



**NATIONAL MEETING  
SPRING 2022**

Date: 4/5/22

*2022 Spring National Meeting  
Kansas City, Missouri*

**FINANCIAL CONDITION (E) COMMITTEE**

Tuesday, April 5, 2022

2:30 – 3:30 p.m.

Loews—City Beautiful E—Ballroom Level

**ROLL CALL**

Scott A. White, Chair	Virginia	Chlora Lindley-Myers	Missouri
Elizabeth Kelleher Dwyer, Vice Chair	Rhode Island	Marlene Caride	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Doug Ommen	Iowa	Cassie Brown	Texas
Pending	Maine	Nathan Houdek	Wisconsin
Grace Arnold	Minnesota	Jeff Rude	Wyoming
Mike Chaney	Mississippi		

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

**AGENDA**

1. Consider Adoption of its Jan. 12, 2022, and 2021 Fall National Meeting Minutes—*Commissioner Scott A. White (VA)* Attachment One
2. Consider Adoption of its Task Force and Working Group Reports —*Commissioner Scott A. White (VA)*
  - A. Accounting Practices and Procedures (E) Task Force Attachment Two
  - B. Capital Adequacy (E) Task Force Attachment Three
  - C. Financial Stability (E) Task Force Attachment Four
  - D. Reinsurance (E) Task Force Attachment Five
  - E. Valuation of Securities (E) Task Force Attachment Six
  - F. Group Capital Calculation (E) Working Group Attachment Seven
  - G. Restructuring Mechanisms (E) Working Group Attachment Eight
  - H. National Treatment and Coordination (E) Working Group Attachment Nine
3. Consider Adoption of a Model Law Extension from the Mortgage Guaranty Insurance (E) Working Group—*Jackie Obusek (NC)* Attachment Ten
4. Receive an Update on Committee Supported Initiatives—Commissioner Scott A. White (VA)

- A. Clarification of Investments Permitted to Be Reported as Long-Term Bonds—*Dale Bruggeman (OH)*
  - B. Reduction of Reliance on Rating Agencies—*Carrie Mears (IA)*
  - C. Consideration of Certain “High-Yielding” Assets Within the Annual Asset Adequacy Analysis Testing—*Fred Andersen (MN)*
  - D. A Modified Economic Scenario Generator (ESG) That Captures More Low Interest Rates—*Mike Boerner (TX)*
  - E. A More Risk-Sensitive Life Risk-Based Capital (RBC) Charge for Structured Securities—*Philip Barlow (DC)*
5. Update from the Federal Reserve on their supervisory framework  
—*Thomas Sullivan (Federal Reserve)*
6. Discuss Any Other Matters Brought Before the Committee  
—*Commissioner Scott A. White (VA)*
7. Adjournment

SharePoint/NAIC Support Staff Hub/Meetings/Member Meetings/2022 NAIC Meetings/Spring National Meeting/Agenda/E Committee.docx

Draft: 1/13/22

Financial Condition (E) Committee and the  
Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group  
Virtual Meeting  
January 12, 2022

The Financial Condition (E) Committee met Jan. 12, 2022, in joint session with the RBC Investment Risk and Evaluation (E) Working Group of the Capital Adequacy (E) Task Force. The following Committee members participated: Scott A. White, Chair, represented by Doug Stolte (VA); Michael Conway, Vice Chair, represented by Rolf Kaumann (CO); Dana Popish Severinghaus represented by Vincent Tsang (IL); Amy L. Beard represented by Roy Eft (IN); Eric A. Cioppa represented by Vanessa Sullivan (ME); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Russell Toal and Leatrice Geckler (NM); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tom Botsko and Dale Bruggeman (OH); Raymond G. Farmer (SC); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek (WI); and Jeff Rude (WY). The following Working Group members participated: Philip Barlow, Chair (DC); Wanchin Chou (CT); Ray Spudeck (FL); Kevin Clark and Carrie Mears (IA); Vincent Tsang (IL); Fred Andersen (MN); William Leung and Debbie Doggett (MO); Lindsay Crawford (NE); Bob Kasinow and Bill Carmello (NY); Tom Botsko and Dale Bruggeman (OH); Mike Boerner and Rachel Hemphill (TX); Steve Drutz and Tim Hays (WA); and Amy Malm (WI).

1. Discussed Phase II of a Bond Factor Proposal for Structured and Asset-Backed Securities

Mr. Stolte discussed his objectives for the conference call: 1) officially handoff the two projects Commissioner White spoke about at the 2021 Fall National Meeting related to asset-backed securities RBC changes and residual interest securities to the new Working Group; and 2) give some direction to the Working Group on the first of those issues. He provided a recap of some of the items Commissioner White spoke about at the 2021 Fall National Meeting to address the first part of the first objective.

Mr. Stolte stated that in 2021, the Life Risk-Based Capital (E) Working Group received a proposal from Moody's Investors Service (Moody's) and the American Council of Life Insurers (ACLI) that ultimately included the new bond factors adopted for the life RBC formula for year-end 2021. Most importantly, within that proposal, it was suggested that in the future, the NAIC should consider a second phase to such work to look at other asset classes of fixed income securities. Mr. Stolte noted that the life insurance industry has been challenged with the continued low interest rate issues, but the Committee and its task forces and working groups have also spent a great deal of time talking about the industry's search of yield and a shift away from corporate debt holdings towards structured securities and other asset-backed securities, particularly collateralized loan obligations (CLOs). He noted that these types of securities tend to carry more tail risk than a typical corporate debt offering, and state insurance regulators need to start thinking about that tail risk more explicitly in the RBC formula for such types of assets. He stated that there were basically two ways the NAIC could take on this work: 1) use the model used for variable annuities and mortgage guaranty insurance a few years ago where the NAIC issues a request for proposal (RFP) on a project and then hires a consultant that the NAIC controls, but it gets reimbursement commitments from members of the industry before doing so; and 2) use the approach the ACLI used during the bond factor proposal last year where the state insurance regulators control the scope of work before the ACLI puts out a bid, and the ACLI funds the project. He noted that either approach could work, but one of the reasons he wanted to have this call in early January was in case there was a strong sentiment to have the NAIC contract this work since that would require the commissioner to take such a proposal to the Executive (EX) Committee, perhaps during the Commissioners' Conference in early February. He discussed how Mr. Barlow and Dan Daveline (NAIC) have experience with both and can help to facilitate either approach.

Mr. Stolte suggested that before moving into this idea of hiring a consultant, Commissioner White wanted to suggest the release of a 45-day public comment period after the call. The purpose of such a request would be to solicit if members of the industry, and perhaps consultants that follow the NAIC work, have views on possible methodologies that could achieve the objective of capturing the tail risk on CLOs and other structured securities and asset-backed securities. Mr. Stolte noted that Commissioner White's suggestion was that ultimately, it will be up to the RBC Investment Risk and Evaluation (E) Working Group to determine which of the recommended methodologies are chosen, as well as other various details. He described how Commissioner White envisioned how the NAIC data on CLO stress tests could be used to back into a factor, or how other methods, such as that used for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), could be used. He added that for other asset classes, perhaps some form of ratings is used where the consultant can prove the effectiveness of some ratings, or perhaps some ratings with adjustments. He noted his hope that the Working Group and Securities Valuation Office (SVO) staff could possibly review the proposals in March and select a methodology(ies) before the Spring National Meeting to where a consultant could be hired after the Spring National Meeting and possibly come back to the Working Group with specific proposed factors by the Summer National Meeting; then, perhaps the Working Group could adopt something by the end of the year. He noted that Commissioner White knows that this is an aggressive timetable, but he believes an aggressive goal should be set.

