NAIC National Association of Insurance Commissioners

Date: 11/30/20

2020 Fall National Meeting
Virtual Meeting

FINANCIAL CONDITION (E) COMMITTEE
Tuesday, December 8, 2020
5:30 – 6:30 p.m. ET / 4:30 – 5:30 p.m. CT / 3:30 – 4:30 p.m. MT / 2:30 – 3:30 p.m. PT

ROLL CALL

Scott A. White, Chair	Virginia	Mike Chaney	Mississippi
Eric A. Cioppa, Vice Chair	Maine	Marlene Caride	New Jersey
Michael Conway	Colorado	Russell Toal	New Mexico
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Colin M. Hayashida	Hawaii	Doug Slape	Texas
Robert H. Muriel	Illinois	James A. Dodrill	West Virginia
Stephen W. Robertson	Indiana	Jeff Rude	Wyoming
Grace Arnold	Minnesota		

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

AGENDA

1. Consider Adoption of its Nov. 19, Oct. 27 and Aug. 11 Minutes — Attachment One
   —*Commissioner Scott A. White (VA)*

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. Examination Oversight (E) Task Force — Attachment Four
   d. Receivership and Insolvency (E) Task Force — Attachment Five
   e. Reinsurance (E) Task Force — Attachment Six
   f. Risk Retention Group (E) Task Force — Attachment Seven
   g. Valuation of Securities (E) Task Force — Attachment Eight
   h. Group Capital Calculation (E) Working Group — Attachment Nine
   i. NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group — Attachment Ten
   j. National Treatment and Coordination (E) Working Group — Attachment Eleven
   k. Risk-Focused Surveillance (E) Working Group — Attachment Twelve

3. Consider Adoption of the *Guideline for Administration of Large Deductible Policies in Receivership—James Kennedy (TX)* — Attachment Thirteen

4. Consider Adoption of the Group Capital Calculation (GCC) Template and Instructions — Fourteen

5. Discuss Any Other Matters Brought Before the Committee—*Commissioner Scott A. White (VA)*

6. Adjournment

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Draft: 11/30/20

Financial Condition (E) Committee
Virtual Meeting
November 19, 2020

The Financial Condition (E) Committee met Nov. 19, 2020. The following Committee members participated: Scott A. White, Chair, (VA); Eric A. Cioppa, Vice Chair (ME); Michael Conway represented by Rolf Kaumann (CO); David Altmaier (FL); Colin M. Hayashida (HI); Robert H. Muriel represented by Kevin Fry (IL); Stephen W. Robertson represented by Roy Eft (IN); Grace Arnold represented by Kathleen Orth (MN); Marlene Caride (NJ); Russell Toal (NM); Raymond G. Farmer (SC); Texas represented by Jamie Walker (TX); James A. Dodrill (WV); and Jeff Rude represented by Linda Johnson (WY).

1. Adopted Proposed Changes to Model #440 and Model #450

Commissioner White stated that Committee members were given a summary of the changes the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) from the two projects last week, which should provide each with an understanding of the proposed changes before the Committee. However, he asked Commissioner Altmaier to summarize the changes to the models for the group capital calculation (GCC) and highlight anything he thinks is important for the Committee members.

Commissioner Altmaier summarized the major changes to the proposed models, noting that changes to Section 4L(2) of Model #440 was the most important provision as it requires the ultimate controlling person of every insurer subject to registration to concurrently file an annual GGC as directed by the lead state commissioner with the registration statement. He stated the second most important aspect of the changes were the provisions immediately following in Sections 4L(2)(a) –(d), which provide four types of holding company systems that are exempt from filing. Third, Section 4L(2)(e) permits, under certain circumstances, a subgroup capital calculation. Fourth, Section 4L(2)(f) provides the insurance commissioner the discretion to exempt other groups from the filing, which meet the criteria in #450. Fifth, Section 8(A)(1) provides key statutory authority to hold the GCC confidential and prevents the group from sharing the GCC publicly. Finally, Commissioner Altmaier stated that Model #450 provides more detailed aspects of the exemptions, including additional discretionary authority for exempting certain groups, as well as additional details of the NAIC process for maintaining a list of jurisdictions whose groups recognize and accept the GCC and are, therefore, exempt from filing the GCC. Ms. Walker asked if the proposed changes to Section 4L(2)(e) had been sent to the Federal Insurance Office (FIO) for feedback. Commissioner Altmaier responded not to his knowledge. He said he knew members of the FIO had sat in on the meeting, but he said that the Committee had not heard from the FIO. Commissioner Altmaier stated he would be certain to share the proposed changes with the FIO and ask for their input prior to the Plenary meeting.

Commissioner White asked Commissioner Caride to summarize the changes to Model #440 for the Liquidity Stress Test (LST) and to highlight anything she thinks is important for the Committee members. Commissioner Caride summarized the major changes, noting that changes to Section 4L(3) is the most important provision, as it requires the ultimate controlling person of every insurer subject to registration and meeting the scope criteria to file the results of a specific year's LST to the lead state insurance commissioner. She stated the second most important aspect of the changes were the provisions immediately following regarding the scope criteria that indicate that the lead state commissioner, in consultation with the Financial Stability (E) Task Force or its successor, will make the final determination regarding the insurers that will be scoped in and out of a specific data year's LST. She stated the number of companies selected was a very small number, likely expected to be less than 25. Third, Section 4L(3)(b) indicates the filing of the results from a specific year's LST shall comply with the NAIC LST Framework's instructions and reporting templates for that year, along with any from the lead state insurance commissioner (in consultation with the Financial Stability (EX) Task Force or its successor). Commissioner Caride stated that Section 8(A)(2) provides key statutory authority to hold the LST confidential, which is also important.

Director Farmer made a motion, seconded by Commissioner Altmaier, to adopt the proposed changes to Model #440 and Model #450 to effectuate the GCC and the LST (Attachment One-A). The motion passed unanimously.

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

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Draft: 11/3/20

Financial Condition (E) Committee
Virtual Meeting
Oct. 27, 2020

The Financial Condition (E) Committee met Oct. 27, 2020. The following Committee members participated: Scott A. White, Chair, (VA); Eric A. Cioppa, Vice Chair (ME); Michael Conway represented by Rolf Kaumann (CO); David Altmaier (FL); Robert H. Muriel represented by Kevin Fry (IL); Stephen W. Robertson and Roy Eft (IN); Mike Chaney represented by David Browning (MS); Raymond G. Farmer (SC); Doug Slape represented by Jamie Walker (TX); James A. Dodrill (WV); and Jeff Rude represented by Linda Johnson (WY).

1. Adopted its 2021 Proposed Charges

Commissioner White stated that all the proposed charges had previously been exposed, and no comments were received. He indicated that with the exception of the Group Capital Calculation (E) Working Group, which is expected to adopt the calculation in the near future and move into an implementation phase in 2021, most of the charges were kept relatively consistent with the prior year. The only other noteworthy changes were to push back the due date of many of the charges a year given COVID-19 prevented many of the groups from meeting until the Summer National Meeting.

Director Farmer made a motion, seconded by Commissioner Dodrill, to adopt the Committee's 2021 proposed charges (Attachment One-A). The motion passed unanimously.

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

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Draft: 8/13/20

Financial Condition (E) Committee
Virtual Summer National Meeting
August 11, 2020

The Financial Condition (E) Committee met via conference call Aug. 11, 2020. The following Committee members participated: Scott A. White, Chair (VA); Eric A. Cioppa, Vice Chair (ME); Michael Conway (CO); David Altmaier (FL); Robert H. Muriel (IL); Stephen W. Robertson (IN); Steve Kelley represented by Kathleen Orth (MN); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Russell Toal (NM); Raymond G. Farmer (SC); Kent Sullivan represented by Doug Slape (TX); James A. Dodrill (WV); and Jeff Rude represented by Linda Johnson (WY).

1. Adopted its July 1, June 12, May 15 and March 26 Minutes

Commissioner White said the Committee met July 1, June 12, May 15 and March 26. During its July 1 meeting, the Committee adopted its Feb. 27 and Dec. 9, 2019, minutes. During its Feb. 27 meeting, the Committee took the following action: 1) adopted a Request for NAIC Model Law Development from the Receivership and Insolvency (E) Task Force and a separate Request for NAIC Model Law Development from the Financial Stability (EX) Task Force; and 2) adopted a request for extension from the Mortgage Guaranty Insurance (E) Working Group regarding ongoing work on an NAIC model. During its July 1 meeting, the Committee also took the following action: 1) adopted technical revisions to the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) and acknowledged similar technical revisions made to *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model 830)* (AG 48) by the Life Insurance and Annuities (A) Committee; and 2) adopted actions from the Capital Adequacy (E) Task Force, the Valuation of Securities (E) Task Force, and the Accounting Practices and Procedures (E) Task Force, with the exception of *Interpretation (INT) 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends*, which was rejected and sent back to the Accounting Practices and Procedures (E) Task Force. During its June 12 meeting, the Committee took the following action: 1) adopted a memorandum from the Committee to all commissioners regarding the treatment of the London Interbank Offered Rate (LIBOR) under state investment laws; and 2) adopted an extension of mortgage forbearance previously adopted by the Committee through Sept. 30, 2019. During its March 26 meeting, the Committee adopted mortgage forbearance through June 30. The Committee's May 15 meeting was an educational session on LIBOR.

Commissioner Caride made a motion, seconded by Commissioner Dodrill, to adopt the Committee's July 1 (Attachment One), June 12 (Attachment Two), May 15 (Attachment Three) and March 26 (Attachment Four) minutes. The motion passed unanimously.

2. Adopted INT 20-08

Commissioner White reminded the Committee that on July 1, the Committee rejected a previous version of a proposed interpretation on this topic and gave direction to the Accounting Practices and Procedures (E) Task Force to revise it, with a strong recommendation to add more flexibility. Since then the Task Force has revised and adopted, with only one no vote, a new interpretation that notes that premium treatment is the default methodology, but it also provides the flexibility requested to allow underwriting expense treatment as a limited-time exception. The limited-time exception addresses the concern voiced by industry regarding permitted practices, as it allows reporting entities to apply the limited-time exception without having to seek a permitted practice. This flexibility only applies to Property and Casualty products to avoid the potential negative implications to the medical loss ratio (MLR) for underwriting expense reporting on health products. All payment types will be disclosed, and for those that apply the limited exception, the interpretation provides the transparency needed through disclosure in Note 1 in a similar manner as a prescribed practice. This will assist the states in analyzing the impact compared to the default method if such flexibility is not chosen. Director Farmer made a motion, seconded by Commissioner Caride, to adopt the revised interpretation (Attachment Seven). The motion passed unanimously.

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

Commissioner White stated that items adopted within 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—will be considered for adoption by the Executive (EX) Committee and Plenary through the Financial Condition (E) Committee's technical changes report process. Pursuant to this process, which

was adopted by the NAIC in 2009, a listing of the various technical changes will be sent to NAIC members shortly after completion of the Fall National Meeting, and the members will have 10 days to comment with respect to those items. If no objections are received with respect to an item, the technical changes will be considered adopted by the NAIC membership and effective immediately.

Commissioner Robertson made a motion, seconded by Superintendent Cioppa, to adopt the following task force and working group reports: the Accounting Practices and Procedures (E) Task Force, the Capital Adequacy (E) Task Force, the Receivership and Insolvency (E) Task Force, the Reinsurance (E) Task Force, the Valuation of Securities (E) Task Force, the Group Capital Calculation (E) Working Group (Attachment Five), and the Group Solvency Issues (E) Working Group (Attachment Six). The motion passed unanimously.

