assets represent non-financial assets, or a means through which non-financial assets produce cash flows once the performance obligation has been satisfied. Examples include cash flows from leases, royalties, licensing, etc.

Meaningful Cashflow Determination for Non-Financial Collateral backed ABS:

Non-financial assets backing ABS must be expected to generate meaningful cash flows to service the debt, other than through the sale or refinancing of assets. However, reliance on cash flows from the sale or refinancing of does not preclude an ABS from being classified as a bond as long as the meaningful cash flow requirement is met. The bond definition includes a practical expedient so if less than 50% of contractual principle and interest relies on refinance or sale of the collateral assets, then it qualifies as producing meaningful cash flows. The intent of the meaningful cash flow requirement is so that the nature of the non-financial assets must lend itself to the production of fixed income-like cash flows in order to meet the definition of a bond. Reliance on the residual value of non-cash producing assets to either sell or refinance to service the debt, is reflective of valuation or equity risk of the underlying assets, not bond risk.

Current Status and Next Steps

As initially noted, the Statutory Accounting Principles (E) Working Group, and key industry representatives, have been working dedicatedly on this project since 2020. Significant progress has been achieved with the development and exposure of the Principles-Based Bond Definition and an Issue Paper documenting discussion and rationale. The most recent exposure ended May 6 and a conference call is scheduled July 18 to consider comments received. Although additional comments will continue to be considered as the principles are incorporated into the SSAPs, key individuals involved in the project believe that the main principles are substantially set. The following actions are expected July 18, as part of the call, or shortly thereafter at the Summer National Meeting:

- Exposure of proposed reporting concepts to significantly revise Schedule D-1 to improve the granularity of investment reporting and improve the transparency to regulators of the investments held by reporting entities. The proposed concepts include adding a new schedule to separately capture issuer credit obligations and asset-backed securities, with several new reporting lines to separate investments based on underlying characteristics. (Exposure consideration occurred July 18.)
- Exposure of statutory accounting revisions to reflect the principles-based bond definition in SSAP No. 26R and SSAP No. 43R. These SSAPs are proposed to be significantly revised so that investments that qualify as issuer credit obligations are captured in SSAP No. 26R and investments that qualify as asset-

backed securities are captured in SSAP No. 43R. (The existing SSAPs will be renamed accordingly.)
(This exposure is anticipated at the Summer National Meeting.)

- Re-exposure of the principles-based bond definition and issue paper to reflect any revisions directed from the July 18 conference call. (This exposure is anticipated at the Summer National Meeting.)

Additional revisions to statutory accounting to provide accounting and reporting guidance for items that no longer qualify for Schedule D-1 reporting are anticipated to be assessed in early fall with exposure later in 2022.

Potential Effective Date: A key question often received is when the guidance will be effective. The earliest the guidance could be effective (with both accounting and reporting revisions in place) would be Jan. 1, 2024. This would require that the reporting revisions are adopted in May 2023. As that deadline is quickly approaching, it is likely that the revisions will be effective Jan. 1, 2025.

Questions on the principles-based bond definition and related reporting revisions can be directed to Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group or Kevin Clark, Vice-Chair of the Statutory Accounting Principles (E) Working Group.

Draft: 5/23/22

Financial Condition (E) Committee
E-Vote
May 20, 2022

The Financial Condition (E) Committee conducted an e-vote that concluded May 20, 2022. The following Committee members participated: Scott A. White, Chair (VA); Michael Conway (CO); Doug Ommen represented by Carrie Mears (IA); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Kathleen Orth (MN); Adrienne A. Harris represented by My Chi To (NY); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek represented by Amy Malm (WI); and Jeff Rude (WY).

1. Adopted a Draft Memorandum of Support

The Committee considered adoption of a draft memorandum (Attachment Two-A) of support for certain work performed related to various workstreams created because of the low interest rate environment and ongoing pressure from certain assets as a result. A majority of the Committee voted in favor of adopting that draft memorandum. The motion passed.

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



MEMORANDUM

TO: Interested Parties of the Financial Condition (E) Committee

FROM: Financial Condition (E) Committee

DATE: May 23, 2022

RE: Memorandum of Support

Since the great financial crisis, interest rates have generally been in a downward trend for nearly 15 years, resulting in reduced spreads for life insurers and otherwise putting pressure on many members of the industry that depend upon longer-dated, lower risk debt instruments. In addition, recent inflationary pressures and increasing uncertainty resulting from the Russia/Ukraine crisis are exacerbating other challenges for the industry. Members of the Committee remain particularly concerned that macro-economic trends are likely to continue to drive an increase in asset risk for at least some members of the industry.

This memorandum is being issued by the Committee to express its support for several current, interrelated initiatives focused on asset risk or spread risk within the task forces and working groups of the Committee as well as other related work within the task forces and working groups of other Committees, including the Life Insurance and Annuities (A) Committee. The Committee recognizes the range of risk management practices within the industry and the critical importance of maintaining a fair and competitive marketplace by establishing standards if necessary to address issues that could translate into material risks if not properly and timely considered within the NAIC solvency framework.

Although the Committee has not yet reviewed specific proposals from these various groups, it is aware of the underlying objectives of many of the proposals under discussion, including, without limitation:

- A more risk-sensitive Life Risk Based Capital (RBC) charge for certain structured securities and other asset-backed securities that carry a greater tail risk;
- Clarification of investments permitted to be reported on Schedule D-1: Long-Term Bonds, particularly focused on improved transparent accounting and RBC reporting for certain loan-backed and structured securities to capture the more risk-sensitive features of these types of assets;
- Consideration of changes to the current policies of the Valuation of Securities (E) Task Force as they pertain to possible use of or reduction of reliance on rating agencies, where deemed appropriate, and possible use of other risk identifiers such as market data;
- A modified economic scenario generator that more appropriately captures the low interest rates experienced during the past few years; and
- Consideration of certain “high-yielding” assets within the annual asset adequacy analysis testing.

The Committee is grateful to all the States and staff members that are currently participating in the important work of these groups and welcomes the input of industry and other stakeholders in the development of proposals. Although this work is ongoing, the Committee encourages all States and the Securities Valuation Office (SVO) to continue to take all appropriate actions under existing rules and standards.

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Draft: 5/2/22

Group Capital Calculation (E) Working Group
Virtual Meeting
May 2, 2022

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met May 2, 2022. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Kim Hudson (CA); Philip Barlow (DC); Ray Spudeck (FL); Susan Berry (IL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); Chris Joyce (MA); Judy Weaver (MI); Lindsey Crawford (NE); David Wolf (NJ); Bob Kasinow (NY); Jackie Obusek (NH); Dale Bruggeman and Tim Biler (OH); Melissa Greiner (PA); Trey Hancock (TN); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Discussed Comments Received on Exposed 2022 Group Capital Calculation (GCC)

Mr. Rehagen reminded participants of the call that the 2022 GCC template and instructions were exposed for public comment. He noted the Working Group received one comment from the American Council of Life Insurers (ACLI). He stated NAIC staff received an additional change after the materials were distributed for the call that in short, he considers editorial, as the changes simply prevent the preparer from double counting the operational risk charge within the GCC when they are including amounts for each of the U.S. insurers in their group. Mr. Rehagen noted that editorial changes were made to the GCC instructions on Inventory C Col 2 in paragraph 64 and the table at the bottom of page 32.

Mr. Rehagen noted that with respect to the ACLI's first comment, they suggest revisit the NAIC staff proposal made back in Nov 2021, which was an increase and then reversal of the debt allowance under certain circumstances. He reminded working group members that the industry was split on that issue, and for that reason the Working Group voted against including such a flexible capital allowance in the instructions. Mr. Rehagen noted the ACLI is now proposing instead a 3-year reversal and directed the Working Group to the language in the revised instructions that would implement that proposal change. Kristin Abbott (ACLI) stated their responsiveness to their comments and supported the staff draft of proposed changes to address their comments. Mr. Rehagen stated his concern was that the proposal would add complexity in certain situations. He stated that currently interest rates have started increasing but that it's very possible we could then turn to another recession over the next couple of years and rates will be forced down again. The increase and reversal of the debt allowance driven by changes in interest rates would potentially cause some whiplash/volatility in the GCC ratio and that caused Mr. Rehagen some concern.