Superintendent Toal stated that he believes Commissioner White's proposal is logical, and he supports it and his proposed timeline. Mr. Barlow stated his appreciation for the background information and thinking, and he noted that he looks forward to chairing the Working Group. He stated his support for considering more granular investment factors on certain investments, at least for the life RBC formula, but there would need to be more discussion at the Working Group or the Capital Adequacy (E) Task Force on whether the same is needed for the property/casualty (P/C) formula and the health formula. He also stated that he strongly supports not having the NAIC contract a consultant but instead having the Working Group direct the engagement by the industry of such a consultant, noting that the latter worked well for the life RBC bond factors adopted in 2021. He stated that he has some concerns with the proposed timeline, and he stated that while a similar timeline worked for the 2021 bond factors, a lot of leg work was done by the American Academy of Actuaries (Academy) that does not exist for this proposal. He also discussed the need for the project to complete a proper risk analysis to determine the appropriate factors, noting the potential for a lack of data on newer types of securities. Mr. Stolte responded that he would be certain to communicate Mr. Barlow's concerns to Commissioner White. Superintendent Toal indicated that he respectfully disagrees with Mr. Barlow's comments about the reasonableness of the timeline, as well as how he believes it would be better if the NAIC controlled the consultant simply for objectivity. Mr. Stolte responded that he would be certain to communicate Superintendent's Toal's concerns to Commissioner White. Mr. Spudeck stated that he supports the comments made by Mr. Barlow related to the process to use, noting that under that process, the state insurance regulators would still be in control of the work. He also noted that he believes the proposed timeline is not just aggressive but aspirational. He noted that the work could begin, but depending upon the depth and granularity chosen, it could be very labor intensive. He also suggested avoiding applying it to health companies, at least initially. Mr. Botsko stated his support for Mr. Barlow's comments, and he noted the importance of how this as well as future work is coordinated with the Task Force. Mr. Stolte responded that his comments would be noted.

## 2. Discussed SSAP No. 43 Residual Interests

Mr. Stolte noted that the next issues deal with residual interests where the underlying issue affects the Statutory Accounting Principles (E) Working Group, the Valuation of Securities (E) Task Force, and the various RBC formulas and RBC groups. He noted that Commissioner White was made aware that there had already been some informal coordination among the chairs of these groups. He asked if some of the key members of those groups—Mr. Barlow, Mr. Bruggeman, and Ms. Mears—could briefly discuss each of their views on plans to coordinate activities

on this work, as well as perhaps some of the informal discussions that may have already taken place on the issue. Mr. Barlow noted his support for this work, bearing in mind the incentives for this type of change, and he noted his goal to make RBC not be the issue for investments in these types of structures. He looks forward to working with the other groups, but like the first issue, consideration will need to be given to whether such changes are needed for the health and P/C formulas. Mr. Bruggeman stated his agreement with Mr. Barlow from the sense that development of a factor will be a challenge. He discussed how these will be reported within Schedule BA, but currently, there is no detailed reporting to capture these. However, he hopes that with a new blanks proposal, the NAIC can at least capture the impact on the asset valuation reserve (AVR). He stated that he also agrees with Mr. Barlow with respect to whether this need for health and P/C remains to be seen. Ms. Mears stated her agreement with Mr. Barlow and Mr. Bruggeman, and she noted that materiality is something else she wants to look at. She also questions if there could be some overlap between this issue and the issue discussed within the first agenda item. She suggested that the request for comments be revised to solicit information on the availability of data on residual interests, and she wonders about how the availability of collateral may need to be considered as well.

Having no further business, the Financial Condition (E) Committee and RBC Investment Risk and Evaluation (E) Working Group adjourned.

[Attachment One-Joint Call January 12 E min.docx](#)

## Draft Pending Adoption

Draft: 12/15/21

Financial Condition (E) Committee  
San Diego, California  
December 13, 2021

The Financial Condition (E) Committee met Dec. 13, 2021. The following Committee members participated: Scott A. White, Chair (VA); Michael Conway, Vice Chair, (CO); Dana Popish Severinghaus represented by Kevin Fry and Susan Berry (IL); Amy L. Beard represented by Roy Eft (IN); Eric A. Cioppa, Robert Wake and Vanessa Sullivan (ME); Chlora Lindley-Myers and John Rehagen (MO); Mike Chaney represented by Vanessa Miller (MS); Marlene Caride represented by David Wolf (NJ); Russell Toal represented by Leatrice Geckler (NM); Adrienne A. Harris represented by My Chi To (NY); Judith L. French (OH); Raymond G. Farmer (SC); Cassie Brown represented by Doug Slape and Jamie Walker (TX); Mark Afable and Amy Malm (WI); and Jeff Rude (WY).

### 1. Adopted its Nov. 19 and Summer National Meeting Minutes

Commissioner White said the Committee met Nov. 19 and took the following action: 1) adopted a response to the Financial Regulation and Accreditation Standards (F) Committee related to captive insurers; 2) received a response from the Valuation Analysis (E) Working Group chair related to a specific recommendation from the recent Financial Sector Assessment Program (FSAP); 3) received a memorandum from the Capital Adequacy (E) Task Force chair with respect to a new charge for a new Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group; and 4) adopted the Committee's 2022 proposed charges.

Commissioner Conway made a motion, seconded by Commissioner Rude, to adopt the Committee's Nov. 19 (Attachment One) and Aug. 14 (*see NAIC Proceedings – Summer 2021, 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 Fall 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 possible adoption, Commissioner White also noted that the Financial Analysis (E) Working Group met Dec. 11, Nov. 3, and Oct. 13 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 Nov. 30, Nov. 10, Sept. 27, and July 26 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

Mr. Rehagen made a motion, seconded by Commissioner Conway, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment Two); Group Solvency Issues (E) Working Group (Attachment Three); Mutual Recognition of Jurisdictions (E) Working Group (Attachment Four); NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Five); National Treatment and Coordination (E) Working Group (Attachment Six); Restructuring Mechanisms (E) Working Group (Attachment Seven); and Risk-Focused Surveillance (E) Working Group (Attachment Eight). The motion passed.

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### 3. Adopted the Process for Evaluating Jurisdictions that Recognize and Accept the GCC

Mr. Wake reminded the Committee that in late 2020, the NAIC adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). These revisions implemented group capital calculation (GCC) filing requirements for insurance groups at the level of the ultimate controlling person. They also incorporate the requirements for a group-wide capital calculation as addressed under the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement).

Mr. Wake stated that Section 4L(2) of Model #440 provides two ways a non-U.S. jurisdiction may meet the standards for its insurance groups to be exempted from the GCC: 1) if the jurisdiction has been determined to be a reciprocal jurisdiction for purposes of credit for reinsurance; and 2) if the jurisdiction has otherwise been determined to recognize and accept the GCC by procedures specified in regulation. The Mutual Recognition of Jurisdictions (E) Working Group was charged by the Financial Condition & Committee with creating a process to determine whether other jurisdictions “recognize and accept” the NAIC GCC. Mr. Wake noted that during the drafting process, the GCC Recognize and Accept Process was exposed for a public comment period on July 21 and on Sept. 22, and the Working Group believed that all comments received were appropriately addressed. Additionally, NAIC staff communicated with staff from the Federal Insurance Office (FIO) during the drafting process. The Working Group incorporated some minor revisions that were suggested by the FIO into the Nov. 8 draft, which the Working Group unanimously adopted on Nov. 18.

Mr. Wake made a motion, seconded by Director Farmer, to adopt the *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation* (GCC) (Attachment Nine). The motion passed unanimously.

### 4. Adopted the ReFAWG Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers

Mr. Rehagen said that the *ReFAWG Review Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers* was created to aid in the implementation of the 2019 revisions to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786). Under this process, the Reinsurance Financial Analysis (E) Working Group will assist the states in reviewing reinsurers to determine whether they have met the requirements to be recognized as a certified reinsurer and/or a reciprocal jurisdiction reinsurer. He noted that the Working Group normally meets in regulator-to-regulator session, but state insurance regulators, U.S. ceding insurers, and other interested parties all believed that it was important to have a public process to provide specific guidance with respect to the review of reciprocal jurisdiction reinsurers.

Mr. Rehagen said that during the drafting process, the *ReFAWG Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers* was exposed for a public comment period on June 17 and again on Sept. 17. The comments received were discussed by the Task Force at the Summer National Meeting and by the Working Group on Aug. 25 in regulator-to-regulator session. He stated the Task Forces believed that all comments received were appropriately addressed. He noted that NAIC staff communicated with staff from the FIO during the drafting process. He stated that non-substantive revisions suggested by the FIO were incorporated into the final draft, which was exposed on Nov. 11 for a 21-day public comment period, and no comments were received. He stated that the *ReFAWG Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers* was then unanimously adopted by the Reinsurance (E) Task Force earlier in the day.