The Financial Analysis (E) Working Group met July 15, June 17, May 13, May 12, May 6 and May 5 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 related to second-quarter 2019 financial results. Additionally, the Valuation Analysis (E) Working Group met 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.

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

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NAIC National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at the 2020 Fall National Meeting)

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Thursday, November 19, 2020
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 Accounting Practices and Procedures (E) Task Force met Nov. 18, 2020. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes:

2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Nov.12 and took the following action:

   a. Adopted its Oct. 15, Oct. 13, Aug. 17 and July 30 minutes.

   b. Adopted the following nonsubstantive revisions to statutory accounting guidance:

      1. Revisions require disclosure of cash equivalents that remain on the same reporting schedule for more than one consecutive reporting period and clarify that the disclosure is satisfied through the use of the code on the investment schedules. (Ref #2020-20)

      2. Revisions allow leasehold improvements to have lives that match the associated lease term, which agrees with U.S. generally accepted accounting principles (GAAP) in Accounting Standards Codification (ASC) Topic 842 - Leases. (Ref #2020-23)

      3. Revisions clarify a participant's required financial rights in a mortgage loan participation agreement, which are reported as mortgage loans. (Ref #2020-19)

      4. Revisions update the financial modeling guidance/mapping instructions for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) to ensure consistency with guidance recently adopted in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual*).* (Ref #2020-21)

      5. *Statement of Statutory Accounting Principles (SSAP) No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:

         i. Revisions update guidance, descriptive language and the delivery process of completed subsidiary, controlled and affiliated (SCA) reviews for both domestic regulators and financial statement filers. The change in delivery of SCA review documents will occur on Jan. 1, 2021. (Ref #2020-17)

         ii. Revisions delete a previously superseded wording indicating that guarantees or commitments result in a negative equity valuation of the SCA and clarify language in Exhibit C, Question 7. The Working Group directed a separate agenda item to review the provisions of Paragraph 9, which requires limited statutory accounting adjustments, and whether certain provisions should continue to apply to Paragraph 8.b.iv entities. (Ref #2020-18)

      6. Adopted the following editorial revisions to statutory accounting: (Ref #2020-25EP)

         i. Removed redundant paragraph references in *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*.

         ii. Added a table that lists the questions addressed in *SSAP No. 62R—Property and Casualty Reinsurance:* Exhibit A – Implementation Questions and Answers.

c. Exposed the following substantive revisions to statutory accounting guidance:

1. Potential New SSAP*:* Exposed agenda item to solicit comments from state insurance regulators and industry on establishing accounting and reporting guidance for derivatives hedging the growth in interest for fixed indexed products. Two general options have been presented, and the Working Group is open for additional commentary and suggestions. A notification of the exposure will be sent to the Life Actuarial (A) Task Force. (Ref #2020-36)

d. Exposed the following nonsubstantive revisions to statutory accounting guidance:

1. Revisions reject *Accounting Standards Update (ASU) 2020-06, Debt—Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, as this ASU primarily addresses various convertible debt valuation models along with bifurcating embedded derivative components, which are concepts not supported under statutory accounting. (Ref #2020-41)

2. Revisions clarify the identification of related parties, with changes from the prior exposure to reflect discussions with interested parties. The revisions also include a new disclosure recommended by the Group Solvency Issues (E) Working Group. (Ref #2019-34)

3. Revisions clarify that perpetual bonds with a call feature shall apply the yield-to-worst concept with reporting at amortized cost. Fair value is required for all other perpetual bonds. (Ref #2020-22)

4. Revisions expand the called-bond disclosures to include bonds terminated through a tender offer. (Ref #2020-32)

5. Revisions capture publicly traded preferred stock warrants as preferred stock, and not derivatives, with reporting at fair value. (Ref #2020-33)

6. Revisions incorporate minor scope modifications to reflect recent changes to the Freddie Mac Structured Agency Credit Risk (STACR) and Fannie Mae Connecticut Avenue Securities (CAS) programs, which allow credit risk transfer securities from these programs to remain in scope of *SSAP No. 43R—Loan-Backed and Structured Securities* when issued through a Real Estate Mortgage Investment Conduit (REMIC) structure. (Ref #2020-34)

7. Exposed agenda item to solicit comments regarding the degree of product granularity that should be captured in Separate Account general interrogatory 1.01. With exposure, information was requested about when aggregate product reporting should be permitted. (Ref #2020-37)

8. Exposed agenda item to solicit comments regarding possible modifications to separate accounting guidance to specifically address pension risk transfers (PRTs), including separate identification transactions, guarantees, reserve assumptions within existing disclosure requirements, or the addition of new general interrogatories and new schedules/exhibits to distinguish product detail currently reported in an aggregated format. (Ref #2020-38)

9. Exposed prior nonsubstantive revisions to *SSAP No. 71—Policy Acquisition Costs and Commissions* with minor clarifications, noting that the revisions apply to contracts in effect on the date of adoption. Revisions distinguish traditional persistency commission from a funding agreement. The Working Group directed NAIC staff to draft an issue paper documenting the discussion. (Ref #2019-24)

10. Exposed agenda item with a request for comments on the extent to which situations exist that hinder the admittance of SSAP No. 97, Subsection 8.b.iii. entities (U.S. and foreign noninsurance U.S. GAAP basis SCAs) due to the inability to quantify the departure from of U.S. GAAP. (Ref #2020-35)

11. Revisions reject *ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities* as not applicable to statutory accounting. (Ref #2020-42)

12. Revisions clarify the issuance and adoption process of accounting interpretations in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles*. (Ref #2020-39)

13. Revisions clarify in the *Preamble* that while any state in which a company is licensed can issue prescribed practices, the prescribed practices directed by the domiciliary state shall be reflected in the financial statements

filed with the NAIC, which are the financial statements subject to the independent auditor requirements. (Ref #2020-40)

6. Directed the following actions:

   a. Directed year-end reporting guidance to clarify the inclusion of "conforming" credit tenant loans (CTLs) in scope of SSAP No. 43R and the reporting of non-conforming CTLs that do not have NAIC Securities Valuation Office (SVO) assigned designations on Schedule BA. (This guidance provides a limited-time provision to permit nonconforming CTLs to be reported on Schedule D-1 if they have SVO-assigned NAIC designations.) Also directed a referral to the SVO and the Capital Markets Bureau requesting comments on whether it is appropriate to change the existing 5% residual risk threshold in determining whether a CTL is conforming. (Ref #2020-24)

   b. The Working Group directed NAIC staff to draft revisions for more explicit guidance on return of premium and other premium adjustments for review. (Ref #2020-30)

7. Received an update on the following projects and referrals:

   a. The following Interpretations (INTs), previously adopted in response to COVID-19, were evaluated for possible extension, but they were not extended beyond their current effective dates.

      1. The following INTs were effective through third-quarter 2020:

         a. INT 20-02: Extension of the Ninety-Day Rule for the Impact of COVID-19
         b. INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19
         c. INT 20-05: Investment Income Due and Accrued

      2. The following INTs are effective for the 60 days following the termination of the National Emergency or Dec. 31, whichever occurs first:

         a. INT 20-03: Troubled Debt Restructuring Due to COVID-19
         b. INT 20-07: Troubled Debt Restructuring of Certain Investments Due to COVID-19

   b. Ref #2019-21: The Working Group previously exposed the Iowa Insurance Proposal to define what should be captured in scope of Schedule D, Part 1: Long-Term Bonds for a public comment period ending Dec. 4. NAIC staff, industry and key state insurance regulators have been working to discuss the definition throughout the exposure period.

   c. Deferred discussion of the following agenda items for a subsequent call or meeting. While these items remain deferred, NAIC staff have proposed a project to holistically review the business combinations (and goodwill) guidance in *SSAP No. 68—Business Combinations and Goodwill*. If approved, the outstanding items in these agenda items will likely be addressed in the project:

      1. Ref #2019-12: *ASU 2014-17, Business Combinations, Pushdown Accounting*
      2. Ref #2019-14: Allocation of Goodwill

   d. Ref #2019-49: This agenda item addresses a referral from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy), which noted diversity in reporting regarding companies applying the retroactive reinsurance exception, which allows certain contracts to be reported prospectively. NAIC staff have held preliminary discussion with members of the Casualty Actuarial and Statistical (C) Task Force.

   e. Received an update on current U.S. GAAP Exposures/Invitations to Comment, noting that no comments by the Working Group are planned during the exposure periods.

   e. The comment deadline for new and exposed agenda items is Jan. 11, 2021.

3. Adopted the report of the Blanks (E) Working Group, which met Aug. 27 and took the following action:

   a. Adopted its May 28 minutes.

   b. Adopted five proposals.

1. 2020-24BWG Modified – Remove actuarial filing questions 29, 30, 31 and 32 from the Supplemental Exhibits and Schedules Interrogatories, and remove the related instructions.

2. 2020-25BWG – Add a new Column 5 to the annual and quarterly health blank for Schedule T with instructions to specifically capture the Children's Health Insurance Program (CHIP) premium. Existing columns after the new Column 5 will be renumbered.

3. 2020-26BWG Modified – Add a new Column 5 to Schedule DB, Part D, Section 1, and renumber the remaining columns. Add instruction for the new Column 5, add the column reference to Column 7, and adjust other column references in crosschecks. Correct column references for this schedule on the Liability Page, Asset Page and Schedule DB Verification. Modify instruction language for the disclosure Note 8A(8). (SAPWG Ref #2019-38)

4. 2020-27BWG Modified – Add a new category line to Schedule E, Part 2 for Qualified Cash Pools Under *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* (8799999), and renumber the remaining category lines. Add a new disclosure 5R to the Notes to Financial Statements. The new disclosure will be data captured. (SAPWG Ref #2019-42)

5. 2020-22BWG Modified – Modify the instructions and illustration for Note 3A – Business Combinations and Goodwill, Statutory Purchase Method and a new Note 3E for "Subcomponents and Calculations of Adjusted Surplus and Total Admitted Goodwill" with instructions and illustrations to be data captured. Modify the blank and instructions for Schedule D, Part 6, Section 1 and Section 2. (SAPWG Ref #2020-03)

c. Deferred one proposal.

1. 2020-02BWG Modified – Modify the instructions and illustration for Note 10L to reflect the disclosure changes for SSAP No. 97 being adopted by the Statutory Accounting Principles (E) Working Group.

d. Adopted its editorial listing.

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NAIC National Association of Insurance Commissioners

2020 Fall National Meeting

CAPITAL ADEQUACY (E) TASK FORCE
Thursday November 19, 2020
1:00 – 2:00 p.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met Nov. 19, 2020. During this meeting, the Task Force:

1. Adopted its Oct. 17 minutes, which included the following action:
   a. Adopted its Sept. 25 e-vote minutes.
   b. Exposed proposal 2020-10-CA to included hybrid securities and pull the bonds form schedules D, DA and schedule E footnotes, for a 45-day comment period ending Dec. 11.
   c. Received proposal 2020-09-CA, to clarify the asset concentration factor for mutual funds.

2. Adopted the Health Risk-Based Capital (E) Working Group's Oct. 29 and Aug. 18 minutes, which included the following action:
   a. Adopted its Sept. 11 Meeting minutes.
   b. Referred the Health Care Receivable Guidance to the Blanks (E) Working Group.
   c. Adopted proposal 2020-07-H (Split Bonds and Miscellaneous assets into sperate pages).
   d. Received an update from the American Academy of Actuaries on Investment Income in the Underwriting Risk Component.
   e. Received an update on the Excessive Growth Charge Ad Hoc Group.
   f. Received an update on the Health Test Ad Hoc Group.
   g. Adopted its July 30 minutes.
   h. Adopted the 2020 Health RBC Newsletter.
   i. Exposed a referral letter to the Academy to add investment income to the underwriting risk in the Health RBC Formula.
   j. Adopted updates to its 2020 Working Agenda.
   k. Exposed the health care receivable guidance.
   l. Discussed the impact of COVID-19 and Pandemic Risk to the Health RBC Formula.