Mr. Rehagen noted with respect to the ACLI's second comment, they suggest a change in how to calculate gross revenues for entities without regulatory capital requirements such as asset managers. He noted with respect to this comment, which is the difference in calculations between the aggregation method and the GCC. He noted that he personally would prefer not to veer away from the aggregation method. Ms. Belfi stated she thought it was important to stay as close to the aggregation method as possible. She stated how the Working Group had already deviated from the aggregation method where they felt it made sense and noted how NAIC staff could likely comment on that, but she feared too much more deviation. Mr. Spudeck and Mr. Hudson both agreed with Ms. Belfi. Mr. Rehagen asked for clarification from NAIC staff on what that means for the proposal changes from the ACLI. Dan Daveline (NAIC) stated they had drafted language to address the ACLI comments and it's up to the Working Group to decide whether they support those changes, but that it appears both changes proposed by the ACLI are being rejected by the Working Group. Martin Mair (Met Life) reminded the Working Group that the reason they were proposing to modify the GCC debt limit was to address a concern regarding procyclicality and so the debt limit becomes more binding during those times of stress and the GCC would automatically decrease

during those periods of stress without a change. He said the ACLI proposal was to get back to the core issue and put back that needed flexibility. Mr. Rehagen stated he thought what was being suggested by the ACLI on the debt issue could be further studied, but that there is currently a need to finalize the 2022 instructions and template for use but could be addressed in the future. Ms. Belfi agreed with Mr. Rehagen and suggested keeping the instructions as is without the change and see how things develop. Hearing no other comments in favor of making the changes, Mr. Rehagen stated he would accept a motion to adopt the 2022 GCC Instructions and template with the editorial change previously noted during the call related to operational risk, but without the changes proposed by the ACLI. Ms. Belfi made a motion to adopt the 2022 GCC Instructions and template as described by Mr. Rehagen. The motion was seconded by Mr. Hudson and unanimously adopted.

2. Any Other Matters

Mr. Rehagen stated with the 2022 GCC Instructions and Template adopted, he wanted NAIC staff to indicate when they planned to have training available to the industry. Mr. Daveline responded NAIC staff intended to have industry training by the end of July, before the GCC is effective for the first time in August for one state but noted the regulator training would be later closer to when it is filed with most states.

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

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/2022 NAIC Meetings/Spring National Meeting/Committee Meetings/FINANCIAL CONDITION \(E\) COMMITTEE/Group Capital Calculation \(E\) WG/GCC 5-2 Meeting Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/2022%20NAIC%20Meetings/Spring%20National%20Meeting/Committee%20Meetings/FINANCIAL%20CONDITION%20(E)%20COMMITTEE/Group%20Capital%20Calculation%20(E)%20WG/GCC%205-2%20Meeting%20Minutes.docx)

Draft: 8/17/22

Group Solvency Issues (E) Working Group
Portland, Oregon
August 11, 2022

The Group Solvency Issues (E) Working Group of the Financial Condition (E) Committee met in Portland, OR, Aug. 11, 2022. The following Working Group members participated: Justin Schrader, Chair (NE); Jamie Walker, Vice Chair (TX); Kim Hudson and Susan Bernard (CA); William Arfanis and Michael Shanahan (CT); Charles Santana (DE); Virginia Christy (FL); Kim Cross and Mike Yanacheak (IA); Susan Berry (IL); Roy Eft (IN); John Turchi (MA); Judy Weaver (MI); Debbie Doggett (MO); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman (OH); Melissa Greiner and Matt Milford (PA); Greg Chew (VA); and Amy Malm (WI).

1. Adopted its June 6 Minutes

Mr. Schrader said the Working Group met June 11 to receive an overview of proposed revisions to the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) and the *Financial Condition Examiners Handbook* to incorporate elements of the International Association of Insurance Supervisors' (IAIS's) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation. During the meeting, the Working Group agreed to expose the proposed changes for a public comment period ending July 8.

Ms. Walker made a motion, seconded by Ms. Bernard, to adopt the Working Group's June 6 minutes (Attachment Four-A). The motion passed unanimously.

2. Discussed Comments Received on Proposed Revisions to the ORSA Guidance Manual

Mr. Schrader stated that the second agenda item for the meeting today is to discuss the comments received on proposed revisions to the ORSA Guidance Manual. As a result of the recent exposure period, comment letters were received from the American Council of Life Insurers (ACLI), the American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurance Companies (NAMIC), and the Travelers Companies Inc.

After reviewing the letters, the ORSA Drafting Group, consisting of state insurance regulators from Connecticut, Illinois, Iowa, Missouri, Ohio, and New York met to discuss and address the comments received. Mr. Shanahan provided an overview of the comments received and the drafting group's proposed responses, which were presented in an updated draft of the ORSA Guidance Manual.

Mr. Shanahan stated that comments were primarily received on the nature of ORSA filings for internationally active insurance groups (IAIGs), updated liquidity risk guidance, flexibility for centralized versus decentralized forms of insurer governance, and IAIG recovery plans. He stated that the drafting group incorporated clarifying language into the updated draft to address the comments received in these areas. Mr. Schrader thanked the drafting group for its work in this area.

Mr. Arfanis stated that Connecticut identified one issue since the drafting group met and would like to propose a friendly amendment to address the issue. He stated that language on page 5 of the ORSA Guidance Manual discusses that the acceptance of ORSA reports prepared for a foreign jurisdiction is contingent on whether the foreign requirements are consistent with standards in IAIS Insurance Core Principle (ICP) 16. He stated that Connecticut's concern is that the reference to ICP 16 could result in a situation where the ICP is amended, and the

ORSA Guidance Manual could then be incorporating amendments without an opportunity for state insurance regulators to review. Therefore, Connecticut recommended inserting the wording, “to the extent included in this Manual” after the reference to ICP 16 to address this concern. Other members of the Working Group stated their support for this friendly amendment.

Robert Neill (ACLI) thanked the drafting group for incorporating many of the comments made by interested parties, and he asked state insurance regulators to continue to work with interested parties as the new guidance is being implemented. Mr. Schrader stated that the intention of the Working Group is to closely monitor the implementation and work with interested parties to address any issues or concerns identified.

3. Discussed Comments Received on Proposed Revisions to the *Financial Condition Examiners Handbook*

Mr. Schrader stated that the third agenda item is to discuss the comments received on proposed revisions to the *Financial Condition Examiners Handbook*. As a result of the recent exposure period, comment letters were received from the ACLI, the APCIA, NAMIC, and the Travelers Companies Inc.

After reviewing the letters, the Exam Drafting Group, consisting of state insurance regulators from California, Connecticut, Missouri, and Nebraska met to discuss and address the comments received. Ms. Bernard provided an overview of the comments received and the drafting group’s proposed responses, which were presented in an updated draft of the *Financial Condition Examiners Handbook*.

Ms. Bernard stated that comments were primarily received on guidance related to applying ComFrame considerations to exam repository risks, consistency with other NAIC publications, and guidance associated with the examination of ORSA information. She stated that the drafting group incorporated language and clarifications recommended by interested parties, other than in cases where the recommendations would create conflicts with other NAIC publications. Mr. Schrader thanked the drafting group for its work in this area.

Stephen Broadie (APCIA) stated that interested parties appreciated the work of the drafting group to address their comments, but they identified one area where comments related to references to international standards did not appear to be adequately addressed. He stated that guidance in the introductory section of the *Financial Condition Examiners Handbook* could be interpreted as requiring examiners to review additional IAIS ComFrame guidance before conducting any exam procedures in this area. The sentence in question states, “Information from [IAIS ComFrame] has been utilized in developing this guidance and regulators are encouraged to reference source documents as necessary to gather additional insight.”

Mr. Yanacheak stated that the sentence following the one referenced by Mr. Broadie stating, “IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated herein” should make it clear that the reference to IAIS material is meant to provide optional background information. Mr. Bruggeman recommended replacing “are encouraged to” with “may” in the sentence in question to clarify that any review of IAIS ComFrame guidance prior to conducting exam procedures is optional. Other Working Group members stated their support for this friendly amendment.

4. Discussed Comments Received on Proposed Revisions to the *Financial Analysis Handbook*

Mr. Schrader stated that the next agenda item is to discuss comments received on proposed revisions to the *Financial Analysis Handbook*. He stated that revisions to the *Financial Analysis Handbook* were exposed for public comment two different times in 2021 with various recommendations being discussed and addressed by the Working Group. As such, the re-exposure of the *Financial Analysis Handbook* in 2022 was focused on ensuring

consistency with changes made to the ORSA Guidance Manual and the *Financial Condition Examiners Handbook*, as opposed to reviewing all proposed ComFrame revisions again.