Mr. Rehagen made a motion, seconded by Mr. Eft, to adopt the *ReFAWG Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers* (Attachment Ten). The motion passed unanimously.

### 5. Discussed Other Matters

#### a. Request from the CEJ

Commissioner White indicated he had a couple of matters he wanted to bring to the attention of the members of the Committee. Specifically, he noted that a couple of days before the Fall National Meeting, he and Commissioner Conway received a letter from the Center for Economic Justice (CEJ) (Attachment Eleven). He summarized the key points to the letter, including that Birny Birnbaum (CEJ) was asking the Committee to undertake work already at the Special (EX) Committee on Race and Insurance. He noted that the specific request made was for the 2022 charges be expanded to look at the impact of insurer investments on communities of color. Commissioner White noted this appeared to be part of a larger effort on Mr. Birnbaum’s part to take some of the work that is currently being conducted at the Special Committee and place it instead in those committees that have subject matter expertise.

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Commissioner White noted that without getting into the merits of that approach, he did want to share a few thoughts about the proposal itself, which is to have this Committee look into the impacts of insurer investments on communities of color. First, he said he spoke with members of his staff, NAIC staff, and some members of the Committee to think about the merits of this recommendation. He noted that the comments he heard were similar from everyone he spoke with. He stated the biggest question both in his mind and those he spoke with was whether it is something that makes sense for the Financial Condition (E) Committee to look at. He noted that the purpose of the Committee is solvency oversight, first and foremost, and this request does not touch on issues of solvency. He stated another issue is what this would look like and how this would be accomplished. For example, what metrics the Committee would use to determine whether there is a material impact? Assuming the Committee could develop metrics, is it possible that it might adversely affect the Committee's primary goal of solvency protection? Commissioner White noted there are questions about whether this analysis could be done using just Schedule D data for bonds and stocks.

Commissioner White said that these were just a few of the examples of thinking as he reviewed the request. He stated he does not want to rule out the possibility that at some point, the Committee would be tasked with looking at the issue. Commissioner White noted, however, that having just looked at this for the first time just before the Fall National Meeting, and given the unusual nature of the request given it does not deal with solvency protection, he is not comfortable with suggesting the charge be added at this time. He noted that he suspects several other members of the Committee were hearing about this request for the first time. He stated that the work being requested, addressing issues of disparity based on race, are being undertaken at the Special Committee, and in his opinion, until the Committee receives direction from that Committee or from the officers, it seems appropriate for those discussions to continue to occur at that Committee instead. Support for Commissioner White's reaction and recommendation was provided by Commissioner Conway, Director Lindley-Myers and Superintendent Cioppa. No other members disagreed with Commissioner White.

### b. RBC Methodology for Structured Securities and Other ABS

Commissioner White reminded the Committee of one of its deliverables from the last year dealing with revised risk-based capital (RBC) bond factors for life insurers. He described how that adoption was the completion of a multiyear endeavor that resulted in the big change where the Committee went from six NAIC designations to basically 20 different levels within those six designations, thereby reducing the "cliffs" that could exist between the factors before. He also noted how the changes also incorporated more recent bond performance, with the result that some factors went up and some went down. He noted that while the American Academy of Actuaries (Academy) did most of the work on that project, Moody's did a parallel analysis of the bond factors, and it was their recommended changes that were ultimately adopted by the Committee. Commissioner White said that the reason he is bringing this up is to remind the Committee of that work and also, more specifically, the work done by Moody's, which was characterized as Phase I in what it envisioned to be a two-part project. This second phase of the project would address the need to differentiate capital charges for asset classes, including structured securities and other asset-backed securities (ABS).

Commissioner White explained that he would like the Committee to consider the possibility of moving forward on the second phase of this project, whether it be Moody's or some other vendor. He noted how his support for this idea at this time was driven by the fact that the Committee has been engaged in the past two years and longer, which is a focus on this sustained low interest rate environment and the impact it has had on the industry, particularly the life industry. He described how state insurance regulators are aware that insurers' investment strategies and asset allocations are increasingly in search of higher-yielding investments. For example, a shift away from senior corporate debt holdings towards structured securities and other ABS, in particular collateralized loan obligations (CLOs). These investments tend to offer a more attractive yield and may provide some relative regulatory capital advantages to more traditional asset types, such as fixed-rate corporate bonds. He noted the concern that this creates incentives for insurers to invest in higher-yielding and riskier assets, such as certain structured credit instruments, where risk is inconsistent with capital charges.

Commissioner White said that the idea was for the Committee to examine whether the RBC charges for insurer investment concentrations are appropriately calibrated to safeguard insurers against losses in these types of investments. He said the next steps would include having the NAIC hire a consultant to provide the resources the Committee needs to address this issue. He proposed using the same model for this project as was used for variable annuities and mortgage guaranty insurers, where most of the funding comes from the industry. He stated he was hopeful that since the American Council of Life Insurers (ACLI) supported the Moody's work, the NAIC can get enough members of the life industry to help fund the second phase of this analysis. He noted that during the Committee's Nov. 19 meeting, a discussion led by Tom Botsco resulted in the creation of the new Risk-Based Capital (RBC) Investment Risk and Evaluation (E) Working Group. He suggested that the new Working Group take on this project and make it an immediate priority. He also suggested that the new Working Group make it another

**Draft Pending Adoption**

immediate priority to put the necessary structural changes in place for RBC, and because those are due soon, that a joint meeting of the new Working Group and the Committee occur in early January to get that work started. He suggested joint meetings with that new Working Group so that the Committee can be informed about the work occurring and provide any direction needed.

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

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 **NATIONAL MEETING  
SPRING 2022**

Date: 4/5/22

*2022 Spring National Meeting  
Kansas City, Missouri*

**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE**

Tuesday, April 5, 2022

8:00 – 9:00 a.m.

**Meeting Summary Report**

The Accounting Practices and Procedures (E) Task Force met April 5, 2022. During this meeting, the Task Force:

1. Adopted its 2021 Fall National Meeting minutes.
2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met April 4 and took the following action:
  - A. Adopted its March 2, Jan. 27, and 2021 Fall National Meeting minutes, which included the following action:
    - i. During its March 2 meeting, the Working Group exposed agenda item 2021-19: Proposed Bond Definition, a revised principle-based bond definition, and a draft issue paper for a public comment period ending May 6. In addition, the motion directed NAIC staff to continue discussions with industry on the bond definition and develop proposed reporting changes and potential statutory accounting revisions for a subsequent exposure.
    - ii. During its Jan. 27 meeting, the Working Group adopted the following statutory accounting principles (SAP) clarifications, which were effective for year-end 2021 reporting:
      - a. Revisions reflect clarifications to life and health reinsurance disclosures and provide guidance to address audit inquiries. (Ref #2021-31)
      - b. Revisions to *Statement of Statutory Accounting Principles (SSAP) No. 108—Derivatives Hedging Variable Annuity Guarantees* remove reference to the “standard scenario” to ensure consistency with VM-21, Requirements for Principle-Based Reserves for Variable Annuities. The revisions were effective for year-end 2021 reporting. (Ref #2021-18)
  - B. Adopted the following clarifications to statutory accounting guidance:
    - i. Revisions rejecting the following:
      - a. *Accounting Standards Update (ASU) 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments* for statutory accounting. (Ref #2021-29)