3. Adopted the Life Risk-Based Capital (E) Working Group's Nov. 10 report, which included the following action:
   a. Adopted its Oct. 9, Sept. 25, Sept. 11, Aug. 21, and Summer National Meeting minutes, which included the following action:
      1. Adopted industry requested risk-based capital (RBC) mortgage reporting guidance and directed NAIC staff to work with industry on 2021 instructional changes.
      2. Received a memorandum from the Financial Condition (E) Committee on bond factors.
      3. Heard an update from the American Academy of Actuaries (Academy) C2 Mortality Risk Work Group.
      4. Heard an update from the Academy C-3 Work Group.
   b. Received an update on economic scenario generators (ESGs).
   c. Discussed possible enhancement to the RBC statistics report.
   d. Adopted an updated working agenda.

4. Adopted the joint Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's Nov. 11 e-vote minutes, which included the following action:
      a. Adopted the 2020 U.S> and Non-U.S. Catastrophe Risk Event Lists.
5. Adopted the Property and Casualty Risk-Based Capital (E) Working Group's Oct. 27 report, which included the following action:
   a. Adopted its Summer National Meeting minutes.
      1. Adopted the report of the Catastrophe Risk (E) Subgroup, which included the following action:
      2. Adopted its Summer National Meeting minutes.
      3. Exposed proposal 2020-08-CR (Clarification to PR027 Interrogatories).
      4. Discussed the possibility of adding wildfire peril to the Rcat component.
      5. Discussed the internal catastrophe model evaluation process.
      6. Adopted its Feb. 3 minutes, which included the following action:
         i. Adopted its Feb. 3 minutes.

ii. Heard a presentation from Karen Clark & Company (KCC) on its catastrophe model.
iii. Discussed the possibility of allowing additional third-party commercial vendor models.
iv. Discussed the internal catastrophe model evaluation process.

b. Adopted the 2020 Property/Casualty (P/C) Risk-Based Capital (RBC) Newsletter.
c. Exposed proposal 2020-11-CR (Remove Operational Risk Factor from Rcat).
d. Discussed Ref #2019-49: Retroactive Reinsurance Exception from the Statutory Accounting Principles (E) Working Group.
e. Discussed a referral from the Restructuring Mechanisms (E) Subgroup.
f. Discussed its 2020 working agenda.
g. Discussed line 1 underwriting risk reserves and premium methodology.

6. Adopted Proposal 2020-02-CA (ACA Fee Sensitivity Test Removal).

7. Adopted Proposal 2020-04-H (Safe Growth/Safe Harbor Max Function).

8. Adopted Proposal 2020-07-H (Split Bonds and Misc. Assets).

9. Adopted Proposal 2020-12-CR (2020 Cat Event Lists).

10. Adopted its working agenda and voted to disband the Investment Risk-Based Capital (E) Working Group.

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NAIC National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at 2020 Fall National Meeting)

EXAMINATION OVERSIGHT (E) TASK FORCE
Tuesday, November 17, 2019

Meeting Summary Report

The Examination Oversight (E) Task Force met Nov. 17, 2020. During this meeting, the Task Force:

1. Adopted its Sept. 10 e-vote minutes.

2. Adopted the report of the Electronic Workpaper (E) Working Group, which met Oct. 1 and July 13 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings.

3. Adopted the report of the Financial Examiners Coordination (E) Working Group, which met Nov. 10, July 31, Mar. 23, and Mar. 4 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings.

4. Adopted the report of the Financial Analysis Solvency Tools (E) Working Group, which met Nov. 4 and Sep. 23 and conducted an e-vote on Aug. 26 to discuss proposed revisions to the *Financial Analysis Handbook* (Handbook) and the Insurance Regulatory Information System (IRIS) for 2020 annual statement filings. The proposals included:
   a. A change to one life IRIS ratio to account for blanks changes.
   b. Various updates to the Financial Analysis Handbook including: 1) guidance and procedures for long-term care insurance (LTCI), risk retention groups (RRGs), P&C actuarial review, non-troubled insurers, separate accounts; and 2) revised guidance and review templates for financial analysis of ORSA summary reports.

5. Adopted the report of the Financial Examiners Handbook (E) Technical Group, which met Nov. 12 and Oct. 5 to adopt revisions on the following topics:

   a. Revisions to Section 1-5: Reinsurance Review to incorporate concepts from recently revised *Credit for Reinsurance Model Law (#785)* and the *Credit for Reinsurance Model Regulation (#786).*
   b. Revisions to Reserves/Claims Handling – Life, Reserves/Claims Handling – Health, and Reserves/Claims Handling – P&C examination repositories as part of the annual repository maintenance to ensure appropriate and relevant risks and procedures are included. Minor related updates were made to Section 1-6: Life Insurance Reserves Review for consistency purposes.
   c. Revisions to incorporate consideration of long-term care insurance (LTCI), impacting Section 1-6: Life Insurance Reserves Review, Reserves/Claims Handling - Life and Underwriting exam repositories, and Exhibit Y – Examination Interviews.
   d. Revisions Exhibit M – Corporate Governance and to the Reserves/Claims Handling - P&C exam repository to incorporate feedback from the Actuarial Opinion (C) Working Group & Casualty Actuarial and Statistical (C) Task Force regarding the definition of a qualified actuary per the P&C Statement of Actuarial Opinion.
   e. ORSA related guidance within Section 1-11, Exhibit M – Corporate Governance and Exhibit AA – Summary Review Memorandum.

6. Adopted the report of the IT Examination (E) Working Group, which met Sept. 26 to adopt revisions on the following topics:
   a. Revisions to Exhibit C, Part Two, IT Planning Questionnaire to include "cyber self-assessments" as a report that may be obtained during IT planning
   b. Updates to the Exhibit C Mapping tool, which is available on the Working Group's webpage.

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NAIC National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at the 2020 Fall National Meeting)

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

Thursday, November 19, 2020
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

Summary Report

The Receivership and Insolvency (E) Task Force met Nov. 19, 2020. During this meeting, the Task Force:

1. Adopted its Oct. 7 minutes, which included the following action:
   a. Adopted its Summer National Meeting minutes.
   b. Adopted proposed 2021 charges for the Task Force and its Working Groups.
   c. Discussed comments received on key provisions of receivership and guaranty fund laws.

2. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met Nov. 2 in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group discussed the status of individual receiverships. The Working Group requested regulator and interested party comments on best practices to address the impact of the pandemic on the administration of receiverships. Comments are due Dec. 4.

3. Adopted the report of the Receivership Large Deductible Workers' Compensation (E) Working Group, which met Nov. 5 and Sept. 30 and took the following action:
   a. Adopted the *Guideline for Administration of Large Deductible Policies in Receivership*.
   b. Adopted updated guidance for the *Receiver's Handbook for Insurance Company Insolvencies* (Receiver's Handbook) for large deductible policies.

4. Adopted the report of the Receivership Law (E) Working Group, which met Oct. 29 and Aug. 25. The Working Group also met Aug. 18 in regulator-to-regulator session, pursuant to paragraph 6 (consultation with NAIC staff members) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group took the following action:
   a. Adopted updated guidance for the Receiver's Handbook for qualified financial contracts (QFCs).
   b. Discussed comments and recommendations received for remedies to ensure continuity of essential services and functions to an insurer in receivership, including changes to the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). The Working Group will begin drafting changes to Section 5 of Model #440 and Section 19 of Model #450 for discussion during a future meeting.

5. Adopted the *Guideline for Administration of Large Deductible Policies in Receivership,* which provides alternative language for the *Insurer Receivership Model Act* (#555), Section 712—Administration of Loss Reimbursement Policies.

6. Adopted updated guidance for the Receiver's Handbook for large deductible policies and QFCs. The revisions for large deducible policies were adopted subject to the NAIC adoption of the *Guideline for Administration of Large Deductible Policies in Receivership.*

7. Exposed a new draft model *Guideline for the Definition of Reciprocal State in Receivership Laws* for a 42-day public comment period ending Dec. 31.

8. Heard an update on discussions on the Financial Regulation Standards and Accreditation Program Part A standards for receivership and guaranty fund laws. The ad hoc group met Nov. 4 to consider drafting clarifications to accreditation interlineations to provide guidance on the intended outcome of a state's receivership and guaranty association laws. Further discussion is expected in the future.

9. Adopted a report to the Financial Stability (EX) Task Force that outlines the conclusions from the evaluation of receivership and guaranty fund laws and practices in the context of the Macroprudential Initiative (MPI).

10. Heard an international resolution update that highlighted activities of the International Association of Insurance Supervisors (IAIS). The IAIS Resolution Working Group finalized the *Application Paper on Resolution Planning,* which is available on the IAIS website. Comments on the paper are due to the IAIS by Feb. 5, 2021. The Resolution Working Group will begin work on an application paper on policyholder protection schemes in 2021.

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National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at 2020 Fall National Meeting)

REINSURANCE (E) TASK FORCE
Tuesday, November 17, 2020
2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

Summary Report

The Reinsurance (E) Task Force met Nov. 17, 2020. During this meeting, the Task Force:

1. Adopted its Aug. 6 minutes.

2. Adopted the report of the Reinsurance Financial Analysis (E) Working Group, which met Oct. 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss actions taken with respect to the passporting of certified reinsurers by the states.

3. Adopted the report of the Qualified Jurisdiction (E) Working Group, which met Nov. 12 in regulator-to-regulator session, pursuant to paragraph 6 (NAIC technical guidance) and paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to continue work on its goals. The Working Group has been approached by three countries about becoming qualified jurisdictions, and it will continue initial reviews in the next several months.

4. Received a status report on the states' implementation of the 2019 revisions to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786).

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NAIC National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at the 2020 Fall National Meeting)

RISK RETENTION GROUP (E) TASK FORCE
November 18, 2020

Summary Report

The Risk Retention Group (E) Task Force met Nov. 18, 2020. During this meeting, the Task Force:

1. Adopted its Sept. 23 minutes, which included the following action:
   a. Adopted its March 2, 2020, and 2019 Fall National Meeting minutes, which included the following action:
      1. Discussed the revisions adopted by the NAIC membership to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786).
      2. Confirmed the Task Force's support for the recommendation that both the 2011 revisions to Model #785 and Model #786 related to certified reinsurers and qualified jurisdictions, as well as the 2019 revisions to Model #785 and Model #786 related to reciprocal jurisdictions, be applicable to RRGs for accreditation, with an effective date of Sept. 1, 2022.
   b. Discussed the impact and effectiveness of the recently adopted frequently asked questions (FAQ) document about the registration and regulation of risk retention groups (RRGs) in non-domiciliary states; the "Best Practices – Risk Retention Groups" document; and the revised NAIC Uniform Risk Retention Group Registration Form.
   c. Heard updates on NAIC groups with related activity.

2. Reached a consensus to conduct a survey to generate feedback on the FAQ document, the best practices document and the registration form for risk retention groups (RRGs) to further guide the Task Force's work. Feedback on survey questions was requested, with the intention to distribute the survey prior to the 2021 Spring National Meeting.

3. Discussed next steps for the Task Force, including ongoing monitoring of the impact of the above adoptions; providing training, such as a webinar; and development of best practices for licensing domestic RRGs.