As a result of the recent exposure period, comment letters were received from the ACLI, the APCA, NAMIC, and the Travelers Companies Inc. After reviewing the letters, the Analysis Drafting Group, consisting of state insurance regulators from California, Connecticut, Missouri, and Nebraska met to discuss and address the comments received. Bruce Jenson (NAIC) provided an overview of the comments received and the drafting group's proposed responses, which incorporated a clarification to the definition of "Head of the IAIG" and other edits for consistency with changes made to the ORSA Guidance Manual. Mr. Schrader thanked the drafting group for its work in this area.

5. Adopted Revisions to the ORSA Guidance Manual

Ms. Malm made a motion, seconded by Mr. Yanacheak, to adopt the proposed changes to the ORSA Guidance Manual. The motion passed unanimously.

6. Referred Guidance to Respective Working Groups

Ms. Bernard made a motion, seconded by Ms. Doggett, to refer the proposed revisions to the *Financial Condition Examiners Handbook*, including the friendly amendment proposed by Ohio, to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

Ms. Bernard made a motion, seconded by Ms. Doggett, to refer the proposed revisions to the *Financial Analysis Handbook* to the Financial Analysis Solvency Tools (E) Working Group for consideration of adoption. The motion passed unanimously.

7. Discussed Other Matters

Mr. Schrader stated that the Working Group recently received a referral from the Macroprudential (E) Working Group on private equity (PE) issues. He stated that the Working Group plans to schedule meetings as needed in the coming months to address the issues raised in the referral.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/

Draft: 6/7/22

Group Solvency Issues (E) Working Group
Virtual Meeting
June 6, 2022

The Group Solvency Issues (E) Working Group of the Financial Condition (E) Committee met June 6, 2022. The following Working Group members participated: Jamie Walker, Vice Chair (TX); Kim Hudson and Susan Bernard (CA); Kathy Belfi (CT); Charles Santana (DE); Virginia Christy (FL); Kim Cross (IA); Cindy Andersen, Susan Berry, and Eric Moser (IL); Roy Eft (IN); Judy Weaver (MI); Lindsay Crawford (NE); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Melissa Greiner (PA); Doug Stolte (VA); and Amy Malm (WI).

1. Discussed Proposed Revisions to the *Financial Condition Examiners Handbook*

Ms. Walker stated that the first agenda item for the call today is to discuss the work of the Financial Exam Drafting Group in developing proposed revisions to the *Financial Condition Examiners Handbook* to incorporate elements of the International Association of Insurance Supervisors' (IAIS's) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation. The Financial Exam Drafting Group consists of state insurance regulators from California, Connecticut, Missouri, and Nebraska, which met several times over the last six months to develop proposed revisions. The Financial Exam Drafting Group referenced and utilized work completed by the Financial Analysis Drafting Group in 2021 to guide its efforts, and it focused on those ComFrame considerations most relevant to onsite examination efforts in drafting its *Financial Condition Examiners Handbook* revisions. Ms. Walker thanked the drafting group and NAIC support staff for its efforts in developing proposed revisions for the Working Group to consider.

Bailey Henning (NAIC) provided an overview of the proposed *Financial Condition Examiners Handbook* revisions, and she noted that many of the topics addressed in ComFrame are already covered in the *Financial Condition Examiners Handbook* but may need to be addressed at a different level for internationally active insurance groups (IAIGs). This is because financial examinations traditionally have a legal entity focus, whereas ComFrame is focused on the governance, risk management, and control processes at the Head of the IAIG level. As such, Ms. Henning stated that proposed revisions are incorporated into various sections of the *Financial Condition Examiners Handbook* to indicate topics that the examination team should consider addressing at a different level or perspective—i.e., Ultimate Controlling Person or Head of the IAIG—when conducting IAIG examinations. She stated that the proposed revisions reference and utilize existing guidance developed by the Financial Analysis Drafting Group to promote consistency wherever possible. In addition, she stated that the Financial Exam Drafting Group coordinated with the Own Risk and Solvency Assessment (ORSA) Drafting Group in developing examination guidance for validating information provided in IAIG ORSA Summary Reports to ensure consistency in that area.

Ms. Walker thanked Ms. Henning for the overview, and she stated that the Working Group will discuss the exposure period and process for finalizing the proposed revisions after discussing the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) revisions.

2. Discussed Proposed Revisions to the ORSA Guidance Manual

Ms. Walker stated that the second agenda item for the call is to discuss the work of the ORSA Drafting Group in developing proposed revisions to the ORSA Guidance Manual to incorporate IAIS ComFrame elements deemed appropriate for the U.S. system of solvency regulation. The ORSA Drafting Group consists of state insurance regulators from Connecticut, Illinois, Iowa, Missouri, Ohio, and New York, which met several times over the last six months to consider revisions to the ORSA Guidance Manual. The ORSA Drafting Group referenced and utilized

the work completed by the Financial Analysis Drafting Group to guide its efforts, including the proposed revisions to Appendix C of the ORSA Review Template included in the *Financial Analysis Handbook*. Ms. Walker thanked the drafting group and NAIC support staff for its efforts in developing proposed revisions for the Working Group to consider.

Elisabetta Russo (NAIC) provided an overview of the proposed changes to the ORSA Guidance Manual, and she noted that most of the additions are only applicable to IAIGs where the U.S. is the groupwide supervisor. However, she stated that three minor updates are being proposed for all ORSA filers based on updated IAIS guidance:

- Clarification that non-insurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.
- Clarification that the ORSA Summary Report should cover the main goals and objectives of the insurers' business strategy.
- Additional expectations for the insurer to demonstrate its resilience to liquidity stresses, as well as a description of policies and procedures in place to manage liquidity risks.

For IAIG ORSAs, the proposed revisions indicate that one ORSA Summary Report should be provided to the U.S. groupwide supervisor covering all material groupwide insurance operations. In addition, a new Section V—Additional Expectations for Internationally Active Insurance Groups, is proposed to incorporate additional enterprise risk management expectations applicable to IAIG ORSAs, including enhanced liquidity considerations, expectations for integration between legal entity and group risk exposures, economic capital model expectations, and recovery options for severe stress scenarios. Finally, Ms. Russo stated that additional definitions were proposed for the glossary to define IAIG and reverse stress test, as both concepts are now addressed in Section V.

Ms. Belfi stated her support for the proposed revisions, including the minor clarifications being added for all ORSA filers, as well as the additional expectations for IAIG ORSAs. Ms. Walker thanked the ORSA Drafting Group for its efforts, and she stated that she would propose a 30-day public comment period for both sets of revisions. She stated that she would also ask NAIC staff to repost the proposed revisions to the *Financial Analysis Handbook* so they could be reviewed for consistency with the newly proposed revisions to the other publications.

Tom Finnell (America's Health Insurance Plans—AHIP) stated his agreement for exposing the changes to all publications together, but he stated that the volume of revisions could be difficult to review in 30 days. Ms. Walker stated that the only changes to the *Financial Analysis Handbook* from what was previously exposed would be to Appendix C of the ORSA Review Template, which should reduce the time necessary to review. Mr. Finnell asked if the re-exposure of the *Financial Analysis Handbook* would be limited to Appendix C. Ms. Walker stated that this should be the focus of reviewers, but the Working Group would be open to receiving comments on other consistency issues noted during the review. Hearing no other objections, Ms. Walker instructed NAIC staff to expose the proposed revisions to the publications for a 30-day public comment period ending July 8.

3. Received an Update on IAIS Activities

Ms. Walker stated that the IAIS Executive Committee recessed the activities of the IAIS Insurance Groups Working Group for 2022 to allow other IAIS subcommittees to advance the work related to the ComFrame. She stated that there are several other group-related projects ongoing, and NAIC representatives continue to monitor ongoing efforts in this area and will report on major initiatives to the Working Group as needed.