- b. *ASU 2021-03, Intangibles – Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events* for statutory accounting. (Ref #2021-28)
  - c. *ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* for statutory accounting while incorporating guidance on how to account for changes in fair values for written call options. (Ref #2021-27)
  - d. *ASU 2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946), Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants* as not applicable for statutory accounting. (Ref #2021-30)
- ii. Revisions reflect updated NAIC designation and designation category guidance adopted by the Valuation of Securities (E) Task Force to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). (Ref #2021-23)
  - iii. Adopted editorial revisions to update various terminology references of “substantive” and “nonsubstantive” to reflect “new SAP concept” and “SAP clarification.” (Ref #2021-26EP)
  - iv. Adopted agenda items resulting in blanks proposals without statutory revisions:
    - a. Adopted an agenda item supporting supplemental reporting of subsidiary, controlled, and affiliated (SCA) entities investments reported in Schedule D, Part 6, Section 1: Valuation of Shares of Subsidiary, Controlled or Affiliated Companies. The adoption reflects support for blanks proposal 2022-02BWG and did not result in statutory revisions. (Ref #2021-22)
    - b. Adopted an agenda item proposing to add a new general interrogatory to require disclosure pertaining to cryptocurrencies directly held or permitted for the remittance of premiums. This agenda item did not result in statutory revisions. However, adoption reflects support for the blanks proposal 2022-01BWG. (Ref #2021-24)
- C. Exposed the following SAP clarifications:
- i. Revisions incorporate: 1) updates from Financial Accounting Standards Board (FASB) Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 7, Presentation*, which identifies factors to consider when deciding how items should be displayed on the financial statements; and 2) Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which updates the definitions of an asset and a liability. The Working Group exposed two draft issue papers for historical documentation of these SAP clarifications *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*. (Ref #2022-01)
  - ii. Revisions reject *ASU 2021-09, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities* for statutory accounting. (Ref #2022-05)

- iii. *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*: Revisions incorporate certain disclosures from *ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance* of terms and provisions of assistance received. (Ref #2022-04)
- iv. *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions clarify the identification and reporting requirements for affiliated transactions and incorporate new reporting codes in the investment schedules to identify investments held that involve related parties. The new reporting requirements will identify investments acquired through, or in, related parties, regardless of if they meet the definition of an affiliate. (Ref #2021-21)
- v. Revisions reject *ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* for statutory accounting. Revisions in *SSAP No. 68—Business Combinations and Goodwill* also note that the intent is not to modify any U.S. generally accepted accounting principles (GAAP) for U.S. GAAP book value. (Ref #2022-07)
- vi. *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*: Revisions propose to either eliminate the audited U.S. tax basis equity valuation exception or clarify that the U.S. tax basis equity audit shall occur at the investee level. (Ref #2022-02)
- vii. *SSAP No. 86—Derivatives*: Revisions propose: 1) a new Exhibit A, which will replace both Exhibit A and Exhibit B of *SSAP No. 86* that adopts with modification U.S. GAAP guidance in determining hedge effectiveness; and 2) revised measurement methods for excluded components in hedging instruments. The Working Group directed staff to continue to work with industry representatives on other elements within *ASU 2017-12: Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. (Ref #2021-20)
- viii. Revisions incorporate the practical expedient from *ASU 2021-07, Compensation – Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards* for the current price input, a required component for option-pricing models used in determining fair value for share-based payments. (Ref #2022-06)
- ix. *Interpretation (INT) 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates*: Revisions support a draft interpretation to clarify that investments in the Freddie Mac “When Issued K-Deal” (WI) Program are in scope of *SSAP No. 43R*. (Ref #2022-08)
- x. Blanks Proposal: Exposed an agenda item that expressed support for a blanks proposal with instructional changes to Schedule T, the State Page, and Accident and Health Policy Experience Exhibit (AHPEE) to clarify guidance for premium adjustments. The instructions clarify that all premium adjustments, including but not limited to federal Affordable Care Act (ACA) premium adjustments related to the risk adjustment program, shall be allocated as premium in the respective jurisdiction. This agenda item does not result in statutory revisions. (Ref #2022-03)

- xi. The comment period for items exposed is June 3, except for agenda items 2021-21, 2022-03, and 2022-08, which have a May 6 comment deadline to allow for adoption consideration during an interim meeting anticipated for May.
- D. Reviewed comments and directed NAIC staff on the following items:
- i. Bond Proposal Project: Received comments and an update regarding potential reporting options to revise Schedule D, Part 1: Long-Term Bonds. The update included preliminary responses to certain aspects of those comments. The Working Group directed NAIC staff to proceed with developing an illustration of reporting revisions for subsequent exposure. (Ref #2019-21)
  - ii. *SSAP No. 22R—Leases*: Reviewed comments on prior exposed revisions intending to clarify that in any scenario in which a lease terminates early, all remaining leasehold improvements shall be immediately expensed. The Working Group directed NAIC staff to continue to work with interested parties to refine the guidance for subsequent consideration. (Ref #2021-25)
  - iii. Received an update that the Working Group and the Valuation of Securities (E) Task Force received a comment letter from the American Council of Life Insurers (ACLI) regarding a proposed amendment to the P&P Manual to permit unguaranteed and unrated subsidiary obligors in working capital finance investment (WCFI) transactions. As the Working Group does not have an exposure on this topic, the Working Group noted receipt but does not plan to address comments at this time; the comment letter will be included in the Valuation of Securities (E) Task Force minutes.
- E. Received an update on U.S. GAAP exposures, noting the normal maintenance process will address.
- F. Received an update on the Working Group referral of agenda item 2019-49: Retroactive Reinsurance Exception regarding diversity in companies applying the retroactive reinsurance exception, which allows prospective reporting. The Casualty Actuarial and Statistical (C) Task Force discussed this item on March 8. The Task Force directed and formed a small group to further work on this, including drafting instructional revisions to Schedule P – Analysis of Losses and Loss Expenses.
3. Adopted the report of the Blanks (E) Working Group, which met on March 29 and took the following action:
- A. Adopted its Nov. 16, 2021, minutes, which included the following action:
- i. Adopted proposal 2021-14BWG – Expand the number of lines of business reported on Schedule H to match the lines of business reported on the Health Statement. Modify the instructions so they will be uniform between life/fraternal and property.
  - ii. Adopted its editorial listing and approved the State Filing Checklists content.
  - iii. Rejected proposal 2021-11BWG requesting to add a new annual statement supplement to the property/casualty (P/C) statement to capture exposure data for annual statement lines 4, 19.1, 19.2, and 21.2 of the Exhibit of Premiums and Losses.

- iv. Deferred proposal 2021-13BWG, which adds a new supplement to capture premium and loss data for annual statement lines 17.1, 17.2, and 17.3 of the Exhibit of Premiums and Losses (State Page) – Other Liability by more granular lines of business for a public comment period ending March 4.
  - v. Exposed seven new proposals for a public comment period ending March 4.
- B. Adopted its editorial listing and the following proposals:
- i. 2021-15BWG – Add a footnote to Exhibit 7 in the Life/Fraternal statement and the Health statement (Life Supplement) to capture the amount of Federal Home Loan Bank (FHLB) funding agreements reported in Columns 1 through 6 of the exhibit (2021-16 SAPWG).
  - ii. 2021-16BWG Modified – For Note 9 – Income Taxes, remove the 9C illustration instructions for the deferred tax asset (DTA) and deferred tax liability (DTL) components, which state, “reporting entities should disclose those items included as ‘Other’ (Lines 2a13, 2e4, 3a5 and 3b3) as additional lines for those items greater than 5% in the printed/PDF filing document,” as the illustration is not set up to accommodate variable lines. Add formulas for calculation of total and subtotal on the illustration for 9C. For Note 15 – Leases, modify the illustrations to add a “Thereafter” line and add a “Total” formula.
  - iii. 2021-17BWG Modified – Modify the Analysis of Operations by Lines of Business in the Health Blank to include all of health lines of business included in the Life/Fraternal Analysis of Operations by Lines of Business – Accident and Health. Add instructions for the new columns and adjust the column references. Add the Health Blank Analysis of Operations by Lines of Business as a supplement to the life/fraternal blank with instructions and crosschecks. Add crosscheck to the Health Blank Analysis of Operations by Lines of Business to the Life/Fraternal Analysis of Operations by Lines of Business – Accident and Health instructions.
  - iv. 2021-19BWG Modified – Add columns and lines to U&I (Parts 1, 2, 2A, 2B, and 2D) and the Exhibit of Premiums, Enrollment and Utilization in the annual statement to bring the lines of business reporting in line with Life/Fraternal and Property. Add columns and lines to the Exhibit of Premiums, Enrollment and Utilization and U&I Analysis of Claims Unpaid quarterly pages. The appropriate adjustments to the instructions are also being made.
  - v. 2021-20BWG Modified – Starting at Line 72 of the Life/Fraternal Five-Year Historical, add or delete lines that do not capture the specific lines of business reported on the Life/Fraternal Analysis of Operations by Lines of Business detail pages for life (individual and group), annuities (individual and group), and accident and health (A&H) for Line 33 of those pages.
  - vi. 2021-21BWG Modified – Add instruction to the Investment Schedules General Instructions to exclude non-rated residual tranches or interests from being reported as bonds on Schedule D, Part 1, and add lines to Schedule BA for the reporting those investments (2021-15 SAPWG).
  - vii. 2021-23BWG Modified – Add a line category for Residual Tranches or Interests in the Asset Valuation Reserve Equity and Other Invested Asset Component blank, and renumber the lines below the addition. Modify instructions as appropriate for the added lines.