4. Heard updates on related NAIC activity, including recent revisions to the *Financial Analysis Handbook* to clarify analysis requirements for the states with RRGs.

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NAIC National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at the 2020 Fall National Meeting)

VALUATION OF SECURITIES (E) TASK FORCE
Wednesday, November 18, 2020
3:30 p.m. ET / 2:30 p.m. CT / 1:30 p.m. MT / 12:30 p.m. PT

Meeting Summary Report

The Valuation of Securities (E) Task Force met Nov. 18, 2020. During this meeting, the Task Force:

1. Adopted its Sept. 29 and Summer National Meeting minutes, which included the following action:
   a. Adopted a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to add instructions for ETFs that contain a combination of preferred stocks and bonds. This amendment was exposed for a 30-day public comment period ending Sep. 6.
   b. Discussed an updated proposed amendment to the (P&P Manual) on guidance for working capital finance investments (WCFI) consistent with the Statutory Accounting Principles (E) Working Group adoption of changes to *Statement of Statutory Principles (SSAP) No. 105R—Working Capital Finance Investments*.
   c. Received a referral response from the Statutory Accounting Principles (E) Working Group on the proposed P&P Manual amendment to update instructions for nonconforming credit tenant loan (CTL) transactions that relied upon credit ratings and approved NAIC staff's recommendation to withdraw the previously exposed proposed amendment.
   d. Adopted its 2021 proposed charges.

2. Adopted an amendment to the P&P Manual to update guidance on initial and subsequent annual filings, methodologies and documentation. This amendment was previously exposed for a 30-day public comment period ending Sept. 6.

3. Received an updated proposed amendment to the P&P Manual on guidance for WCFI consistent with the Statutory Accounting Principles (E) Working Group's adoption of changes to SSAP No. 105R. This amendment was exposed for a 60-day public comment period ending Jan. 18, 2021.

4. Received a proposed amendment to the P&P Manual to permit the Securities Valuation Office (SVO) to rely upon the un-rated subsidiaries of a credit rating provider (CRP) rated parent entity for only WCFI. This amendment was exposed for a 60-day public comment period ending Jan. 18, 2021.

5. Received a proposed amendment to the P&P Manual to require the filing of private rating analysis and directed NAIC staff to modify the amendment to limit it to only filing the analysis and then expose the revised amendment for a 60-day public comment period.

6. Discussed bespoke securities and the NAIC's reliance on CRP ratings.

7. Heard an NAIC staff report on projects before the Statutory Accounting Principles (E) Working Group, and updated guidance from the Working Group and SVO for nonconforming CTLs for year-end 2020 reporting.

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National Association of Insurance Commissioners

Virtual Meeting
(in lieu of meeting at the 2020 Fall National Meeting)

GROUP CAPITAL CALCULATION (E) WORKING GROUP
Tuesday, November 17, 2020

Summary Report

The Group Capital Calculation (E) Working Group met Nov. 17, 2020. During this meeting, the Working Group:

1. Adopted its Oct. 30, Oct. 20, Sept. 29, Sept. 18 and Sept. 2 minutes.

2. Adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Regulation with Reporting Forms and Instructions* (#450).

3. Adopted the Group Capital Calculation (GCC), including the GCC template and instructions.

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Draft: 9/2/20

NAIC/AICPA (E) Working Group
Conference Call
August 26, 2020

The NAIC/AICPA (E) Working Group of the Financial Condition (E) Committee met via conference call Aug. 26, 2019. The following Working Group members participated: Doug Stolte, Chair (VA); Laura Clements and Susan Bernard (CA); Rylynn Brown (DE); Kevin Clark (IA); Judy Weaver (MI); Levi Nwasoria (MO); Lindsay Crawford (NE); Doug Bartlett (NH); Dale Bruggeman (OH); Melissa Greiner (PA); Johanna Nickelson (SD); and Jake Garn (UT). Also participating was: Jessie Li (DC).

1. Discussed the Premium Threshold

Mr. Stolte said the Working Group is responsible for reviewing the premium threshold amounts contained within the *Annual Financial Reporting Model Regulation* (#205) on an annual basis. Bruce Jenson (NAIC) gave an update on the results of the annual review, noting that as of Dec. 31, 2019, 92.5% of all direct written premiums and 94% of all gross written premiums would be subject to reporting requirements. Mr. Stolte noted that these results were within the Working Group's expectations and that no action to adjust the threshold was deemed necessary at this time.

2. Heard an Update on Recent Auditing Pronouncements

Jean Connolly (PricewaterhouseCoopers) provided an overview of recent accounting and auditing pronouncements affecting statutory audit reports. Ms. Connolly highlighted that the effective dates of Statement on Auditing Standards (SAS) Nos. 134–140 have been delayed to Dec. 15, 2021, to provide more time for firms to implement due to the coronavirus pandemic. Ms. Connolly stated that the most significant of these pronouncements for statutory audits is *SAS No. 139—Amendments to AU-C Sections 800, 805 and 810 to Incorporate Auditor Reporting Changes from SAS No. 134.* Ms. Connolly stated that SAS No. 139 will affect audits of financial statements prepared in accordance with special-purpose frameworks by requiring a statement indicating that the financial statements may not be suitable for another purpose outside of that intended by the framework. Ms. Connolly stated that the change is not viewed as substantive as insurance regulators are the primary users of the statutory audit reports and understand their intended purpose. Mr. Stolte thanked Ms. Connolly for her overview and encouraged Working Group members to continue educating themselves on new auditing standards.

3. Heard an Update on the Completeness and Accuracy Training Project

Mr. Stolte said that this project was first discussed during a Working Group conference call last year and came about due to questions received and issues identified through NAIC accreditation reviews and the NAIC Peer Review Program. The project is intended to provide training to address how the completeness and accuracy of data underlying reserve estimates can be verified during financial statement audits and financial examinations. Members of the American Institute of Certified Public Accountants (AICPA) agreed to work with NAIC staff in preparing and presenting the training.

Miguel Romero (NAIC) provided an update on the status of the training project and said that a two-part webinar series is scheduled for Sept. 1 and Sept. 3 to provide training to financial regulators in this area. The first session will focus on the overall audit approach and control testing, whereas the second session will focus on substantive testing. Mr. Romero stated that the training covers key concepts and best practices in testing the completeness and accuracy of data underlying the reserving estimates for each major line of insurance business (i.e., Property/Casualty [P/C], Life and Health). The training was largely prepared by AICPA member firm volunteers, including individuals from Baker Tilly; BKD; Crowe; Deloitte & Touche; EisnerAmper; Ernst & Young (EY); Johnson Lambert; KPMG; PwC; and RSM. Mr. Romero thanked the firms for their participation in the project, with special thanks to Kim Kushmerick (AICPA), Ms. Connolly and Art Salvadori (Crowe) for organizing and leading the project.

Ms. Connolly thanked Mr. Romero and Mr. Jenson for their role in supporting the project. Ms. Greiner asked whether financial analysts would benefit from the training even though it is primarily designed for financial examiners. Mr. Stolte stated that he would be encouraging his analysts to participate and that they can benefit from the training as well. Mr. Jenson stated that the training was prepared to meet the needs of financial examiners, but analysts may also be able to benefit from some of the concepts.

Ms. Li asked whether registration is still open for the training sessions. Mr. Romero stated that the sessions are likely full at this point as there is a limit of 500 participants, but the sessions will be recorded and posted for online viewing after the fact.

4. Discussed Questions Received on Audit Awareness and Qualification Letters

Mr. Stolte stated that the next agenda item is to discuss questions that have come up regarding the audit awareness and qualifications letters, both of which are required under Model #205. These questions relate to topics that are unclear based on the text of Model #205.

Mr. Jenson stated that the first question received relates to audit awareness letters required to be filed by the independent certified accountant or accounting firm retained by an insurer to conduct its annual audit. The model requires a letter to be filed whenever a new accountant or firm is appointed, indicating their awareness of the provisions of the insurance code and regulations that apply to the audit. However, the model does not clarify the frequency at which the letter should be filed, and questions have arisen regarding state expectations in this area.

Ms. Connolly stated that her firm typically sends annual letters to Florida, New York and Texas, but she is not aware of any other states that expected letters more frequently than whenever there is a change in audit firms. Mr. Stolte asked NAIC staff to conduct a survey of states to determine which states expect awareness letters more frequently than when there is a change in audit firm and why to support discussion in this area. Mr. Stolte also stated that the Working Group may be able to update guidance in the *Model Audit Rule Implementation Guide* if states can reach a consensus on this issue.

Mr. Jenson stated that the other question that has come up recently relates to auditor qualifications letters that are required under Model #205. While the auditor qualifications letter is required to be filed annually, it requires general information on the background and experience of staff members involved in the audit and does not explicitly require the name of the audit engagement partner to be provided. As such, some regulators have found it difficult to use the information provided in the letter to verify an audit firm's compliance with partner rotation requirements and have suggested clarifying the expectation for the audit engagement partner to be named in the letter.

Mr. Bruggeman stated that he expects the insurer's audit committee and the audit firm itself to take responsibility for ensuring compliance with partner rotation requirements. Mr. Bruggeman also stated that compliance could be checked during an exam, without the need to include the partner's name in the qualifications letter. Ms. Weaver stated that her state has taken steps to verify compliance outside of the exam process and that including the partner's name in the annual letter could make it easy to do so. Mr. Stolte stated that while he agrees that compliance is the responsibility of the audit committee and the firm itself, it does not hurt for regulators to have tools to verify. Mr. Stolte asked Ms. Connolly if AICPA members would be open to including the audit engagement partner's name in the annual qualifications letter. Ms. Connolly stated that firms are not opposed to including the name of the audit engagement partner as it is provided to the U.S. Securities and Exchange Commission (SEC) for audits of public companies.

Mr. Jenson suggested that NAIC staff could poll states on their interest in obtaining the audit engagement partner's name in the annual qualifications letter through the survey intended to gather information on awareness letter expectations. Mr. Stolte agreed and asked NAIC staff to include a question on this in the survey.

5. Discussed Other Matters

Mr. Stolte stated that there was one other matter brought to his attention for discussion today from NAIC staff regarding the need for input on a project of the Statutory Accounting Principles (E) Working Group. Jim Pinegar (NAIC) stated that the Financial Accounting Standards Board (FASB) exposed a proposed statement of financial accounting concepts that would potentially revise the definitions of assets and liabilities. As such, the Statutory Accounting Principles (E) Working Group will be discussing the proposed exposure and would welcome comments and input to this process. Mr. Bruggeman stated that NAIC staff have developed some initial thoughts regarding the exposure for regulators to consider, but additional input would be welcome.

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

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Draft: 10/30/20

National Treatment and Coordination (E) Working Group
Virtual Meeting
October 13, 2020

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met Oct. 13, 2020. The following Working Group members participated: Debbie Doggett, Co-Chair (MO); Linda Johnson, Co-Chair (WY); Cindy Hathaway and Jacline Nguyen (CO); Joan Nakano (CT); Alisa Pritchard (DE); Alison Sterett (FL); Stewart Guerin (LA); Michelle Scaccia (MT); Cameron Piatt (OH); Kimberly Rankin (PA); Robert Rudnai (TX); Jay Sueoka and Dava Ann Neal (UT); Susan Baker and Ron Pastuch (WA); and Amy Malm (WI).

1. Adopted it Aug. 26 Minutes

The Working Group met Aug. 26 and took the following action: 1) received a referral from the Chief Financial Regulator Forum regarding domestic surplus lines insurers; 2) exposed proposal 2020-01; 3) exposed proposal 2020-02; and 4) discussed Form 14.