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

Draft: 7/5/22

Mutual Recognition of Jurisdictions (E) Working Group
Virtual Meeting
June 29, 2022

The Mutual Recognition of Jurisdictions (E) Working Group of the Financial Condition (E) Committee met June 29, 2022. The following members participated: Robert Wake, Chair (ME); Monica Macaluso, Vice Chair (CA); Jack Broccoli and Kathy Belfi (CT); Anoush Brangaccio (FL); Scott Sanders (GA); Tom Travis (LA); Shelley Woods (MO); Lindsay Crawford (NE); John Tirado (NJ); Bob Kasinow (NY); Melisa Greiner (PA); and Mike Arendall (TX). Also participating was: Vincent Tsang (IL).

1. Adopted the GCC Recognize and Accept List

Mr. Wake stated that on Dec. 9, 2020, the Executive (EX) Committee and Plenary adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation With Reporting Forms and Instructions* (#450), which established the group capital calculation (GCC) framework. He stated that the Working Group was assigned a new charge in 2021 to oversee the process for evaluating the jurisdictions and to maintain a listing of jurisdictions that meet the NAIC requirements for recognizing and accepting the NAIC GCC.

Mr. Wake stated that the Working Group adopted the *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation* (GCC Recognize and Accept Process), which the Executive (EX) Committee and Plenary adopted on Dec. 16, 2021. He noted that the GCC Recognize and Accept Process includes a requirement for the Working Group to evaluate non-U.S. jurisdictions in accordance with the GCC Recognize and Accept Process. This would then be included on the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* (GCC Recognize and Accept List), which is to be published through the NAIC committee process.

Mr. Wake stated that under Model #440 and the GCC Recognize and Accept Process, a jurisdiction may meet the standards for its insurance groups to be exempt from the GCC in one of two ways. First, it can be a reciprocal jurisdiction that recognizes the U.S. state regulatory approach to group supervision and group capital. Second, it can be a jurisdiction that has otherwise been determined to recognize and accept the GCC by procedures specified in regulation.

Mr. Wake stated that there are currently five reciprocal jurisdictions on the list, which are the European Union (EU) and the United Kingdom (UK) through their covered agreements, and then separately the Working Group has approved Bermuda, Japan, and Switzerland. He stated that all reciprocal jurisdictions designated by the NAIC through the reciprocal jurisdiction review process are also automatically designated as recognize and accept jurisdictions. He noted that the five reciprocal jurisdictions are included in the draft GCC Recognize and Accept List, and clarified that the listing for the EU is not a single jurisdiction, but rather a blanket recognition for each of the EU Member States. He noted that the Working Group has not received any other applications from other jurisdictions.

Mr. Wake stated that on May 19, the Working Group met in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members) and paragraph 8 (considerations of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss the draft GCC Recognize and Accept List. He stated that the Working Group directed NAIC staff to expose the draft document for a 30-day public comment period and that no comments were received from this exposure.

Mr. Wake stated that Model #440, Section 4L(2)(e) directs a lead state insurance commissioner to require the GCC for U.S. operations of any non-U.S. based insurance holding company system based in a GCC Recognize and Accept List jurisdiction if, after any necessary consultation with other supervisors or officials, the insurance commissioner deems such a subgroup calculation to be appropriate for prudential oversight and solvency monitoring purposes or for ensuring the competitiveness of the insurance marketplace. He noted that Model #450, Section 21E(1) provides that to assist with such a determination, the GCC Recognize and Accept List will also identify whether a listed jurisdiction requires a group capital filing for any U.S.-based insurance group's operations in that jurisdiction. He stated that the best source of this information will be from industry since they will have direct exposure to the practices in the GCC Recognize and Accept List jurisdictions. Mr. Wake asked that industry provide any information related to this topic to Jake Stultz (NAIC) and Dan Schelp (NAIC), who will bring this information to the Working Group to assess. Ms. Woods added that industry should also provide this information directly to their lead state insurance regulator in the U.S.

Mr. Tirado made a motion, seconded by Ms. Woods, to adopt the GCC Recognize and Accept List (Attachment Five-A). The motion passed unanimously.

Mr. Wake stated that NAIC staff have created a point-of-contact list that is included on the *Certified and Reciprocal Jurisdiction Reinsurer* web page, which includes a single best contact for each state for any issues regarding reciprocal jurisdiction reinsurers and certified reinsurers. He requested that each state provide its point of contact person to Mr. Stultz. Mr. Tsang asked if this list was only for this Working Group or for all U.S. states, and Mr. Wake verified that the list is for all states.

Having no further business, the Mutual Recognition of Jurisdictions (E) Working Group adjourned.

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2022-2-Summer/MRJWG/June 29 Open Meeting/Minutes/MRJWG 6-29 Minutes.docx>

Draft: 5/12/2022



NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation

Reciprocal Jurisdictions (Model #440, Section 4L(2)(c))

Jurisdiction	Group-Wide Supervisor	Effective Date	Model #440, Section 4L(2)(e) Determination Explanatory Note
Member States of the European Union	Respective Member State Supervisory Authorities	January 1, 2022	
United Kingdom (UK)	Prudential Regulation Authority of the Bank of England (PRA)	January 1, 2022	
Bermuda	Bermuda Monetary Authority (BMA)	January 1, 2022	
Japan	Financial Services Agency (FSA)	January 1, 2022	
Switzerland	Financial Market Supervisory Authority (FINMA)	January 1, 2022	

Recognize and Accept Jurisdictions (Model #440, Section 4L(2)(d))

Jurisdiction	Group-Wide Supervisor	Effective Date	Model #440, Section 4L(2)(e) Determination Explanatory Note
None currently			

Group Capital Calculation. On December 9, 2020, the NAIC adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implement the Group Capital Calculation (GCC) filing requirements for insurance groups at the level of the ultimate controlling person for the purposes 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 detailed in the [Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation](#)) if its groupwide supervisor “recognizes and accepts” the GCC for U.S. groups doing business in that jurisdiction.

List of Jurisdictions that Recognize and Accept the GCC. The Mutual Recognition of Jurisdictions (E) Working Group will evaluate non-U.S. jurisdictions in accordance with the “Recognize and Accept” Process. A list of “Recognize and Accept” Jurisdictions is published through the NAIC committee process. Sections 21D and 21E of Model #450 provide a general framework for how the process to identify “Recognize and Accept” Jurisdictions will work and specifically contemplates the development of a list of such jurisdictions through the NAIC Committee Process.

NAIC Listing Process. 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” (Model #440, Section 4L(2)(c)); or
- (b) If the jurisdiction has otherwise been determined to recognize and accept the GCC by procedures specified in regulation.

Evaluation of Reciprocal Jurisdictions. Under Section 4L(2)(c) of Model #440, Reciprocal Jurisdictions that recognize the U.S. state regulatory approach to group supervision and group capital are exempt from the GCC. Because a “recognize and accept” evaluation by the Mutual Recognition of Jurisdictions (E) Working Group is already part of the Reciprocal Jurisdiction review process, all Reciprocal Jurisdictions designated by the NAIC through that review process are also automatically designated as “Recognize and Accept” Jurisdictions. Likewise, in view of the terms of the EU and UK Covered Agreements, all EU Member States and the UK are automatically designated “Recognize and

Accept” Jurisdictions. If there is a material change to the terms of the U.S.-EU or U.S.-UK Covered Agreement, or if the United States enters into a new covered agreement with one or more non-U.S. jurisdictions, the Mutual Recognition of Jurisdictions (E) Working Group will consider, and will consult with FIO and USTR regarding, whether and how the applicability of the procedures in this document may apply.

Prudential Oversight and Solvency Monitoring. Section 4L(2)(e) of Model #440 directs a lead state commissioner to require the group capital calculation for U.S. operations of any non-U.S. based insurance holding company system based in a “Recognize and Accept” Jurisdiction if, after any necessary consultation with other supervisors or officials, the commissioner deems such a “subgroup” calculation to be appropriate for prudential oversight and solvency monitoring purposes or for ensuring the competitiveness of the insurance marketplace. Section 21E(1) of Model #450 provides that to assist with such a determination, the “Recognize and Accept” List will also identify whether a listed jurisdiction requires a group capital filing for any U.S. based insurance group’s operations in that jurisdiction. The NAIC will identify such jurisdictions on the “Recognize and Accept” List, and may include an explanatory note in cases where a simple “Yes” or “No” response does not adequately describe the jurisdiction’s requirements. States may rely on this List when making determinations under Section 4L(2)(e) of Model #440.