- C. Re-expose proposal: 2021-22BWG Modified – Add a new reporting requirement in the investment schedules for investment transactions with related parties. In addition to capturing direct loans in related parties, it will also capture information involving securitizations (or other similar investments) where the related party is a sponsor/originator along with whether the underlying investment is in a related party.
- D. Deferred proposal: 2021-18BWG – Modify the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Two new Schedule T style pages (Exhibit of Claims Settled During the Current Year and Policy Exhibit) are created to include detail captured by state on the existing Life Insurance (State Page) that could not be included due to limited space. Add definitions for life and annuity products to the lines of business definitions in the health appendix.
- E. Exposed 11 new proposals for a public comment period ending April 25.
- F. Received the Statutory Accounting Principles (E) Working Group year-end memorandum.

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# NAIC NATIONAL MEETING SPRING 2022

Date: 3/15/22

*Virtual Meeting*

*(in lieu of meeting at the 2022 Spring National Meeting)*

## **Capital Adequacy (E) Task Force**

Monday, March 28, 2022

2:00 p.m. – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 – 12:00 p.m. PT

## **Meeting Summary Report**

The Capital Adequacy (E) Task Force met March 28, 2022. During this meeting, the Task Force:

1. Adopted its Jan. 27, 2022; Dec. 20, 2021; and 2021 Fall National Meeting minutes, which included the following action:
  - A. Adopted the 2021 Catastrophe Event List.
  - B. Discussed the formation of a new risk-based capital (RBC) working group and solicited membership for the RBC Investment Risk and Evaluation (E) Working Group.
  
2. Adopted the report of the Health Risk-Based Capital (E) Working Group, including its March 18 minutes. During this meeting, the Working Group took the following action:
  - A. Adopted its Feb. 25, 2022; Jan. 28, 2022; and Dec. 16, 2021, minutes, which included the following action:
    - i. Referred the Health Test Language Proposal to the Blanks (E) Working Group.
    - ii. Referred a memorandum to the Health Actuarial (B) Task Force.
    - iii. Adopted proposal 2021-18-H as modified for instructions in evaluating the investment yield adjustment in the underwriting risk factors.
    - iv. Received the American Academy of Actuaries (Academy) report on the H2 – Underwriting Risk Review.
    - v. Reviewed the investment yields of the six-month U.S. Treasury bonds for the investment income adjustment.
  - B. Discussed next steps in moving forward on the H2 – Underwriting Review project with the Academy.
  - C. Adopted its 2022 working agenda.
  
3. Adopted the report of the Life Risk-Based Capital (E) Working Group, including its March 23 minutes. During this meeting, the Working Group took the following action:
  - A. Adopted its March 10, 2022; Jan. 20, 2022; Dec. 16, 2021; and 2021 Fall National Meeting minutes, which included the following action:
    - i. Discussed the Academy's C2 Work Group recommendation on mortality.
    - ii. Discussed the asset valuation reserve (AVR) and bond factor changes.
    - iii. Adopted guidance on bond factor changes.
  - B. Adopted its working agenda
  - C. Discussed reinsurance and comfort trusts.
  - D. Discussed bond funds.

4. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group, including its March 23 minutes. During this meeting, the Working Group took the following action:
  - A. Adopted the report of the Catastrophe Risk (E) Subgroup, including its March 22 minutes. During this meeting, the Subgroup took the following action:
    - i. Adopted its Feb. 22, 2022; Jan. 25, 2022; and 2021 Fall National Meeting minutes, which included the following action:
      - a. Adopted proposal 2021-15-CR (Adding KCC Models), which the Subgroup exposed for a 30-day public comment period ending Nov. 26, 2021.
      - b. Adopted proposal 2021-17-CR (Adding Wildfire Peril for Informational Purposes Only), which the Subgroup exposed for a 60-day public comment period ending Feb. 13, 2022.
      - c. Received an update from the Catastrophe Model Technical Review Ad Hoc Group. The update included the discussion of the survey questions created by the members within the group, which was based on *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)*.
      - d. Discussed three different kinds of catastrophe models that deviate from the vendor models. The Subgroup will focus on discussing the vendor catastrophe models with adjustments or different weight first.
      - e. Discussed the issue of double counting in the R5 component. The Subgroup asked the interested parties to review the current methodology and provide comments in the upcoming meetings.
      - f. Discussed the possibility of adding flood peril in the Rcat component. The industry asked the Subgroup to consider the materiality issue with respect to whether the flood peril is warranted, given the exposure of the industry.
      - g. Heard a presentation from Milliman on the private flood market.
    - ii. Discussed its 2022 working agenda.
    - iii. Discussed the insured loss threshold for wildfire peril. The Subgroup considered following the same minimum 25 million insured losses per event threshold as the other perils.
    - iv. Exposed proposal 2021-17-CR MOD (Wildfire Information-Only Reporting Exemption) for a 14-day public comment period ending April 5, 2022. This proposal allows an exemption for those companies where the modeling requirements would impose a cost and compliance burden during the for informational purposes only period.
    - v. Discussed the independent model review instruction in the Rcat component. Heard comments from the Missouri Department of Commerce and Insurance (DCI) regarding the Rcat instructions.
    - vi. Discussed the issue of double counting in the R5 component.
  - B. Adopted proposal 2021-15-CR (Adding KCC Model).
  - C. Adopted proposal 2021-17-CR (Adding Wildfire Peril for Informational Purposes Only).
  - D. Adopted proposal 2021-14-P (R3 Factor Adjustment).
  - E. Exposed proposal 2022-01-P (Removing Trend Test for Informational Purposes Only Footnote) for a 30-day public comment period ending April 22.
  - F. Heard an update on current property/casualty (P/C) risk-based capital (RBC) projects from the Academy.
5. Adopted the report of the RBC Investment Risk and Evaluation (E) Working Group, including its March 22 minutes. During this meeting, the Working Group took the following action:
  - A. Adopted its Feb. 22 minutes, which included the following action:
    - i. Discussed its formation, charges, and the Financial Condition (E) Committee's direction.

- ii. Heard a high-level overview of investment development from NAIC staff.
- iii. Discussed desired outcomes investment reporting perspectives and next steps.
- B. Adopted its working agenda.
- C. Discussed comment letters received on its request to solicit feedback.
- D. Discussed next steps.
- 6. Adopted proposal 2021-18-H MOD (Investment Income Guidance).
- 7. Adopted proposal 2021-15-CR (Approve Third-Party Vendor).
- 8. Adopted proposal 2021-17-CR (Information Only Wildfire Peril).
- 9. Adopted proposal 2021-14-P (Re Factor Adjustment).
- 10. Adopted its working agenda.

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**NATIONAL MEETING  
SPRING 2022**

Date: 4/5/22

*2022 Spring National Meeting  
Kansas City, Missouri*

**JOINT MEETING OF THE FINANCIAL STABILITY (E) TASK FORCE  
AND THE MACROPRUDENTIAL (E) WORKING GROUP**

Tuesday, April 5, 2022  
9:00 – 10:00 a.m.

**Meeting Summary Report**

The Financial Stability (E) Task Force met April 5, 2022, in joint session with the Macroprudential (E) Working Group. During this meeting, the Task Force:

1. Adopted its Feb. 22 minutes, which included the following action:
  - A. Received a Working Group update.
  - B. Adopted the “List of Regulatory Considerations – PE Related and Other.”
  - C. Adopted the 2021 Liquidity Stress Testing Framework (LST Framework).
  - D. Adopted the Working Group’s Feb. 1 Minutes.
2. Adopted the Working Group’s March 2 minutes, which included the following action:
  - A. Received an update on the Macroprudential Risk Assessment.
  - B. Exposed the Macroprudential Risk Assessment.
3. Received a Working Group update.
4. Adopted the Macroprudential Risk Assessment.
5. Heard an international update, which included an update on the International Association of Insurance Supervisors’ (IAIS’) global monitoring exercise and the consultation on LST.