Mr. Piatt made a motion, seconded by Mr. Guerin, to adopt its Aug. 26 minutes (Attachment 1). The motion passed unanimously.

2. Adopted Proposal 2020-02

Ms. Doggett said that one comment was received regarding the proposal to include the corporate governance annual disclosure (CGAD) on the primary application checklist, and that was to either identify that this requirement was a redomestication-only requirement or move it from its current location under item 7 Holding Company Act Filings to new item 21 under Filing Requirements – Redomestications Only.

Ms. Malm asked if the CGAD requirement could be located in both places for companies that are not part of a holding company structure. Ms. Nguyen concurred.

Jane Barr (NAIC) asked if both locations would hold the new requirement; i.e., should the instructions be updated to show it both under Holding Company Act Filings and Filing Requirements – Redomestications Only.

Mr. Piatt asked if a start-up would not have a CGAD, then would the checklist need to indicate that.

Ms. Malm said that if a start-up company is part of a group, then state insurance regulators would want the CGAD included in the application.

Ms. Scaccia suggested adding the words "if applicable" for the CGAD requirement under item 7 of the checklist for Holding Company Act Filings.

Mr. Piatt said that if a start-up company is part of a group and a CGAD is available, it should be attached.

Ms. Nguyen asked if the title could be changed to "Additional Filing Requirements for Redomestications."

Ms. Barr said the checklist is derived from the application instructions, so any changes to the checklist would also need to be made to the instructions. She said the primary application will remain combined for another year until the electronic application is developed for start-ups and redomestications. She asked for clarification on the location of the instruction for CGAD under Filing Requirements – Redomestications Only as new item 21.

Ms. Malm made a motion, seconded by Ms. Nguyen, to adopt including the CGAD requirement under item 7 with a friendly amendment to also include it as new item 21 on the primary checklist and in instructions (Attachment 2). The motion passed unanimously.

3. Adopted Proposal 2020-01

Ms. Johnson said the purpose of proposal 2020-01 is to include the option of online notarization of the biographical affidavit and affidavit of lost certification of authority. She said that due to the COVID-19 pandemic, many states and companies have

found the need to rely on online processes. Comments were submitted by First Advantage and the American Property Casualty Insurance Association (APCIA).

Ms. Barr added that no state indicated the need to modify the language.

Gina Hudson (Liberty Mutual) asked what the effective date would be for this update.

Ms. Johnson said that the effective date could either be if/when the Financial Condition (E) Committee adopts this change during its Dec. 8 meeting; or, to be cleaner, the effective date could be Jan. 1, 2021.

Ms. Hudson asked if companies could start using the amended form now.

Ms. Barr explained that the form's revision date will be the effective date the Working Group agrees upon, noting that the form will not be made available until that date. She reminded the states and the industry that the forms are valid as long as the signature date is not older than six months, so companies that are currently working on applications those affidavits are valid for up to six months from that original signature date; after that, the newer revision date must be used.

Ms. Sterett made a motion, seconded by Ms. Scaccia, to adopt proposal 2020-01 with an effective date of Jan. 1, 2021 (Attachment 3). The motion passed unanimously.

4. Discussed Form 14 Survey Results

Ms. Johnson said 32 states responded to the Form 14 survey. She added that the remaining states that did not respond will be contacted to provide a response prior to posting the information on the Uniform Certificate of Authority Application (UCAA) website by Nov. 1.

Ms. Barr added that for the states that provided multiple conflicting responses, NAIC staff will be contacting them for clarification so that only one response/requirement will be posted in the chart for that state.

Ms. Nguyen asked if the form had been recently modified to remove the additional contact information.

Ms. Barr explained that the form that is posted on the website and the electronic form when printed will appear different. The benefit of using the online form is that when multiple contact changes are selected, then contact information space is available for every contact selected. If filed in hardcopy the company would need to attach multiple copies of Page 2 of the form to provide the appropriate contact information for the number of changes selected on Page 1 of the form.

Ms. Neal asked how a company would provide different address information per state for specific contacts if using the electronic submission.

Ms. Barr clarified that if the contact information is different based on the state, then the company should file those contact changes separately. In the electronic application, the contact/address information would be submitted to every state selected.

Ms. Barr added that there has been discussion with the developers of the NAIC State Based Systems (SBS) application, so information entered into the UCAA can also be transmitted to SBS. Once the hardcopy applications are created in the electronic database, then enhancements can be made to the existing electronic UCAA functionality by allowing them to communicate with other NAIC databases.

5. Discussed Other Matters

a. Form 3

Ms. Johnson said statutory changes the states have made to their lines of business have caused Form 3 issues in the electronic application when amended and will change the form revision dates. By limiting the amendment time frame of two years from the original submission date, the number of changes on the form will be reduced.

Ms. Barr added that when a state closes an application because the company withdrew its application, the close date should not be removed and allow the company to amend their application to reapply. Instead, the company should submit a new application to that state by either cloning or starting a new application.

b. Biographical Third-Party Review (E) Subgroup

Mr. Piatt said the Biographical Third-Party Review (E) Subgroup met Oct. 6 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to review an application from Renaissance Associates. This vendor was approved, and its contact information has been added to the "Independent Third-Party Vendors for Furnishing Background Investigation Reports in All States" listing.

c. Examination Requests

Ms. Doggett asked if other states are using the tools available on the NAIC website to obtain examinations instead of requesting certified copies. She asked if the states were aware that this information is readily available.

Mr. Piatt said Ohio uses whatever it can from the NAIC instead of requesting certified copies. Wyoming and Idaho concurred. Wisconsin said it posts examination results on its website.

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

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Date: 11/5/20

Risk-Focused Surveillance (E) Working Group
and Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup
Virtual Meeting
October 27, 2020

The Risk-Focused Surveillance (E) Working Group met in joint session with the ORSA Implementation (E) Subgroup of the Financial Condition (E) Committee Oct. 27, 2020. The following Working Group members participated: Justin Schrader, Chair (NE); Amy Malm, Vice Chair (WI); Richard Ford (AL); Laura Clements (CA); William Arfanis and Kathy Belfi (CT); Carolyn Morgan and Virginia Christy (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Stewart Guerin (LA); Dmitriy Valekha (MD); Vanessa Sullivan (ME); Judy Weaver (MI); Debbie Doggett and Shannon Schmoeger (MO); Jackie Obusek (NC); Patricia Gosselin (NH); John Sirovetz (NJ); Mark McLeod (NY); Dwight Radel and Tracy Snow (OH); Kimberly Rankin (PA); Jack Broccoli (RI); Johanna Nickelson (SD); Amy Garcia (TX); Jake Garn (UT); David Smith (VA); Dan Petterson (VT); and John Jacobson and Steve Drutz (WA). The following Subgroup members participated: Kathy Belfi, Co-Chair (CT); Mike Yanacheak, Co-Chair (IA); Laura Clements and Michelle Lo (CA); Robert Ridenour (FL); Cindy Andersen and Erin Moser (IL); Debbie Doggett (MO); Rhonda Ahrens and Justin Schrader (NE); Patricia Gosselin (NH); Victor Agbu (NY); David Cook and Jeff Lehr (OH); Kimberly Rankin (PA); Mike Arendall (TX); and Amy Malm (WI).

1. Discussed Comments Received on ORSA Review Guidance

Mr. Schrader said the primary agenda item for the joint call is to discuss comments received during the exposure of proposed revisions to NAIC handbooks to update the ORSA review guidance for analysts and examiners. NAIC staff developed the proposed revisions based on input and direction from key state insurance regulators who have gained experience in conducting ORSA reviews over the last three years.

Mr. Schrader said the Working Group coordinated with the Subgroup in 2019 to oversee the first ever "ORSA Peer Review Session," whereby six states reviewed each other's efforts in incorporating ORSA filings into their ongoing solvency monitoring work. The results of this session highlighted several opportunities to improve the current ORSA review process, which were used to develop an updated review template and supporting guidance for inclusion in the NAIC's *Financial Analysis Handbook* (Analysis Handbook) and *Financial Condition Examiners Handbook* (Exam Handbook). During a Sept. 1 joint meeting of the Working Group and the Subgroup, the proposed revisions to the handbooks were introduced and exposed for a 30-day public comment period. During the comment period, letters were received from the American Council of Life Insurers (ACLI), the American Property Casualty Insurance Association (APCIA) and America's Health Insurance Plans (AHIP), Ceres, and the National Association of Mutual Insurance Companies (NAMIC).

Mr. Schrader said NAIC staff and leadership from the Working Group and Subgroup reviewed the comments in detail and incorporated many of the comments into updated drafts of the guidance, which were distributed in advance of the meeting. Mr. Schrader stated that the comments highlighted a number of important topics for clarification in the guidance, including coordination between analysis and examination staff in reviewing and utilizing the ORSA filing, the importance of avoiding prescriptive requirements for ORSA filers, and clarifying expectations around a review of group capital presented in the ORSA filing.

David Leifer (ACLI) thanked the groups for incorporating many of the ACLI's comments and stressed the importance of preserving flexibility and the "own" in ORSA processes and reporting. Tom Finnell (AHIP) thanked group leadership for holding additional meetings with interested parties to understand their comments and take additional input. Mr. Finnell stated that there is concern that examiners could treat the possible procedures as a checklist of items to be conducted at every company and that many of their comments were made to ensure that this is not the approach taken. Mr. Finnell stated that most of the input provided in the combined APCIA/AHIP letter appeared to be incorporated in the updated draft but questioned why a section highlighting overarching concepts in reviewing ORSA filings was not incorporated into the updated Exam Handbook guidance.

Mr. Schrader said that the intent in adopting revisions was to encourage exam teams to coordinate with the financial analyst and only conduct exam procedures if they are relevant and would add value. However, state insurance regulators are not comfortable adding language that would restrict the exam team's ability to investigate risks and issues as they see fit. Bruce Jenson (NAIC) said that the majority of the interested party language and concepts were incorporated, but that NAIC staff were hesitant to highlight only certain concepts as key or overarching without more extensive regulator review and input. In addition, Mr. Jenson stated that highlighting certain concepts as overarching in the Exam Handbook without incorporating similar guidance in the Analysis Handbook could lead to inconsistencies in application. Ms. Belfi stated her support for the approach

taken by NAIC staff to incorporate the language in the background guidance, but to avoid highlighting any individual concepts or considerations as key or overarching.

Mr. Finnell stated that the details suggested by interested parties appear to be incorporated into the updated draft, but there is still the opportunity for key concepts to be missed given the vast amount of guidance in that section of the Exam Handbook. Steve Broadie (APCIA) and Bob Ridgeway (AHIP) both thanked the Working Group for incorporating comments and agreed that key concepts appear to be covered.

Jonathan Rodgers (NAMIC) stated that many of the changes recommended in the NAMIC comment letter were incorporated into the updated draft, including improvements to the suggested procedures around assessing the fungibility of group capital. Mr. Rodgers asked whether the joint groups plan on adopting the updated handbook language or referring the proposed revisions to other NAIC groups for adoption. Mr. Schrader stated that members, interested state insurance regulators and interested parties of both the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group were notified of the public exposure period and encouraged to participate. As such, the updated handbook guidance can be considered for adoption without an additional public exposure period. Mr. Jenson stated that finalized versions of the handbook guidance should be referred to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption, as those groups are responsible for the contents of the handbooks.

Ms. Belfi made a motion, seconded by Ms. Gosselin, to finalize and refer the updated handbook revisions to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Adopted Updated Billing Rates for Financial Examiners

Mr. Schrader said that the second item on the agenda is to consider adoption of updated daily compensation rates for examiners that are contained in Exam Handbook. This task has been assigned to the Working Group under a new charge for 2020, which is to: "Continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff."