The specific details of the GCC Recognize and Accept process can be found in the [*Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation.*](#)

Draft: 6/16/22

National Treatment and Coordination (E) Working Group
Virtual Meeting
June 13, 2022

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met June 13, 2022. The following Working Group members participated: Jay Buschmann, Co-Chair (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); William Mitchell (CT); Alison Sterett (FL); Kari Leonard (MT); Ursula Almada (NM); Doug Hartz (OR); Karen Feather (PA); Amy Garcia (TX); Jay Sueoka (UT); Ron Pastuch and Mark Durphy (WA); Amy Malm and Mark McNabb (WI); and Doug Melvin (WY). Also participating was: Cristy Dunlap (WV).

1. Adopted Proposal 2022-1 (Biographical Affidavit Addendum Pages)

Mr. Piatt said the purpose of the addendum pages is to provide a template for providing additional information that would not fit on the biographical affidavit form. Two options were provided during the exposure period, and Mr. Piatt asked if anyone wants to elaborate on the options.

Gina Hudson (Liberty Mutual) said she prefers Option 1 because Option 2 requires an additional signature that would already be provided at the end of the form. She added that numbering the pages at the bottom of the addendum pages is not necessary. Jane Barr (NAIC) explained that addendum pages may be added after a bio is prepared, and if there is a possibility that they would not be in a portable document format (PDF) all together, pages could get separated; and it will let the state know exactly how many pages should be provided with additional information. Ms. Hudson asked if all addendum pages would be numbered together or by section. Ms. Barr said that would depend on the state's preference. She added that one comment made after the comment period mentioned that one option is more conducive to holding company information. Karen Fallstrom (UnitedHealth Group—UHG) said the UHG provides numerous biographical affidavits on a yearly basis, and the blank page option works better for holding company information.

Mr. Piatt said the better option would be Option 1 and include the blank pages for those affiants that hold numerous positions on a holding company level. Ms. Barr said Frequently Asked Questions (FAQ) would be posted, clarifying the intent of the addendum pages.

Mr. Buschmann made a motion, seconded by Ms. Feather, to adopt the biographical affidavit addendum template (Option 1) (Attachment Six-A). The motion passed unanimously.

2. Received Referrals

Mr. Buschmann said the first referral regarding Form A applications was sent from the Chief Financial Regulator Forum in reference to non-traditional ownership structures, which makes it difficult to determine the ultimate controlling party. Since the Working Group is tasked with the development of the Form A application, the Form A database, and the *Company Licensing Best Practices Handbook* (Handbook), this referral can be sent to the development ad hoc group for further discussion and development.

Mr. Melvin made a motion, seconded by Ms. Garcia, to request that the Form A ad hoc group incorporate the requests of this referral during its development of the Form A application. The motion passed unanimously.

Mr. Buschmann explained that the purpose of the second referral from the Financial Analysis (E) Working Group is to: 1) request that the National Treatment and Coordination (E) Working Group consider developing enhanced

regulatory guidance in the Handbook involving communication to other licensed states regarding troubled insurers that are seeking to redomesticate; and 2) consider tools or functionality for communication between states during the development of the electronic redomestication application.

Ms. Garcia made a motion, seconded by Mr. Sueoka, to keep this referral at the working group level for further development. The motion passed unanimously.

3. Exposed Proposal 2022-02 (Primary and Redomestication Form Revisions)

Ms. Barr said proposal 2022-02 includes suggested changes to the primary and redomestication application forms that were adopted by the Working Group last year. At the time of adoption, it was noted that further modifications could be made during development. Those changes included:

1. Removal facsimile from both application forms.
2. Adding type of business to the primary application form.
3. Removing the witness from the certification and attestation page for both application forms. With the use of DocuSign, the company application coordinator would identify the officer/director and their name for signature request; therefore, a witness signature is no longer necessary.
4. Rewording question 1 of the questionnaire for ease of providing the position at the end of the sentence instead of the middle of the sentence.
5. Resorting the questions on Form 8 by category of holding company, life insurance, and specify if the insurer is intending to write separate accounts.

Ms. Barr suggested exposing for proposal 2022-02 for a 45-day public comment period ending July 29. The Working Group agreed.

4. Discussed Letters of Good Standing

Mr. Buschmann asked if any states want to consider modifying the letter of good standing templates based on requests from specific countries. Mr. Sueoka said Utah has not received any recent requests and does not use this template. Ms. Dunlap said West Virginia receives numerous requests but uses its own form or certificate of compliance.

Ms. Barr said the templates are available for use and can be modified for their specific needs on the collaboration site for company licensing, and there are plans to create a SharePoint site and place regulatory-only tools there.

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

FRS-UCAA_Conf.Calls_NTCWG_2022 [June 13](#)

Frequently Asked Questions:



The formatting of the NAIC biographical affidavit, addendum templates and accompanying cover letter should NOT be altered, for lengthy or detailed responses refer to Question 22 below.



Q5: Can the Applicant Company use the same biographical affidavit previously submitted by an affiliate within the same group for a new UCAA application filing?

A5: Yes, if the [NAIC biographical affidavit group cover letter](#) is submitted with biographical affidavits for officer/director changes and for expansion and corporate amendment applications. The affidavit and addendum templates can be reused for companies listed on the NAIC biographical affidavit group cover letter and are under the same group code if the affiant and notary signatures on the biographical affidavit and addendum templates are within 6 months of the date of submission and no information on the affidavit or addendum templates have been altered, amended or changed for any reason. Only the NAIC forms can be submitted, individual company cover letters will not be accepted. Refer to the [Fingerprint and Biographical Affidavit Requirements chart](#) for state specific requirements.

Q6: Can a biographical affidavit, addendum templates and third-party background report more than six months old be used in a new application?

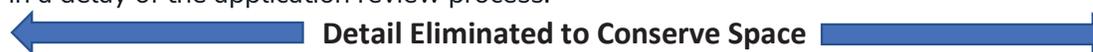
A6: No, affidavits, addendum templates and background reports more than six (6) months old are not acceptable. A newly completed biographical affidavit and addendum templates (if needed) with a current date must be submitted. A new background report would be required for the newly completed affidavit. Biographical affidavits signed within six months of the application submission date may be used for new applications for the same Applicant Company and/or affiliated companies that are under the same group code accompanied with a group cover letter.



Completing the Biographical Affidavit

Q20: Is it acceptable to leave a question or item blank if I don't know the answer, or if the question or item does not apply, or that the answer is none?

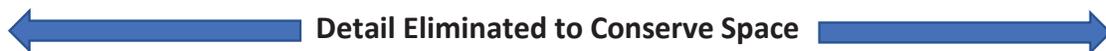
A20: No, you must answer **each** and **every** question or item. If the answer is no or none, state "No" or "None". By not responding to each question or item, the various State Insurance Departments may request an updated affidavit regarding the missing question or item. A deficient or incomplete biographical affidavit submitted for a Background Report could result in a delay of the application review process.



Q22: The form does not allow enough space to respond to the questions or items. What should I do?

A22: Addendum pages are available as Form 11b and are to be used for additional responses carried over from the affidavit. There are **six** addendum templates: Employment History, Education, **Licenses, Professional Societies**, General and Blank. Cross-reference and label your responses to the biographical affidavit question or item number when utilizing the General or Blank addendum templates. Addendum pages should be signed by the affiant. Addendum pages are not required to be submitted with the affidavit if they are not utilized.

Biographical Affidavit Questions:



Item 5

Q32: I do not recall the exact dates that I attended college. Can I just guess?

A32: No, because if you guess and are wrong, when the state department of insurance or independent third-party vendor completing the background report, verifies the information and submits their findings to the State Insurance Departments, a discrepancy will be noted. You may be required by the various State Insurance Departments to submit a notarized affidavit explaining the discrepancy; an unnecessary request had you researched the matter before guessing. If there is not enough space to list all colleges/universities attended on the affidavit, you may add the additional schools to the addendum Form 11b – Education.

NEW QUESTION:

Q: How are multiple schools listed in the Education and Training section for: undergraduate, graduate, and other training?

A: If the affiant has attended more than one school, additional information should be provided on Form 11b – Education. The affiant can enter “See Form 11b-Education” on question 5 of the biographical affidavit.