# NAIC NATIONAL MEETING SPRING 2022

Date: 3/28/22

*Virtual Meeting  
(in lieu of meeting at the 2022 Spring National Meeting)*

## **REINSURANCE (E) TASK FORCE**

Tuesday, March 22, 2022

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

### **Meeting Summary Report**

The Reinsurance (E) Task Force met March 22, 2022. During this meeting, the Task Force:

1. Adopted its 2021 Fall National Meeting Minutes.
2. Adopted the report of the Reinsurance Financial Analysis (E) Working Group, which met March 3, 2022, and Dec. 20, 2021, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group took the following action:
  - A. Approved proposed revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*.
  - B. Discussed revising the regulator-only *Reinsurance Financial Analysis (E) Working Group Procedures Manual*.
  - C. Completed the reviews of certified reinsurers and reciprocal jurisdiction reinsurers.
3. Exposed revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*.
4. Received a status report on the reinsurance activities of the Mutual Recognition of Jurisdictions (E) Working Group.
5. Received a status report on the states' implementation of the 2019 revisions to the *Credit for Reinsurance Model Law* (#785), the *Credit for Reinsurance Model Regulation* (#786), and the implementation of the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).

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**NATIONAL MEETING  
SPRING 2022**

Date: 4/1/22

*2022 Spring National Meeting  
Kansas City, Missouri*

**VALUATION OF SECURITIES (E) TASK FORCE**

Tuesday, April 5, 2022

10:30 – 12:30 p.m.

**Meeting Summary Report**

The Valuation of Securities (E) Task Force met April 5, 2022. During this meeting, the Task Force:

1. Adopted its 2021 Fall National Meeting minutes.
2. Discussed comments received on a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)* to update the definition of principal protected securities (PPS), which was exposed for a 60-day public comment period ending Feb. 11.
3. Discussed comments received on a proposed amendment to the P&P Manual to update the definition of “other non-payment risk assigned a subscript “S,” which was exposed for a 60-day public comment period ending Feb. 11.
4. Exposed a proposed referral to the Blanks (E) Working Group to add fixed income analytical risk measures to investments reported on Schedule D, Part One for a 45-day public comment period ending May 20.
5. Discussed comments received on a proposed amendment to the P&P Manual to add guidance on the designation of Schedule BA assets with fixed income characteristics, which was exposed for a 60-day public comment period ending Feb. 11.
6. Adopted a proposed amendment to the P&P Manual to permit unguaranteed and unrated subsidiary obligors in working capital finance investments (WCFI) transactions, with Securities Valuation Office (SVO) discretion, which was exposed for a 60-day public comment period ending Feb. 11.
7. Discussed comments received on an NAIC staff report on the use of NAIC designations by other jurisdictions in the regulation of insurers, which was exposed for a 60-day public comment period ending Feb. 11.
8. Received a report from SVO staff on the 2021 year-end carry-over filings.
9. Received a staff report on projects of the Statutory Accounting Principles (E) Working Group.
10. Received a staff update on new residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) thresholds and price breakpoints.

11. Received a staff update on the ad hoc credit rating provide study group.

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Draft: 2/15/22

Group Capital Calculation (E) Working Group  
Virtual Meeting  
February 9, 2022

The Group Capital Calculation (E) Working Group of the Financial Condition (E) Committee met Feb. 9, 2022. The following Working Group members participated: John Rehagen, Chair (MO); Kathy Belfi, Vice Chair (CT); Susan Bernard (CA); Philip Barlow (DC); Ray Spudeck (FL); Carrie Mears (IA); Susan Berry (IL); Roy Eft (IN); John Turchi (MA); Judy Weaver (MI); Kathleen Orth (MN); Justin Schrader (NE); David Wolf (NJ); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Melissa Greiner and Kimberly Rankin (PA); Trey Hancock (TN); Jamie Walker (TX); Doug Stolte and David Smith (VA); and Amy Malm (WI).

1. Adopted its Fall National Meeting Minutes

The Working Group met Nov. 22 and took the following action: 1) adopted its Nov. 8, 2021; Sept. 8, 2021; and Summer National Meeting minutes, which included the following action: a) exposed a staff memorandum that includes possible group capital calculation (GCC) modifications for a public comment period ending Dec. 23, 2021; b) exposed clarifying changes to the GCC instructions that were previously provided to the Working Group and the public as part of the GCC Trial Implementation for a public comment period ending Dec. 8, 2021; c) discussed comments on maintenance documents and proposed revisions; d) discussed comments on a draft referral to the Capital Adequacy (E) Task Force; and e) adopted recommended changes to the *Financial Analysis Handbook* that incorporate guidance on utilizing the GCC and subsequently distributed these changes to the Financial Analysis Solvency Tools (E) Working Group; and 2) discussed the results of the GCC Trial Implementation.

Ms. Belfi made a motion, seconded by Mr. Spudeck, to adopt the Working Group's Nov. 22 minutes (*see NAIC Proceedings – Fall 2021, Financial Condition (E) Committee, Attachment Two*). The motion passed unanimously.

2. Discussed Comments Received on Possible Changes to the 2022 GCC

Mr. Rehagen announced his objectives for the conference call: 1) discuss each of the issues (**Attachment Two-??**) and the related comments (**Attachment Two-??**) from America's Health Insurance Plans (AHIP) and the American Council of Life Insurers (ACLI); and 2) ask the Working Group to make decisions on each of those issues. He noted that for those issues that the Working Group chooses to make a change to the GCC, he will ask NAIC staff to develop a revised template and instructions with such changes incorporated. The revised template and instructions will be exposed for a public comment period and be discussed on the Working Group's next conference call. Mr. Rehagen stated that ultimately, he wants the Working Group to adopt a revised template and instructions that will be used for year-end 2022 so all parties can begin to prepare for the year-end filing. He stated that year-end 2022 will be the NAIC's first year for the GCC filing with its published template and instructions, and it will be available for any state that is requiring it for their groups for year-end 2022. He also stated that NAIC staff expect to develop training for companies for the summer of 2022, while training for the state insurance regulators will be closer to the expected filing date. He emphasized that while the Working Group will be making some changes for 2022, that is not meant to suggest that changes will not occur in the future. In fact, he noted that once the GCC is adopted for year-end 2022, he wants the Working Group to adopt its form and procedures documents that will be used in the future for any party suggesting a change to the GCC.

a. Eliminate Stress Scenario

Mr. Rehagen reminded call participants of the fact that in 2021, the GCC Trial Implementation template and instructions included a stress scenario; but at that time, the Working Group concluded that it would not include a stress scenario in the GCC's first implemented version. He noted, however, that the Working Group had already discussed that it may decide in future years to add different stresses to the GCC as a supplemental disclosure. He reiterated this point in response to a written comment from AHIP, but he noted that if the Working Group desires to include stresses in the future, just like any other proposal, the state insurance regulators will expose such a proposal, and the details of that proposal will be debated just like any other new proposal. He asked if any Working Group members are opposed to removing the GCC Trial Implementation stress scenario out of the 2022 GCC. No members objected to removing this item.

b. Debt Allowance

Mr. Rehagen discussed his belief that NAIC staff were under the impression from comments made by interested parties in 2021 that there was a desire to increase the debt allowance to account for procyclicality. NAIC staff had proposed a way to deal with that in the exposed memorandum, which he suggested was not well received from AHIP and the ACLI based upon their written comments. He provided his opinion that he believes the Working Group was already in favor of the levels of debt that were included in the GCC Trial Implementation, and he suggested moving forward without any change to the GCC Trial Implementation because he believes the Working Group has already recognized that most senior debt is already being recognized in the GCC. He noted that if members of the Working Group have strong feelings, they can consider the comments from AHIP and the ACLI, but he reiterated that he is inclined to keep the debt levels the same as they were during the GCC Trial Implementation. It was noted how the current debt allowance is at 75% in total, and the subcategory limits are 30% for senior debt and 15% for hybrid debt, but both subcategory limits are a percentage of available capital plus senior and hybrid debt. Mr. Rehagen stated that he believes the ACLI is proposing some changes to that construct that would likely just push up those limits a little.