Mr. Schrader said that in 2019, the Working Group finalized newly recommended salary range guidelines for departments of insurance (DOIs) to use when determining appropriate compensation for examiners and analysts. These guidelines were subsequently adopted by the Financial Examiners Handbook (E) Technical Group and the Financial Analysis Solvency Tools (E) Working Group and incorporated into their respective handbooks. The Working Group plans to review the recommended salary ranges every two years, with the next detailed review expected during 2021.

Mr. Schrader stated that in addition to the new salary range guidance in the handbooks, there is some legacy examiner compensation guidance contained in Section 1 – II (D) of the Exam Handbook that the Working Group has been asked to maintain as it continues to be used and referenced in certain states. This per diem or daily rate guidance has been updated in the past based on a review of changes in the Consumer Price Index (CPI), and NAIC staff were asked to performed research in this area for Working Group consideration in updating the guidance for 2021.

Bailey Henning (NAIC) presented the results of NAIC staff research in this area, which indicated a 1% increase in the CPI over the period from July 2019 to July 2020. As such, NAIC staff recommended a 1% increase in the daily rate guidance for publication in the 2021 version of the Exam Handbook.

Ms. Malm made a motion, seconded by Mr. Mathis, to adopt a 1% increase in the daily rate guidance contained in Section 1 – II (D) of the Exam Handbook. The motion passed unanimously.

3. Discussed Other Matters

Ms. Belfi said that that the Subgroup met Oct. 5 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) and paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings. During this meeting, the Subgroup discussed whether guidance should be developed on how to incorporate COVID-19 risk exposures into ORSA filings but determined that such guidance would not be beneficial or necessary at this point. However, Ms. Belfi said the Subgroup intends to discuss information received on COVID-19 exposures in 2020 ORSA filings and may consider additional discussions on this topic in 2021.

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

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Date: 9/9/20

Risk-Focused Surveillance (E) Working Group and ORSA Implementation (E) Subgroup
Conference Call
September 1, 2020

The Risk-Focused Surveillance (E) Working Group and the ORSA Implementation (E) Subgroup of the Financial Condition (E) Committee met via conference call Sept. 1, 2020. The following Working Group members participated: Justin Schrader, Chair (NE); Amy Malm, Vice Chair (WI); Blase Abreo (AL); Susan Bernard (CA); William Arfanis and Kathy Belfi (CT); Carolyn Morgan (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Stewart Guerin (LA); Dmitriy Valekha (MD); Vanessa Sullivan (ME); Judy Weaver (MI); Debbie Doggett and Shannon Schmoeger (MO); Monique Smith (NC); Doug Bartlett (NH); John Sirovetz (NJ); Victor Agbu (NY); Dwight Radel and Tracy Snow (OH); Eli Snowbarger (OK); Kimberly Rankin (PA); Jack Broccoli (RI); Johanna Nickelson (SD); Amy Garcia (TX); Jake Garn (UT); David Smith (VA); Dan Petterson (VT); and Steve Drutz (WA). The following Subgroup members participated: Kathy Belfi, Co-Chair (CT); Mike Yanacheak, Co-Chair (IA); Susan Bernard (CA); Carolyn Morgan (FL); Cindy Andersen (IL); Debbie Doggett (MO); Rhonda Ahrens and Justin Schrader (NE); Doug Bartlett (NH); Victor Agbu (NY); Jeff Lehr (OH); Kimberly Rankin (PA); Amy Garcia (TX); and Amy Malm (WI).

1. Discussed Proposed Revisions to Update ORSA Review Guidance

Mr. Schrader said the primary agenda item for the joint call is to discuss proposed revisions to NAIC handbooks for the purpose of updating the Own Risk and Solvency Assessment (ORSA) review guidance for analysts and examiners. The proposed revisions were developed by NAIC staff based on input and direction from key state insurance regulators that have gained experience in conducting ORSA reviews over the last three years.

Mr. Schrader said the Working Group oversees a peer review program that provides state insurance regulators with an opportunity to review each other's work to identify best practices and opportunities for improvement. In 2019, the Working Group oversaw the first ever ORSA peer review session, where six states reviewed each other's efforts in incorporating ORSA filings into their ongoing solvency monitoring work. Mr. Schrader said the scope of the project included the lead state's documentation of its review of the ORSA filing, as well as an assessment of how information from the ORSA review was incorporated into the ongoing financial analysis and examination processes. He said the session was a success in terms of the best practices identified and lessons learned, but it also highlighted opportunities to improve the current ORSA review process. As such, participants worked with NAIC staff and Working Group leadership on proposed changes to handbook guidance to address many of the issues identified.

Bruce Jenson (NAIC) provided an overview of the findings and proposed guidance revisions that emerged from the peer review process, including the development of a new ORSA review template, as well as new supporting guidance for inclusion in the NAIC's *Financial Analysis Handbook* (Analysis Handbook) and *Financial Condition Examiners Handbook* (Exam Handbook). Mr. Schrader stated that the intent behind many of the proposed revisions is to streamline the review documentation for sharing across the states, which peer reviewers identified as a priority. Ms. Belfi said the peer reviewers noted some inconsistency in ORSA reviews, which she hopes is addressed in the proposed revisions. She also stated that the peer reviewers noted limited value in the risk maturity ratings contained in the reviews, which is why they are being proposed for removal from the updated template. Ms. Malm said another finding of the peer review was too much summarization of information provided by the company in its ORSA filing, as opposed to state insurance regulator analysis. She stated that the intent of the new template was to streamline the documentation with more focus on state insurance regulator assessment and conclusions. In addition, she said the proposed revisions should help improve coordination between analysis and exams in validating enterprise risk management (ERM) processes and incorporating the company's key risks into ongoing monitoring processes.

Mr. Schrader asked NAIC staff to present on the details of some of the proposed revisions. Sherry Flippo (NAIC) discussed the updated review template, which removes scoring elements associated with the Risk and Insurance Management Society (RIMS) Risk Maturity Model (RMM). She said the proposed template includes a new section to evaluate background information associated with the ORSA filing, as well as appendices for use in documenting feedback from the review for communication back to the insurer and the financial examination function. Mr. Jenson discussed the supporting guidance and instructions for completing the template that were developed for inclusion in the Analysis Handbook. He said key considerations for use in assessing the various sections of the ORSA filing were incorporated from supplemental guidance to replace the RIMS RMM scoring guidance. Bailey Henning (NAIC) discussed proposed changes to the Exam Handbook, noting the addition of test procedures to validate information and processes related to the key considerations incorporated into the Analysis Handbook. She also said the review template itself was proposed for removal from the Exam Handbook so that the results of exam testing and validation work can be communicated back to the financial analyst through the updated Summary

Review Memorandum. Mr. Schrader asked if there are any questions or comments on the proposed revisions, and none were received.

Mr. Shrader said as the handbooks being discussed are the responsibility of the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group, the proposed revisions will ultimately need to be referred to those groups for adoption. However, to ensure consistency between the revisions adopted for analysis and exams, the Working Group and the Subgroup would like to receive and discuss comments on the revisions together, before referring final versions of the proposed revisions to those groups for adoption. In addition, Mr. Schrader said state insurance regulators hope to move quickly in reviewing and adopting these revisions so that the updated guidance can be used by the states in conducting ORSA reviews later this year. He said after the proposed revisions are adopted, the NAIC plans to provide additional training to state insurance regulators to assist in effective implementation.

Elisabetta Russo (NAIC) stated that the NAIC plans to develop a comprehensive training webinar by creating example review documentation to present to analysts and examiners. The target date for the training would be November so that state insurance regulators can utilize the new guidance in reviewing ORSA filings, many of which are received in the fourth quarter and are required to be reviewed within 120–180 days of receipt.

Ms. Belfi made a motion, seconded by Mr. Radel, to expose the proposed handbook revisions for a 30-day public comment period ending Sept. 30. The motion passed unanimously.

2. Discussed Other Matters

Mr. Schrader said the NAIC has had to cancel or postpone many of its live training sessions and events for state insurance regulators this year, including the previously scheduled peer review sessions that the Working Group oversees. However, he stated that the intent is to work towards scheduling live sessions again in 2021, including another ORSA peer review session. In the meantime, he stated that the Working Group will continue to work with NAIC staff to develop and present additional online training opportunities for state insurance regulators.

Ms. Belfi stated that the Subgroup has ongoing projects related to the impact of COVID-19 on future ORSA reporting, as well as ongoing work on the development of guidance and training for use by regulatory actuaries in reviewing Section 3 of ORSA filings. She stated that the Subgroup will be scheduling calls as needed to address work in these areas.

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

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Adopted by the Executive (EX) Committee and Plenary, _____ __, 2020
Adopted by the Financial Condition (E) Committee, Dec. 8, 2020 (pending)
Adopted by the Receivership and Insolvency (E) Task Force, Nov. 19, 2020
Adopted by the Receivership Large Deductible Workers' Compensation (E) Working Group, Nov. 5, 2020

GUIDELINE FOR ADMINISTRATION OF LARGE DEDUCITLBE POLICIES IN RECEIVERSHIP

Drafting Note: Having the necessary statutory authority specific to large deductible workers' compensation products in receiverships is key to the successful resolution of these insurers. There are currently two statutory authority options available, and there are differences across states as to which authority has been adopted: 1) Section 712 of the NAIC *Insurer Receivership Model Act* (#555—IRMA), Administration of Loss Reimbursement Policies; and 2) the National Conference of Insurance Guaranty Funds (NCIGF) Model Large Deductible Legislation, Administration of Large Deductible Policies and Insured Large Deductible Collateral. Both provide statutory guidance that articulates the respective rights and responsibilities of the various parties, which greatly enhance a state's ability to manage complex large deductible programs in liquidation. Generally, both approaches provide for the collection of reimbursements, resolve disputes over who gets the reimbursements and ensure that the claimants are paid. The provisions in each of the two options generally complement each other, except for conflicting provisions regarding the issue of the ultimate ownership of, and entitlement to, the deductible recoveries and large deductible collateral as between the estate and the guaranty association. The issue is whether the guaranty associations, on behalf of the claimants, are entitled to any deductible reimbursements or whether they are a general estate asset that is shared pro rata by the guaranty associations and the uncovered claimants.

As of the drafting of this Guideline, the NCIGF model approach has been adopted by several states using varying language. However, the NCIGF model has evolved over time based on additional experiences from insolvencies and the NCIGF continues to modify its model as warranted. The NAIC has developed the following Guideline based largely on the principles and structure of the NCIGF model with certain modifications made by the NAIC Large Deductible Workers' Compensation (E) Working Group of the Receivership and Insolvency (E) Task Force. The following statutory language is not an amendment to the NAIC receivership models but is intended as a Guideline for use by states as an alternative to IRMA Section 712, Administration of Loss Reimbursement Policies.

Administration of Large Deductible Policies in Receivership

This Guideline shall apply to workers' compensation large deductible policies issued by an insurer subject to delinquency proceedings under [insert cite to state's receivership statute]. Large deductible policies shall be administered in accordance with their terms, except to the extent such terms conflict with this Guideline. This Guideline does not apply to policies where the insurer has no liability for the portion of a claim that is within the deductible or self-insured retention.

A. Definitions.

For purposes of this Guideline:

(1) "Large deductible policy" means any combination of one or more workers' compensation policies and endorsements and contracts or security agreements entered into between an insured and the insurer in which the insured has agreed with the insurer to:

(a) Pay directly the initial portion of any claim covered under the policy up to a specified dollar amount which the insurer would otherwise be obligated to pay, or the expenses related to any claim; or

(b) Reimburse the insurer for its payment of any claim or related expenses under the policy up to the specified dollar amount of the deductible.