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

**Uniform Certificate of Authority Application (UCAA)
 BIOGRAPHICAL AFFIDAVIT**

To the extent permitted by law, this affidavit will be kept confidential by the state insurance regulatory authority. The affiant may be required to provide additional information during the third-party verification process if they have attended a foreign school or lived and worked internationally.

Specify Purpose for Completion:

Form A: _____ **UCAA Type:** _____ **Other:** _____

Full name, address and telephone number of the present or proposed entity under which this biographical statement is being required (Do Not Use Group Names).

Applicant Company Name: _____

Address: _____ City: _____

State/Province: _____ Postal Code: _____ Phone: _____

In connection with the above-named entity, I herewith make representations and supply information about myself as hereinafter set forth. (Attach addendum or separate sheet if space hereon is insufficient to answer any question fully.) IF ANSWER IS "NO" OR "NONE," SO STATE. ALL FIELDS MUST HAVE A RESPONSE. INCOMPLETE FORMS COULD DELAY THE APPLICATION PROCESS or RESULT IN REJECTION OF THE APPLICATION.

1. Affiant's Full Name (Initials Not Acceptable): First: _____ Middle: _____ Last: _____

2. a. Are you a citizen of the United States?

Yes No

b. Are you a citizen of any other country?

Yes No

If yes, what country? _____

3. Affiant's occupation or profession: _____

4. Affiant's business address: _____

Business telephone: _____ Business Email: _____

5. Education and training:

<u>College/University</u>	<u>City/State</u>	<u>Dates Attended (MM/YY)</u>	<u>Degree Obtained</u>

<u>Graduate Studies</u>	<u>College/University</u>	<u>City/State</u>	<u>Dates Attended (MM/YY)</u>	<u>Degree Obtained</u>

<u>Other Training: Name</u>	<u>City/State</u>	<u>Dates Attended (MM/YY)</u>	<u>Degree/Certification Obtained</u>

Note: If affiant attended a foreign school, please provide full address and telephone number of the college/university. If applicable, provide the foreign student Identification Number and/or attach foreign diploma or certificate of attendance to the Biographical Affidavit Personal Supplemental Information.

Applicant Company Name: _____
NAIC No.: _____ FEIN: _____

DISCLOSURE AND AUTHORIZATION CONCERNING BACKGROUND REPORTS
(California)

This Disclosure and Authorization is provided to you in connection with a pending application of _____ [company name] (“Company”) for licensure or a permit to organize (“Application”) with a department of insurance in one or more states within the United States. Company desires to procure a consumer or investigative consumer report (or both) (“Background Reports”) regarding your background for review by any department of insurance in such states where Company is currently pursuing an Application, because you are either functioning as, or are seeking to function as, an officer, member of the board of directors or other management representative (“Affiant”) of Company or of any business entities affiliated with Company (“Term of Affiliation”) for which a Background Report is required by a department of insurance reviewing any Application. Background Reports will be obtained through _____ [name of CRA, address] (“CRA”). Background Reports requested pursuant to your authorization below may contain information bearing on your character, general reputation, personal characteristics, mode of living and credit standing. The purpose of such Background Reports will be to evaluate the Application and your background as it pertains thereto. To the extent required by law, the Background Reports procured under this Disclosure and Authorization will be maintained as confidential.

You may request more information about the nature and scope of Background Reports produced by any consumer reporting agency (“CRA”) by submitting a written request to Company. You should submit any such written request for more information, to _____ [company’s designated person, position, or department, address and phone].

Attached for your information is a “Summary of Your Rights Under the Fair Credit Reporting Act.” You will be provided with a copy of any Background Report procured by Company if you check the box below.

- By checking this box, I request a copy of any Background Report from any CRA retained by Company, at no extra charge.

Under section 1786.22 of the California Civil Code, you may view the file maintained on you by the CRA listed above. You may also obtain a copy of this file, upon submitting proper identification and paying the costs of duplication services, by appearing at the CRA in person or by mail; you may also receive a summary of the file by telephone. The CRA is required to have personnel available to explain your file to you and the CRA must explain to you any coded information appearing in your file. If you appear in person, you may be accompanied by one other person of your choosing, provided that person furnishes proper identification.

AUTHORIZATION: I am currently an Affiant of Company as defined above. I have read and understand the above Disclosure and by my signature below, I consent to the release of Background Reports to a department of insurance in any state where Company files or intends to file an Application, and to the Company, for purposes of investigating and reviewing such Application and my status as an Affiant. I authorize all third parties who are asked to provide information concerning me to cooperate fully by providing the requested information to CRA retained by Company for purposes of the foregoing Background Reports, except records that have been erased or expunged in accordance with law.

I understand that I may revoke this Authorization at any time by delivering a written revocation to Company and that Company will, in that event, forward such revocation promptly to any CRA that either prepared or is preparing Background Reports under this Disclosure and Authorization. In no event, however, will this authorization remain in effect beyond six (6) months following the date of my signature below.

A true copy of this Disclosure and Authorization shall be valid and have the same force and effect as the signed original.

(Printed Full Name and Residence Address)

(Signature) _____ (Date)

State of: _____ County of _____

The foregoing instrument was acknowledged before me by means of physical presence or online notarization, this ____ day of _____, 20 ____ by _____, and: who is personally known to me, or who produced the following identification: _____.

[SEAL]

Notary Public

Printed Notary Name

My Commission Expires

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Education Addendum pages are used for additional responses carried over from the biographical affidavit question 5. Responses must be completed in the format provided below (unused sections may be left blank). The Education Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Education Addendum pages are used for additional responses carried over from the biographical affidavit question 5. Responses must be completed in the format provided below (unused sections may be left blank). The Education Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Graduate Studies	
College/University	
City/State	
Dates Attended (MM/YY)	
Degree Obtained	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Education Addendum pages are used for additional responses carried over from the biographical affidavit question 5. Responses must be completed in the format provided below (unused sections may be left blank). The Education Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Other Training: Name	
City/State	
Dates Attended (MM/YY)	
Degree/Certification Obtained	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Professional Societies and Associations Addendum pages are used for additional responses carried over from the biographical affidavit question 6. Responses must be completed in the format provided below (unused sections may be left blank). The Professional Societies and Associations Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

List of memberships in professional societies and associations:

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Name of Society/Association	
Contact Name	
Address	
City, State/Province & Postal Code	
Telephone Number of Society/ Association	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Employment Addendum pages are used for additional responses carried over from the biographical affidavit question 8. Responses must be completed in the format provided below (unused sections may be left blank). The Employment Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

List complete employment record for the past twenty (20) years, whether compensated or otherwise (up to and including present jobs, positions, partnerships, owner of an entity, administrator, manager, operator, directorates or officerships). Please list the most recent first. Attach additional pages if the space provided is insufficient. It is only necessary to provide telephone numbers and supervisory information for the past ten (10) years. Additional information may be required during the third-party verification process for international employers.

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Employment Addendum pages are used for additional responses carried over from the biographical affidavit question 8. Responses must be completed in the format provided below (unused sections may be left blank). The Employment Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Employment Addendum pages are used for additional responses carried over from the biographical affidavit question 8. Responses must be completed in the format provided below (unused sections may be left blank). The Employment Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Employment Addendum pages are used for additional responses carried over from the biographical affidavit question 8. Responses must be completed in the format provided below (unused sections may be left blank). The Employment Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Beginning Date/Ending Date	
Employer's Name	
Address	
City, State/Province & Postal Code	
Country	
Offices/Positions Held (If more than one position held list all.)	
Type of Business	
Supervisor Contact	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Licenses Addendum pages are used for additional responses carried over from the biographical affidavit question 10. Responses must be completed in the format provided below (unused sections may be left blank). The Licenses Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

List any professional, occupational and vocational licenses (including licenses to sell securities) issued by any public or governmental licensing agency or regulatory authority or licensing authority that you presently hold or have held in the past. For any non-insurance regulatory issuer, identify and provide the name, address and telephone number of the licensing authority or regulatory body having jurisdiction over the license (s) issued. If your professional license number is your Social Security Number (SSN) or embeds your SSN or any sequence of more than five numbers that are reasonably identifiable as your SSN, then write SSN for that portion of the professional license number that is represented by your SSN. (For example, "SSN", "12-SSN-345" or "1234-SSN" (last 6 digits)). Attach additional pages if the space provided is insufficient.