Tom Finnell (AHIP) noted that AHIP does not have strong feelings on the NAIC staff proposal to increase the debt allowance, and it certainly would not stand in the way, but it would not carry the flag for it either. He noted that AHIP's concerns regarding the NAIC staff proposal are more directed at including triggers based upon an external factor, which seems similar to relying on rating agency ratings, which showed triggers can have issues as witnessed during the financial crisis. Mr. Rehagen asked AHIP if that means it is supportive of leaving the current debt limits as is, as opposed to making the changes recommended by NAIC staff. Mr. Finnell responded affirmatively.

Kristin Abbott (ACLI) noted the ACLI comment it would consider a technical correction to the exposed NAIC staff proposal, and she asked Martin Mair (MetLife) to expand on the ACLI views on the issue. Mr. Mair stated that what the ACLI is proposing is that the subcategories be a percentage of the total category. He described that if one went back to the original debt framework and its cap of 50% and considers the total debt allowance has been increased to 75%, the senior debt limit and the hybrid debt limit should both be increased. With the ACLI proposal, if one takes those subcategories on a percentage basis, then the senior debt should now be 45% instead of 30%, and the hybrid would be 22.5% instead of 15%. Mr. Mair described how the NAIC staff memo suggests an adjustable debt limit, and the ACLI proposal is that as the total debt limit increases, the subcategories should automatically be increased, which the ACLI sees as a technical correction to the NAIC staff proposal.

Ned Tyrrell (NAIC) asked for clarification on the proposal, noting that it seems that the ACLI proposal is simpler but less nuanced. He noted that under the ACLI proposal, adjusting subcategories described by Mr. Mair would result in a higher amount of debt being added into the available capital. Mr. Mair responded that the ACLI proposal is intended to align the subcategory limits with the total limit. Mr. Tyrrell noted the importance of looking at the

fact that the current limits use a different denominator for the subcategories as the total limit. Specifically, he noted that the total limit of 75% is a percentage of available capital excluding debt, while the subcategories are a percentage of available capital plus total debt. He added that consequently, a group could have a situation where one limit is binding but the other is not. He stated that for most groups, in particular life groups, the debt is concentrated as senior debt, so the subcategory is the binding limit. Mr. Rehagen agreed with Mr. Tyrrell, and he noted that there is not really an existing issue with the current debt limits, and for most companies, all debt was allowed as in addition to available capital. He noted that in summary, he does not believe a change is necessary, but what Mr. Mair is describing is something that could be studied. He asked if any Working Group members believe this is something the Working Group should make a change to the debt limit today.

Mr. Bruggeman offered an example to demonstrate the impact of the proposed change from the ACLI. In his example, a group has available capital of \$100 million, and in such a situation, 75% of the total capital would provide the group with an additional \$75 million, for a total of \$175 million used in the calculation. Then, applying the 30% and 15% to the \$175 million, the total allowance is over \$78 million from the two individual amounts. Changing the subcategory percentages as well as the rest of the proposal has the result of increasing the amount of debt that can be added into the available capital and count toward the GCC because of the different denominator, and Mr. Bruggeman believes that is the point Mr. Tyrrell was making. He added that they were not trying to match up the 30% and the 15% with the \$75 million additional capitals allowed from debt; it is 30% of \$175 million. Mr. Tyrrell confirmed that is what is currently embedded within the current GCC. Mr. Bruggeman confirmed that he does not believe a change needs to be made to the debt limit at this time for the proposal. Mr. Barlow asked whether a group would be more restricted if it has a lot of hybrid debt and not much senior debt. Mr. Bruggeman responded that this is correct, as the group would not be able to recognize all of that in the group capital numerator. Mr. Rehagen asked if any Working Group members are opposed to keeping the current debt limit template the same with no changes from this proposal or any suggested modifications from the ACLI. No members objected to keeping the GCC the same for the current debt limits.

Lou Felice (NAIC) suggested that the issue being discussed is one the NAIC may want to keep an eye on because not every group is going to get to 75% of the \$175 million; some may only be at 60%, in which case the mathematics changes a bit. Consequently, there will likely be some cases where there is some haircut on the amount of debt that the group can carry simply because it does not have 75% of its otherwise available capital total. Mr. Rehagen agreed, noting that as state insurance regulators begin to receive their filings, to the extent that several such groups are being finalized, it is something the Working Group can look at again more closely. Mr. Bruggeman clarified that the current limit is not allowing groups to obtain debt; rather, it is simply limiting how much debt can be added into the existing available capital and counted within the GCC.

c. Eliminate Sensitivity Test Related to "Other Debt"

Mr. Rehagen noted that NAIC staff had proposed the elimination of the sensitivity test around the other debt; given that the industry was not opposed, the proposed change will be made unless Working Group members express disagreement. No members disagreed with the proposal elimination.

d. Non-Risk Sensitive Foreign Jurisdiction

Ms. Abbott stated that ACLI members have varying perspectives on this issue; some prefer 50% because 100% can be viewed as punitive, and it gives zero credit for all available capital that is above the required capital. Also, a 100% factor treats capital from those jurisdictions as not existing. Ms. Abbott noted that this is why the ACLI believes 50% seems like a reasonable middle ground for now, and perhaps the Working Group or others could undertake some study to determine if that is the appropriate level. Mr. Rehagen stated that he believes the ACLI proposal is reasonable, and while he does not know exactly what such a proposal that may come from the industry

may look like, he is supportive of reducing the factor to 50% for now, but a different approach could be considered in the future. He asked if any Working Group members are opposed to making the change proposed by NAIC staff. No members objected.

e. Schedule 1 Related Changes

Mr. Finnell described how AHIP's comments are intended to be helpful. He noted that while AHIP is not too concerned where the information is captured, it has numbers who believe in constructing a template that has everything listed in one place. He noted that if it gets broken up in different spots, AHIP believes that would make the process a little more cumbersome. He stated that he also does not believe the state insurance regulators would want to take the items on the template. Ms. Abbott discussed how the ACLI supports efforts to streamline Schedule 1. She noted that the ACLI believes it is important for state insurance regulators to have the detail they need, and the ACLI supports the NAIC staff recommendation to include the information elsewhere in the template. Mr. Rehagen noted that it does not appear that there is agreement between the interested parties on the way to move forward. He stated that he does not have strong opinions, but the first time a company fills the GCC out, it is going to present them with some challenges and confusion. He noted, however, that he believes it will become easier after the first year; therefore, he stated that he is not inclined to make a change at this time. He noted that this is not to suggest that future changes cannot be considered, but he does not want to make a change at this time. Mr. Spudeck agreed stating that he prefers to make no changes at this time, and the GCC instructions is a living document that can always be changed in the future. Mr. Bruggeman noted that there are some oddities when going through the Schedule 1. He noted that if a group elects to exclude the state insurance regulators and then elects to include them, depending upon the situation, when the equity values are rolled up and then onto the schedules, it can create some confusion. He noted that if the group is going from statutory accounting to U.S. generally accepted accounting principles (GAAP) accounting, it gets a little odd if a company all of a sudden says exclude and the state insurance regulator says include. He stated that the dollars kind of flow funny, and he noted that he is testing a couple of groups to see what happens, including double counting, but those things can be part of the training or just need to be handled with care. Mr. Rehagen noted how Missouri would probably be a guinea pig this year because it will require several groups to complete it in 2022. Mr. Bruggeman confirmed that the template could be maintained as it is for now, and no changes are needed at this time. The Working Group did not disagree.

f. Asset Managers

Mr. Rehagen noted that the last item deals with asset managers, who are currently treated as financial entities. The question is whether the industry can bring back a proposal and basis for making a proposal that asset managers be considered financial entities subject to an existing capital requirement. Mr. Rehagen stated that the comments do not include such a proposal, so at this time, he is inclined to keep it as is, but he believes the Working Group would always be open to a proposal in the future. The Working Group did not disagree.

Mr. Rehagen asked the Working Group whether it agrees with asking NAIC staff to develop changes to the template and instructions for year-end 2022 based upon the decisions during the call by the Working Group. He indicated that he would review the template and instructions once the changes have been made, and he suggested that both could be exposed for 30 days once he completes his review. The Working Group did not disagree.