The term "large deductible policy" includes policies which contain an aggregate limit on the insured's liability for all deductible claims, a per-claim deductible limit or both. The primary purpose and distinguishing characteristic of a large deductible policy is the shifting of a portion of the ultimate financial responsibility under the large deductible policy to pay claims from the insurer to the insured, even though the obligation to initially pay claims may remain with the insurer, and the insurer remains liable to claimants in the event the insured fails to fulfill its payment or reimbursement obligations.

Drafting Note: States may wish to establish a minimum dollar deductible threshold for application of this statute based on local conditions. Because the payment of the entire amount of the claim remains the unconditional obligation of the insurer, the insured's loss reimbursement obligation should not be treated as a "deductible" for the purpose of any applicable exclusion from guaranty association coverage, even though these policies are commonly referred to as "large deductible policies."

Large deductible policies do not include policies, endorsements or agreements which provide that the initial portion of any covered claim shall be self-insured and further that the insurer shall have no payment obligation within the self-insured retention. Large deductible policies also do not include policies that provide for retrospectively rated premium payments by the insured or reinsurance arrangements or agreements, except to the extent such reinsurance arrangements or agreements are put in place as security for the policyholder's large deductible obligations.

(2) "Deductible claim" means any allowed claim, including a claim for loss and defense and cost containment expense (unless such expenses are excluded), under a large deductible policy to the extent it is within the deductible.

(3) "Large deductible collateral" means any cash, letters of credit, surety bond, or any other form of security posted by the insured, or by a captive insurer or reinsurer, to secure the insured's obligation under the large deductible policy to pay deductible claims or to reimburse the insurer for deductible claim payments. Large deductible collateral may also secure an insured's obligation to reimburse or pay to the insurer as may be required for other secured obligations.

(4) "Commercially reasonable" means to act in good faith using prevailing industry practices and making all reasonable efforts considering the facts and circumstances of the matter.

(5) "Other secured obligations" means obligations of an insured to an insurer other than those under a large deductible policy, such as those under a reinsurance agreement or other agreement involving retrospective premium obligations the performance of which is secured by large deductible collateral that also secures an insured's obligations under a large deductible policy.

B. Handling of Large Deductible Claims.

Unless otherwise agreed by the responsible guaranty association, all large deductible claims that are also "covered claims" as defined by the applicable guaranty association law, including those that may have been funded by an insured before liquidation, shall be turned over to the guaranty association for handling.

(1) If a deductible claim is not covered by any guaranty association, the receiver shall draw on available large deductible collateral to pay the claim; or make other arrangements with the insured to ensure the timely payment of the claim. The receiver shall pay the claim promptly from the large deductible collateral unless the insured pays the claim directly or there is no available large deductible collateral.

(2) Deductible claims paid by the insured or by the receiver in accordance with this Guideline shall not be treated as distributions of estate assets under [insert cite to state's liquidation priority distribution statute]. To the extent the insured, or a third-party administrator on behalf of the insured, pays the deductible claim, pursuant to an agreement by the guaranty association or otherwise, the insured's payment of a deductible claim in whole or in part will extinguish the obligations, if any, of the receiver and/or any guaranty association to pay that claim or that portion of the claim. No credit or charge for an imputed or constructive distribution of any kind shall be made against the receiver or a guaranty association on the basis of an insured's payment of a deductible claim.

Drafting Note: This provision addresses so called "orphan claims," which are situations where, because of variations in state law or for other reasons, claims generally covered by the guaranty fund system are not provided such protection. States should take steps, through statutory revision or otherwise, to avoid orphan claims, especially for workers' compensation insurance. However, if such claims do exist, this provision permits the receiver to utilize available large deductible collateral, or other funds provided by the employer, to ensure that they continue to be paid. Alternative language that states may consider is as follows: "In cases where a deductible claim is not a guaranty association covered claim and the claimant has no other remedy either from the employer or other resources available in a state, the receiver may pay the claim to the extent of the deductible with available Large deductible collateral as described in subsection E(2) below."

C. Deductible Claims Paid by a Guaranty Association.

To the extent a guaranty association pays any deductible claim for which the insurer would have been entitled to reimbursement from the insured, a guaranty association shall be entitled to the amount of the reimbursement, and available large deductible collateral as provided for under subsection E to the extent necessary to reimburse the guaranty association. Such amounts shall be paid to the guaranty association net of any of the receiver's collection costs as described in subsection F. Reimbursements paid to the guaranty association pursuant to this subsection shall not be treated as distributions under [insert cite to state's liquidation priority distribution statute] or as early access payments under [insert cite to state's early access statute].

To the extent that a guaranty association pays a deductible claim that is not reimbursed either from large deductible collateral or by an insured's payments, or incurs expenses in connection with large deductible policies that are not reimbursed under this subsection, the guaranty association shall be entitled to assert a claim for those amounts in the delinquency proceeding, except as provided in subsection D(5).

Nothing in this subsection limits any rights of the receiver or a guaranty association that may otherwise exist under applicable law to obtain reimbursement from insureds for claims payments made by the guaranty association under policies of the insurer or for the guaranty association's related expenses, such as those provided for pursuant to [insert cite to state's guaranty association net worth provision], or existing under similar laws of other states.

D. Collections

(1) The receiver shall take all commercially reasonable action to ensure that the large deductible collateral remains adequate to secure the insured's obligations, and to collect reimbursements owed for deductible claims as provided for herein:

(a) Paid by the insurer prior to the commencement of delinquency proceedings;

(b) Paid by a guaranty association upon receipt by the receiver of notice from a guaranty association of reimbursable payments;

(c) Paid or allowed by the receiver; or

(d) Approved by the receiver for payment.

(2) If the insured does not make payment within the time specified in the large deductible policy, or within sixty (60) days after the date of billing if no time is specified, the receiver shall take all commercially reasonable actions to collect any reimbursements owed.

(3) Neither the insolvency of the insurer, nor the receiver's or insurer's inability to perform any of its obligations under the large deductible policy, shall be a defense to the insured's reimbursement obligation under the large deductible policy.

(4) An allegation of improper handling or payment of a deductible claim by the insurer, the receiver and/or any guaranty association shall not be a defense to the insured's reimbursement obligations under the large deductible policy.

(5) If the receiver declines to seek or is unsuccessful in obtaining reimbursement from the insured for a large deductible obligation and there is no available large deductible collateral, a guaranty association may, after notice to the receiver, seek to collect the reimbursement due from the insured on the same basis as the receiver, and with the same rights and remedies including without limitation the right to recover reasonable costs of collection from the insured. The guaranty association shall report any amounts so collected from each insured to the receiver. The receiver shall provide the guaranty association with available information needed to collect a reimbursement due from the insured. The receiver shall notify all other guaranty associations that have paid large deductible claims on behalf of the same insured. Amounts collected by a guaranty association pursuant to this paragraph shall be treated in accordance with subsection C. The expenses incurred by a guaranty association in pursuing reimbursement shall not be permitted as a claim in the delinquency proceeding at any priority, except as a agreed by the receiver at or before the time the expenses are incurred; however, a guaranty association may net the expenses incurred in collecting any reimbursement against that reimbursement.

E. Large Deductible Collateral

(1) Subject to the provisions of this subsection, the receiver shall utilize large deductible collateral, when available, to secure the insured's obligation to fund or reimburse deductible claims or other secured obligations or other payment obligations. A guaranty association shall be entitled to large deductible collateral as provided for in this subsection to the extent needed to reimburse a guaranty association for the payment of a deductible claim. Any payments made to a guaranty association pursuant to this subsection shall not be treated as distributions of estate assets under [Insert cite to state's liquidation priority distribution statute] or as early access payments under [Insert cite to state's early access statute]. Such payments shall extinguish the receiver's obligations to the guaranty association with respect to any claim or portion of a claim that has been reimbursed from large deductible collateral.

(2) All claims against the large deductible collateral shall be paid first to reimburse claim payments made by the insurer, the receiver, or the guaranty associations to reimburse their deductible claim payments on large

deductible policies. After these obligations are satisfied, remaining claims shall be paid in the order received and no claim of the receiver, except in accordance with this subsection, shall supersede any other claim against the large deductible collateral.

(3) Notwithstanding any agreement between the insured and the insurer, the receiver shall draw down large deductible collateral to the extent necessary in the event that the insured fails to:

(a) Perform its funding or payment obligations under any large deductible policy;

(b) Pay deductible claim reimbursements within the time specified in the large deductible policy or within sixty (60) days after the date of the billing if no time is specified;

(c) Pay amounts due the estate for pre-liquidation obligations;

(d) Timely fund any other secured obligation; or

(e) Timely pay expenses.

(4) Excess large deductible collateral may be returned to the insured when deemed appropriate by the receiver after a periodic review of claims paid, outstanding case reserves, and allowance for adverse development and claims incurred but not reported as determined by the receiver."

F. Administrative Fees

(1) The receiver is entitled to recover through billings to the insured or from large deductible collateral all reasonable expenses that the receiver incurred in fulfilling its collection obligations under this Guideline. All such deductions or charges shall be in addition to the insured's obligation to reimburse claims and related expenses and shall not diminish the rights of claimants or guaranty associations.

(2) To the extent the receiver cannot collect such expenses pursuant to paragraph (1), the receiver is entitled to deduct from the large deductible collateral or from the deductible reimbursements reasonable and actual expenses incurred in connection with the collection of the large deductible collateral and deductible reimbursements.

(3) To the extent such amounts are not available from reimbursements or large deductible collateral, the receiver, or guaranty associations if provided under an agreement with the receiver under subsection D(5), shall have a claim against the estate as provided pursuant to [insert cite to state's liquidation priority distribution statute].

Drafting Note: State policymakers should decide whether this provision, when enacted, should apply to existing liquidations.

PROJECT HISTORY

GUIDELINE FOR ADMINISTRATION OF LARGE DEDUCTIBLE POLICIES IN RECEIVERSHIP

1. Description of the Project, Issues Addressed, etc.

In 2018, the Receivership Large Deductible Workers' Compensation (E) Working Group of the Receivership and Insolvency (E) Task Force was given charges in response to issues arising out of the *2016 Workers' Compensation Large Deductible Study* by the NAIC/International Association of Industrial Accident Boards and Commissioners (IAIABC) Joint (C) Working Group to recommend possible enhancements to the U.S. receivership regime.

In 2018, the Working Group heard presentations from the National Conference of Insurance Guaranty Funds (NCIGF) and nine states/insurers with experience with a receivership involving large deductible workers' compensation. The Working Group also conducted a survey of states' laws, practices and recommendations, to which 27 states responded. It was clear through this work that having statutory authority specific to large deductible workers' compensation products in receiverships was key to the successful resolution of these insurers. As a result of its work, on Nov. 16, 2018, the Working Group presented the Task Force with its recommendation regarding statutory authority.

The Working Group recommended state adoption of clear statutory authority that articulates the respective rights and responsibilities of the various parties in large deductible workers' compensation business receiverships. Having clear statutory authority in place can avoid much of the confusion, and sometimes expensive and prolonged litigation, for both the receiver and the guaranty funds. Clear statutory authority can also avoid collections delays that dilute recoveries.

Based on the study, the Working Group recommended that states adopt statutory authority regarding large deductible workers' compensation products in receiverships. Prior to the development of the new guideline, there were two options available:

1) *Insurer Receivership Model Act* (#555—IRMA) Section 712—Administration of Loss Reimbursement Policies; or
2) NCIGF Model Large Deductible Legislation.