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Affiant Signature: _____ Date: _____
 Page _____ of _____

Applicant Company Name: _____
 NAIC No.: _____ FEIN: _____

The Licenses Addendum pages are used for additional responses carried over from the biographical affidavit question 10. Responses must be completed in the format provided below (unused sections may be left blank). The Licenses Addendum pages must be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Organization/Issuer of License	
Address	
City, State/Province & Postal Code	
Country	
License Type	
License #	
Date Issued (MM/YY) & Date Expired (MM/YY)	
Reason for Termination	
Non-Insurance Regulatory Phone Number	

Affiant Signature: _____ Date: _____
 Page ____ of ____

Applicant Company Name: _____
NAIC No.: _____ FEIN: _____

Addendum pages are used for additional responses carried over from the biographical affidavit questions. The question number and response should be provided in the format below. Responses must be labeled and signed by the affiant (unused sections may be left blank). Attachments included as addendum's must also be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Question #:
Response:

Question #:
Response:

Question #:
Response:

Question #:
Response:

Affiant Signature: _____ Date: _____
Page ____ of ____

Applicant Company Name: _____
NAIC No.: _____ FEIN: _____

Addendum pages are used for additional responses carried over from the biographical affidavit questions. The question number and response should be provided in the format below. Responses must be labeled and signed by the affiant (unused sections may be left blank). Attachments included as addendum's must also be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Question #:
Response:

Question #:
Response:

Question #:
Response:

Question #:
Response:

Affiant Signature: _____ Date: _____
Page ____ of ____

Applicant Company Name: _____
NAIC No.: _____ FEIN: _____

Addendum pages are used for additional responses carried over from the biographical affidavit questions. The question number and response should be provided in the format below. Responses must be labeled and signed by the affiant (unused sections may be left blank). Attachments included as addendum's must also be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Question #:
Response:

Question #:
Response:

Question #:
Response:

Question #:
Response:

Affiant Signature: _____ Date: _____
Page ____ of ____

Applicant Company Name: _____

NAIC No.: _____ FEIN: _____

Addendum pages are used for additional responses carried over from the biographical affidavit questions **unused pages should be left blank**. Responses must be labeled and signed by the affiant. Attachments included as addendum's must also be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Affiant Signature: _____ Date: _____

Page ____ of ____

Applicant Company Name: _____

NAIC No.: _____ FEIN: _____

Addendum pages are used for additional responses carried over from the biographical affidavit questions **unused pages should be left blank**. Responses must be labeled and signed by the affiant. Attachments included as addendum's must also be signed by the affiant. Refer to the FAQ's on the UCAA webpage for additional questions.

Affiant Signature: _____ Date: _____

Page ____ of ____



MEMORANDUM

TO: Accounting Practices and Procedures (E) Task Force
Financial Condition (E) Committee

FROM Statutory Accounting Principles (E) Working Group

DATE August 2, 2022

RE: Related Party Reporting

This memorandum intends to provide information to the Financial Condition (E) Committee and the Accounting Practices and Procedures (E) Task Force on recent adoptions by the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group regarding the identification of related party involvement with investments and request adoption consideration. This item has been separated for individual consideration as the revisions will impact all insurance reporting entities and the discussion included affiliate identification.

In conjunction with recent recommendations from the Macroprudential (E) Working Group regarding the risk of certain investments that involve related parties, in May 2022, the Statutory Accounting Principles (E) Working Group adopted its agenda item *2021-21: Related Party Reporting* (**See details in the Appendix**).

The primary goal of this agenda item was to incorporate new reporting requirements for investment transactions with related parties in order to provide more transparency into the nature of the involvement of related parties. For example, it allows regulators to understand whether the investment involves credit exposure to related parties or whether the investment involves a related party in the origination or servicing of the investment. This reporting applies to all investments involving related parties, regardless of whether they meet the definition of an affiliate per Insurance Holding Company System Regulatory Act (Model #440).

With an effective date of Dec. 31, 2022, Blanks (E) Working Group agenda item 2021-22BWG requires new reporting codes for the following investment schedules: B – Mortgage Loans, D – Long-Term Bonds, DB – Derivatives, BA – Other Long-Term Invested Assets, DA – Short-Term Investments, E2 – Cash Equivalents, and DL – Securities Lending Collateral Assets. The reporting changes will require the identification of related party involvement for every investment using codes (**See code details in the Appendix**). While feedback from interested parties indicated that most investments do not involve a related party, the Statutory Accounting Principles (E) Working Group communicated support to make the related party identification field mandatory, thus a “blank or null” field will not be permitted. This eliminates ambiguity on whether an investment does not have a related party involvement or whether the component of the investment schedule was inadvertently not completed.

In addition to the new reporting granularity, the statutory accounting revisions included adopted clarifications to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 43R—Loan-Backed and Structured Securities* to make clear that the existing affiliate definition applies to all types of entities, including securitizations. Existing guidance already made clear that control may exist through arrangements other than voting interests, such as in

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CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004	p 212 398 9000	f 212 382 4207

the case of a limited partnership where the general partner typically holds control. The adopted revisions add specificity around the application of this existing guidance to other types of non-voting entities. For example, securitization entities are typically controlled through non-voting arrangements. To the extent that such control is held by the reporting entity or its affiliates, then the securitization entity and any investments in it would be deemed affiliated.

Excerpts from the Holding Company Act are provided in the **Appendix** to detail the existing guidance regarding determination of control.

Both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group unanimously adopted the revisions, with a Dec. 31, 2022, effective date. The Statutory Accounting Principles (E) Working Group reviewed industry comments and incorporated limited revisions to the initially exposed statutory accounting changes and stated support for the exposed blanks reporting revisions with their adoption. No industry comments were presented at the Blanks (E) Working Group. Therefore, the Working Group recommends adoption of these revisions by the Task Force and the Committee.

Appendix

SAPWG Revisions (Agenda Item 2021-21)

Adopted revisions to SSAP No. 25: (New paragraph 9. Remaining paragraphs would be renumbered.)

This new paragraph 9 clarifies the application of the existing affiliate and control definitions to limited partnerships, trusts and other special purpose entities when control is held by an affiliated general partner, servicer or other arrangement. (The proposed deletion of FIN 35 is discussed earlier in the agenda item, but is noted as not necessary with the existing statutory accounting guidance.)

5. An affiliate is defined as an entity that is within the holding company system or a party that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the reporting entity. An affiliate includes a parent or subsidiary and may also include partnerships, joint ventures, and limited liability companies as defined in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies. Those entities are accounted for under the guidance provided in SSAP No. 48, which requires an equity method for all such investments. An affiliate is any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that, directly or indirectly, own or control the reporting entity.

6. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the investee, whether through the (a) ownership of voting securities, (b) by contract other than a commercial contract for goods or nonmanagement services, (c) by contract for goods or nonmanagement services where the volume of activity results in a reliance relationship (d) by common management, or (e) otherwise. Control shall be presumed to exist if a reporting entity and its affiliates directly or indirectly, own, control, hold with the power to vote, or hold proxies representing 10% or more of the voting interests of the entity.

7. Control as defined in paragraph 6 shall be measured at the holding company level. For example, if one member of an affiliated group has a 5% interest in an entity and a second member of the group has an 8% interest in the same entity, the total interest is 13%, and therefore, each member of the affiliated group shall be presumed to have control. This presumption will stand until rebutted by an evaluation of all the facts and circumstances relating to the investment. The insurer shall maintain documents substantiating its determination for review by the domiciliary commissioner. Examples of situations where the presumption of control may be in doubt include the following:

- a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.
- b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.
- c. An entity where the insurer has given up participation rights¹ as a shareholder to the investee.

¹ The term "participating rights" refers to the type of rights that allows an investor to effectively participate in significant decisions related to an investee's ordinary course of business and is distinguished from the more limited type of rights referred to as "protective rights". Refer to the sections entitled: "Protective Rights" and "Substantive Participating Rights" in EITF 96-16, *Investor's Accounting for an Investee When the Investor Owns a Majority of the Voting Stock but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*. The term "participating rights" shall be used consistent with the discussion of substantive participating rights in this EITF.