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

[GCC 2-9 Meeting Minutes.docx](#)

# NAIC NATIONAL MEETING SPRING 2022

Date: 3/28/22

*Virtual Meeting  
(in lieu of meeting at the 2022 Spring National Meeting)*

## **RESTRUCTURING MECHANISMS (E) WORKING GROUP**

Monday, March 28, 2022

11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

### **Meeting Summary Report**

The Restructuring Mechanisms (E) Working Group met March 28, 2022. During this meeting, the Working Group:

1. Adopted a referral to the Receivership and Insolvency (E) Task Force to consider a proposed new Model Law Development Request Form related to the *Property and Casualty Insurance Guaranty Association Model Act* (#540).
2. Discussed feedback regarding comments received on the previously exposed draft white paper and requested specific language to address the comments on the feedback with comments due by April 29.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Restructuring Mech Working Group.doc

Draft: 3/10/22

National Treatment and Coordination (E) Working Group  
Virtual Meeting  
March 9, 2022

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met March 9, 2022. The following Working Group members participated: Jay Buschmann Co-Chair (MO); Cameron Piatt, Co-Chair (OH); Cindy Hathaway (CO); William Mitchell (CT); Alisa Pritchard (DE); Carolyn Morgan and Alison Sterett (FL); Stewart Guerin and Mike Boutwell (LA); Kari Leonard (MT); Karen Feather (PA); Amy Garcia (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Linda Johnson (WY).

1. Heard Opening Remarks

Mr. Piatt provided a summary of his involvement with the Working group and announced his position as co-chair. He added that Debbie Doggett (MO) could not attend today's meeting due to scheduling conflicts.

2. Tabled Proposal 2021-07 (Instructions Regarding Company Responses)

Mr. Piatt said the proposal for company response to state inquiries has been tabled. During discussions on a regulator-only call, it was determined that states have processes or procedures in place on the timing of company responses. Hearing no objections, the Working Group tabled further discussion of proposal 2021-07.

3. Heard an Update on the Domestic Surplus Lines Insurers Drafting Group

Crystal Brown (NAIC) said the Working Group established the Domestic Surplus Lines Insurers Drafting Group to address a memo from the Chief Financial Regulator Forum for domestic surplus lines insurers (DSLII). The Drafting Group reviewed and provided responses to each question from the original memo in the response memo of Attachment 4. The Drafting Group addressed these questions through discussion, surveys, and a review of each DSLII state's statute/regulation.

Through the Drafting Group's work, it developed the DSLII chart that provides insurers with the information needed to become a DSLII. Only states that allow for DSLII carriers are included on the chart. Most states utilize the Uniform Certificate of Authority Application (UCAA) primary application for the authorization of a DSLII. The chart provides the following information: 1) statute/regulation reference; 2) additional requirements; 3) board of director requirements; 4) minimum capital and surplus requirements; 5) requirements for existing admitted business fees; and 6) state website and contact information.

Ms. Garcia made a motion, seconded by Mr. Sueoka, to approve the responses to the Chief Financial Regulator Forum's referral (Attachment 1). The motion passed unanimously.

4. Heard an Update on the Biographical Affidavit Database Project

Jane Barr (NAIC) said the bio database project will move forward effective April 1. During the development phase, industry and state insurance regulator user input is imperative to the development of the electronic application functionality. Ms. Barr mentioned that volunteers are needed for development and testing. Any interested users should email Ms. Barr directly. Ms. Barr added that the ad hoc group will resume its semi-monthly calls to complete the domestic corporate amendment application and instructions. Once the domestic corporate amendment application is completed, the ad hoc group will move on to the Form A application and Form E

notifications for development in 2023 with an implementation date sometime at the beginning of 2024. Next, the current expansion and foreign corporate amendment applications will be enhanced with new technology and developed on the new format by year-end 2024. During 2024, the ad hoc group will begin discussions on the biographical affidavit database. Input from affiants, industry, third-party vendors, and state users will be imperative to the success of this database. Ms. Barr stressed that volunteers are needed during the information gathering process and development of the electronic tool, and all interested parties should contact Ms. Barr.

#### 5. Discussed Other Matters

Ms. Brown explained that an issue was brought to the attention of NAIC staff regarding individual affiants that held multiple board positions within a group; i.e., 50+. Attached in the materials are several templates that NAIC staff created that could be used in lieu of the blank addendum pages currently provided on the website. Jeff Martin (UnitedHealth Group—UHG) said the UHG has multiple affiants that hold numerous positions in their holding group that the UHG has used when submitting bios that he believes would work for other companies in a similar structure. The attached proposal removes the addendum pages and creates a separate attachment with options that would fit the scenario of the affiant. Ms. Barr added that this is just a temporary work around until the bio database is developed. Ms. Brown said one example allows for multiple positions listed for one company so multiple entries did not need to be created on the blank addendum page.

Gina Hudson (Liberty Mutual) said Liberty Mutual lists an attachment along with the cover letter because she believes the cover letter would include this information. Ms. Brown said the cover letter does not request all the pertinent information currently listed on the bio. Mr. Martin asked if the Working Group will consider creating a template for licenses and memberships. Ms. Barr suggested that any other examples should be emailed to NAIC staff by March 18, and those templates will be included in the current exposure with comments due by April 20.

Ms. Barr explained that the biographical database project timeline will move forward in 2022 with the following:

- Roll out of the primary and redomestication applications.
- The development and testing phase will take most of the second and third quarter with an anticipated release date by October or November. The Working Group may decide to release the application on Jan. 1, 2023, instead of late 2022.
- Next will be the domestic corporate amendment application in 2023 followed by the Form A and Form E.
- The Form A application will tie into the existing regulatory only Form A database, so testing may take longer; the anticipated release date may be year-end 2023.
- Then, the conversion of the current expansion and foreign state corporate amendment applications will be enhanced and follow the new format with a release date in early to mid-2024.
- Last will be the development of the biographical affidavit database; testing and development will include industry, third-party vendors, and state users.

Ms. Barr said the ad hoc group will work continuously throughout the year, and volunteers should specify which project they want to participate in. She added that it is anticipated that all states will move forward with the electronic application. Any questions should be directed to Ms. Barr.

The next Working Group meeting is tentatively set for mid-May.

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

FRS-UCAA\_Conf.Calls\_NTCWG\_2022\_Mar 9



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To: Commissioner Scott White (VA), Chair, Financial Condition (E) Committee

From: Richard Kohan (NC), Chair, Mortgage Guaranty Insurance (E) Working Group

Date: March 7, 2022

Re: Updated Request for Extension

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The Mortgage Guaranty Insurance (E) Working Group is in the process of fulfilling its charge to update the *Mortgage Guaranty Insurance Model Act* (Model #630). The Working Group anticipated completion of its Charge by the 2022 Spring National Meeting. As Chair, I would like to update that request to the Financial Condition (E) Committee in accordance with NAIC procedures.

As background, the NAIC engaged Milliman to assist the Working Group in developing a Mortgage Guaranty Insurance Capital Model that will become part of the new capital standard for mortgage insurers. Subsequent to discussion at the 2019 Fall National Meeting, the Working Group exposed the Draft Mortgage Guaranty Insurance Capital Model, Mortgage Guaranty Insurance Model Act (#630), Mortgage Guaranty Insurance Standards Manual, and a proposed Mortgage Guaranty Insurance Exhibit. In 2021, the Working Group finalized the Mortgage Guaranty Insurance Exhibit that was integrated into the 2021 financial statement. The data for year-end 2021 will be provided by April 1, 2022 and will require a thorough analysis. After the data is analyzed, I anticipate reconvening the Working Group to continue our work Model #630.

At this time, we believe we can complete this work by the 2023 Spring National Meeting. The request for additional time is to allow the necessary time to address comments regarding the above referenced documents and ensure that a comprehensive regulatory framework is in place to effectively regulate these complex insurance entities. We are aware that we have been unable to complete our work within the one-year time period expected under the NAIC model law process and request an extension until the 2023 Spring National Meeting in order to finalize a product that can be adopted by the domestic states of the mortgage insurers, as well as any other state also wishing to adopt the same.

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