Appendix

8. Any direct or indirect ownership interest of the reporting entity greater than 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation. The *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation* (#450) include a provision that allows for the disclaimer of affiliation and/or the disclaimer of control for members of an insurance holding company system. The disclaimer must be filed with the state insurance commissioner. Entities whose relationship is subject to a disclaimer of affiliation or a disclaimer of control are related parties and are subject to the related party disclosures within this statement. Such a disclaimer does not eliminate a “related party” distinction or disclosure requirements for material transactions pursuant to SSAP No. 25.
9. For entities not controlled by voting interests, such as limited partnerships, trusts and other special purpose entities, control may be held by a general partner, servicer, or by other arrangements. The ability of the reporting entity or its affiliates to direct the management and policies of an entity through such arrangements shall constitute control as defined in paragraph 6. Additionally, a reporting entity or its affiliates may have indirect control of other entities through such arrangements. For example, if a limited partnership were to be controlled by an affiliated general partner, and that limited partnership held greater than 10% of the voting interests of another company², indirect control shall be presumed to exist unless the presumption of control can be overcome as detailed in paragraph 7. If direct or indirect control exists, whether through voting securities, contracts, common management or otherwise, the arrangement is considered affiliated under paragraph 5. Consistent with paragraph 8, a disclaimer of affiliation does not eliminate a “related party” distinction or disclosure requirements for material transactions pursuant to SSAP No. 25.

Adopted revisions SSAP No. 43R:

These revisions move the existing guidance in paragraph 4.a. to paragraph 6 and notes the requirement to identify related party investments in the investment schedules. (Note Footnote 5 is just moved to a new paragraph.)

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer’s obligation has been fully satisfied. The investor only has direct recourse to the issuer’s assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.
- 5. Mortgage-referenced securities do not meet the definition of a loan-backed or structured security but are explicitly captured in scope of this statement. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise³ or by a special purpose trust in a transaction sponsored by a government sponsored enterprise in the form of a “credit risk transfer” in which the issued security is tied to a referenced pool of mortgages and the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool

² Consistent with SSAP No. 97, footnote 1, investments in an exchange traded fund (ETF) or a mutual fund (as defined by the SEC) does not reflect ownership in an underlying entity, regardless of the ownership percentage the reporting entity (or the holding company group) has of the ETF or mutual fund unless ownership of the ETF actually results in “control” with the power to direct or cause the direction of management of an underlying company. ETFs and mutual funds are comprised of portfolios of securities subject to the regulatory requirements of the federal securities laws.

³ Currently, only Fannie Mae and Freddie Mac are the government sponsored entities that either directly issue qualifying mortgage-referenced securities or sponsor transactions in which a special purpose trust issues qualifying mortgage-reference securities. However, this guidance would apply to mortgage-referenced securities issued by any other government sponsored entity that subsequently engages in the transfer of mortgage credit risk.

Appendix

of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions for loan-backed securities within this standard apply to mortgage-referenced securities.

- 6. Investments within the scope of this statement issued by a related party or acquired through a related party transaction or arrangement are also subject to the provisions, admittance assessments and disclosure requirements of SSAP No. 25. In determining whether a security is a related party investment, consideration should be given to the substance of the transaction, and the parties whose action or performance materially impacts the insurance reporting entity holding the security. Loan-backed and structured securities meet the definition of assets as defined in *SSAP No. 4—Assets and Nonadmitted Assets* and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.
 - a. Although a loan-backed or structured security may be acquired from a non-related issuer, if the assets held in trust predominantly⁴ reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment. In such situations where the underlying collateral assets are issued by related parties that do not qualify as affiliates, these securities shall be identified as related party investments in the investment schedules.
 - b. A loan-backed or structured security may involve a relationship with a related party but not be considered an affiliated investment. This may be because the relationship does not result in direct or indirect control of the issuer or because there is an approved disclaimer of control or affiliation. Regardless of whether investments involving a related party relationship are captured in the affiliated investment reporting lines, these securities shall be identified as related party investments in the investment schedules. Examples of related party relationships would include involvement of a related party in sponsoring or originating the loan-backed or structured security or any type of underlying servicing arrangement. For the avoidance of doubt, investments from any arrangement that results in direct or indirect control, which include but are not limited to control through a servicer or other controlling arrangement, shall be reported as affiliated in accordance with *SSAP No. 25—Affiliates and Other Related Parties*.

⁴ In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a SSAP No. 43R structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or SSAP No. 43R security issuer. As identified in *SSAP No. 25—Affiliates and Other Related Parties*, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.

Appendix

Blanks Reporting Changes Agenda Item 2021-22BWG

Investments Involving Related Parties:

Required for all investments involving related parties including, but not limited to, those captured as affiliate investments. This disclosure intends to capture information on investments held that reflect interactions involving related parties, regardless of whether the related party meets the affiliate definition, or the reporting entity has received domiciliary state approval to disclaim control / affiliation.

Enter one of the following codes to identify the role of the related party in the investment.

1. Direct loan or direct investment (excluding securitizations) in a related party, for which the related party represents a **direct credit exposure**.
2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role **and for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties**.
3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role and **for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties**.
4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does not involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role.
5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.
6. The investment does not involve a related party.

Excerpt from Holding Company Act (Bolding and underlining for emphasis):

A. "Affiliate." An "affiliate" of, or person "affiliated" with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

C. "Control." The term "control" (including the terms "controlling," "controlled by" and "under common control with") **means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise,** unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2022/APPTF Memo-Related Party Reporting 8122.docx



BOARD OF GOVERNORS *of the* FEDERAL RESERVE SYSTEM

Insurance Supervisory Framework

Presentation to the NAIC's Financial Condition (E) Committee

August 12, 2022

Supervisory Framework Background

- The Federal Reserve released a draft insurance supervisory framework on January 28 for public comment. The comment period closed on May 5.
- The proposed framework describes the Federal Reserve's proposed approach to supervising depository institution holding companies significantly engaged in insurance activities (supervised insurance organizations or SIOs).
- The Board recognizes and has developed the framework to reflect the role of state insurance regulators and that the risks arising from the insurance activities of SIOs are materially different from traditional banking risks.



Structure of Proposed Framework

- Proportional application of supervisory guidance and activities
 - Risk-based classified of SIOs to guide the application of supervisory guidance, the allocation of supervisory resources, and the assignment of supervisory activities
- Supervisory ratings
 - Ratings definitions tailored to SIOs emphasize the ability of the holding company to serve as a source of strength for the depository
 - Ratings assigned for Governance and Controls, Capital Management, and Liquidity Management
- Incorporating the work of other supervisors
 - Emphasizes the importance of collaborating with state insurance regulators and describes how supervisory teams do this



Proportionality

- SIOs would be classified as either complex or noncomplex based on their risk profiles. Their classification affects the frequency and intensity of supervisory activities.
 - Complex SIOs:
 - More challenging to assess and typically larger
 - Assigned a dedicated supervisory team (DST), whose composition and activities would be based on the SIO's risk profile
 - Noncomplex SIOs:
 - Simpler risk profiles and typically smaller
 - No dedicated supervisory team
 - Supervisory activities outside of an annual full scope exam would be atypical and based on the firm's risk profile
- The framework describes how the application of existing supervisory guidance is tailored for SIOs and emphasizes that supervisory activities focus on material risks that could threaten the holding company's ability to support the depository institution



SIO Ratings

- SIOs have been subject to indicative RFI ratings since 2011 and have been excluded from recent rating framework updates.
- The proposal leverages the existing LFI rating framework to take advantage of existing internal processes, but rating definitions are tailored for SIOs.
- One of four ratings assigned for each component (Governance & Controls, Capital Management, Liquidity Management):
 - Broadly Meets Expectations
 - Conditionally Meets Expectations
 - Deficient-1
 - Deficient-2
- The primary consideration for assigning a rating is the safety and soundness of the SIO and its ability to serve as a source of strength for its depository institution(s).



Incorporating the Work of Other Supervisors

- In addition to working with other financial supervisors, supervisory teams must rely as much as possible on the work of state insurance regulators.
- The framework describes how supervisory teams coordinate with state insurance regulators in order to minimize supervisory burden without sacrificing effective oversight, including:
 - Routine discussions with greater frequency during times of stress;
 - Discussion of the supervisory plan with the potential for participation by either side on the other's activities;
 - Consideration of the work done by the state when scoping activities;
 - Sharing and discussing the annual roll-up letter and relevant documents from supervisory activities; and
 - the states sharing the firm's Own Risk Self Assessment (ORSA), their assessment of the ORSA, results from their supervisory activities, and other supervisory material.