Twelve states have adopted the NCIGF model using varying language (California, Florida, Indiana, Illinois, Louisiana, Michigan, Missouri, New Jersey, Pennsylvania, Texas, Utah and West Virginia). Most of these states follow the NCIGF approach and have amended their insurance liquidation acts to clarify the following when to secure competing claims such as deductible amounts owed the insurer and retroactive premium balances: 1) the ownership of the deductible reimbursements or collateral drawdowns; 2) claims-handling matters; 3) collection responsibility; and 4) allocation of collateral.

After recommending to the Task Force that states adopt clear statutory, the Working Group discussed differences between Model #555 and the NCIGF model during 2019 and 2020. While Section 712 is part of Model #555, it was the opinion of the Working Group that the alternative language to Section 712 should be drafted as a guideline because it does not meet the two-pronged test to be a model law. Therefore, the Working Group agreed to draft a new model guideline for the Administration of Large Deductible Policies in Receivership as an alternative to Model #555, Section 712—Administration of Loss Reimbursement Policies. The new model guideline is based largely on the principles and structure of the NCIGF model with certain modifications.

2. Name of Group Responsible for Drafting the Model and States Participating

The Receivership and Insolvency (E) Task Force is responsible for Model #555. The 2020 members of the Task Force are: Texas (Chair), District of Columbia (Vice Chair), Alaska, American Samoa, Arkansas, California, Colorado, Connecticut, Florida, Illinois, Iowa, Kansas, Kentucky, Maine, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Jersey, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee and Utah.

The Receivership Large Deductible Workers' Compensation (E) Working Group evaluated the issues and drafted the draft model guideline relating to Section 712 of Model #555 based on the NCIGF principles from the NAIC model (available on the NCIGF website).

The 2020 members of the Working Group are: Pennsylvania (Co-Chair); Oklahoma (Co-Chair), Alaska, Arkansas, Florida, Georgia, Illinois, Maine, Missouri, Nebraska, New Jersey, New Mexico and Texas.

An informal drafting group was formed in 2020 consisting of Donna Wilson (OK), Toma Wilkerson (FL), Robert Wake (ME), James Kennedy (TX), Barbara Cox (NCIGF) and Rowe Snider (Locke Lord LLP).

3. Project Authorized by What Charge and Date First Given to the Group

The Receivership Large Deductible Workers' Compensation (E) Working Group of the Receivership and Insolvency (E) Task Force was given the follow charge beginning in 2018:

"Study states' receivership laws and practices regarding receivership of insurers with significant books of large deductible workers' compensation business, and evaluate the need for a model act/rule, or amendments to existing models, that governs the rights and duties of the various parties regarding large deductible business in insolvencies, including, but not limited to, consideration of a provision that expressly permits the collection of large deductibles from insureds during an insolvency proceeding. Provide any other recommendations for possible enhancements to the U.S. receivership regime based on this study."

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc.). Include any parties outside the members that participated.

The Receivership Large Deductible Workers' Compensation (E) Working Group, chaired by Donna Wilson (OK) and Laura Lyon Slaymaker (PA), drafted the model guideline. Open conference calls were held where interested parties participated. The information drafting group included four state insurance regulators and two industry volunteers.

5. A General Description of the Due Process (e.g., exposure periods, public hearings or any other means by which widespread input from industry, consumers and legislators was solicited).

a. The Working Group held five open conference calls between August 2018 and November 2018 where it: 1) heard presentations from the NCIGF; 2) heard presentations from nine states and insurers with experience with a receivership involving large deductible workers' compensation; and 3) reviewed survey results from 27 states regarding their laws, practices and recommendations.

b. The Working Group began by amending the NCIGF model as an alternative approach to Section 712 of Model #555. The Working Group held five open meetings between February 2019 and December 2019. During its Dec. 2, 2019, meeting, the Working Group exposed a new draft model guideline for a 60-day public comment period ending Jan. 31, 2020. The guideline is an alternative approach to Model #555, Section 712 based on the NCIGF model and amended to reflect administrative fees, a state-specific citation for the definition of "large deductible" and the guaranty association entitlement to the net amount of the reimbursement. In conjunction with the model guideline, NAIC legal staff drafted a memorandum explaining the difference between a guideline and a model law.

c. The Working Group received two comment letters during the exposure period from Maine and the NCIGF.

d. The Working Group met via open meeting March 2, 2020 and formed a drafting group to further amend the draft guideline to address comments received. The drafting group met four times between March 2020 and September 2020.

e. On Sept. 30, 2020, via open meeting, the Working Group exposed a revised draft Guideline for Administration of Large Deductible Policies in Receivership for a 30-day period ending Oct. 30, 2020. The revised guideline was re-drafted based largely on the principles and structure of the NCIGF model with certain modifications. It is based on the principles rather than the NCIGF model because the NCIGF model approach has been adopted by several states using varying language. The NCIGF model has evolved over time based on additional experiences from insolvencies and continues to be modified as warranted by the NCIGF.

f. All exposure drafts were distributed to more than 120 interested parties and posted to the Working Group's public web page. Barbara Cox (NCIGF) and Rowe Snider (Locke Lord LLP) actively participated in the drafting group.

g. The Working Group adopt the guideline on Nov. 5, 2020.

h. The Receivership and Insolvency (E) Task Force adopted the guideline on Nov. 19, 2020.

i. The Financial Condition (E) Committee adopted the guideline at the Fall National Meeting on Dec. 8, 2020.

j. The Executive (EX) Committee and Plenary adopted the guideline on _____.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response).

Deductible Reimbursements and Collateral

The primary distinction between the NCIGF and Model #555, Section 712—Administration of Loss Reimbursement Policies, is the issue of deductible reimbursements and collateral. Twelve states have adopted large deductible policy laws based on the NCIGF model principles using varying language. It should be noted that no state has enacted the reinsurance approach described below in Model #555. Therefore, it was the decision of the Working Group to include the NCIGF approach to collateral within the Guideline.

- The NCIGF model "secured claim" approach: Claims within the deductible are primarily the obligation of the policyholder. Under this approach, deductible reimbursements are earmarked to pay those claims, and any collateral posted by or on behalf of the policyholder is held to ensure that those claims are paid. Accordingly, when the guaranty association takes pays a claim within the deductible, it earns the benefit of the reimbursement due from the policyholder and the right to draw on the collateral, if necessary, or to initiate a draw by the receiver, for the benefit of the guaranty fund.

- Model #555 Section 712 "reinsurance" approach: The insurer's obligation to pay all covered claims and the policyholder's obligation to reimburse the insurer are unconditional and each is independent of the other. Under this approach, deductible reimbursements are a general asset of the estate and the guaranty fund only benefits from the deductible reimbursements in proportion to its share as a creditor of the estate. The receiver has the right to collect all deductible reimbursements, drawing on collateral as necessary. Any reimbursements paid to the guaranty association are treated as early access distributions and offset from future recoveries from the estate.

7. Any Other Important Information (e.g., amending an accreditation standard).

None

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NAIC National Association of Insurance Commissioners

NAIC GROUP CAPITAL CALCULATION INSTRUCTIONS

(ADOPTED NOVEMBER 17, 2020)

National Association of Insurance Commissioners

Insurance Products & Services Division

(816) 783-8300

Fax 816-460-7593

https://www.naic.org/prod_serv_home.htm

prodserv@naic.org

Printed in the United States of America

Executive Office

Hall of States Bldg.

444 North Capitol NW, Suite 701

Washington, DC 20011-1512

202-471-3990

Central Office

1100 Walnut Street, Suite 1500

Kansas City, MO 64106-2197

816-842-3600

Capital Markets & Investment

Analysis Office

48 Wall Street, 6th Floor

New York, NY 10005-2906

212-398-9000

Contents

I. Background

1. In 2015, the ComFrame Development and Analysis (G) Working Group held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.

2. More specifically, the GCC and related reporting provides more transparency to insurance regulators regarding the insurance group and make risks more identifiable and more easily quantified. In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting the operations of non-insurance entities, potentially adversely impacting the insurance company's financial condition or policyholders. This calculation provides an additional analytical view to regulators so they can begin working with a group to resolve any concerns in a manner that will ensure that policyholders of the insurers in the group will be protected. The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide Lead State Regulators with further insights to allow them to reach informed conclusions on the financial condition of the group and the need for further information or discussion.

3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted prior to development that a consistent method of calculating group capital for typical group risks would provide a useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a GCC could serve as a baseline quantitative measure to be used by regulators in to compliment the view of group-specific risks and stresses provided by the Own Risk and Solvency Assessment (ORSA) Summary Report filings and in Form F filings that may not be captured in legal entity filings.

4. During the course of several open meetings and exposure periods, the ComFrame Development and Analysis (G) Working Group considered a discussion draft which included three high-level methodologies for the GCC: a risk-based capital (RBC) aggregation approach; a statutory accounting principles (SAP) consolidated approach; and a generally accepted accounting principles (GAAP) consolidated approach. On Sept. 11, 2015, Working Group members unanimously approved a motion to move forward with developing a recommendation for a GCC and directed an appropriate high-level methodology for the recommendation.

5. At a ComFrame Development and Analysis (G) Working Group meeting held Sept. 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC aggregation approach if a GCC were to be developed. The Executive (EX) Committee and Plenary ultimately adopted the following charge for the Financial Condition (E) Committee:

   "***Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.***"

6. The RBC aggregation approach is intended build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions' existing capital regimes. In order to capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.

7. In early 2016, the Financial Condition (E) Committee appointed the Group Capital Calculation (E) Working Group, which began to address its charge and various details of the items suggested by the ComFrame Development and Analysis (G) Working Group . The instructions included herein represent the data, factors, and approaches that the Working Group believed were appropriate for achieving such an objective. The GCC instructions and template are intended to be modified, improved, and maintained by the NAIC in the future as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and the *Risk-Based Capital Formula and Instructions*. This includes, but is not limited to, future disclosure of additional items developed or referred by other NAIC committees, task forces and/or working groups.

II. Definitions

8. **Broader Group**: The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When consider the use of this term, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as "included" in the Schedule 1 will be considered in the actual GCC.

9. **Financial Entity**: A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits, or making loans, managing, or holding investments, etc.). Such entities may or may not be subject to specified regulatory capital requirements of other sectoral supervisory authorities. For purposes of the GCC, entities that are not regulated by an insurance or banking authority [e.g., the U.S. Securities and Exchange Commission (SEC) or the Financial Industry Regulatory Authority (FINRA)] will be considered as not subject to a specified regulatory capital requirement.

   The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group's aggregate ownership in such entities, whether or not any member of the Broader Group is involved in that entity's management responsibilities (e.g., via investment advisory or broker-dealer duties) for those entities.

For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage or hold investments or act as a broker-dealer for those investments on behalf of the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity. In the case where an insurer sets up multiple subsidiaries for this purpose, the 90% may be measured in the aggregate for all such entities. Similarly, in the case of collective investment pools (e.g., private funds, commodity pools, and mutual funds) the 90% may be measured individually, or in the aggregate for each subtype (e.g., private funds, commodity pools, and mutual funds).

In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through the offering of products or transactions outside the group such as a mortgage, other credit offering or a derivative.

10. **Insurance Group**: For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s); i.e., a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures.

    An Insurance Group may include entities that facilitate, finance or service the group's insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control, and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance or service the insurance operations.

    An Insurance Group could be headed by:

    - An insurance legal entity;
    - A holding company; or
    - A mutual holding company.

    An Insurance Group may be:

    - A subset/part of bank-led or securities-led financial conglomerate; or
    - A subset of a wider group.

    An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

11. **Insurance Subgroup/U.S. Operations**: Refers to all U.S. insurers within a Broader Group where the groupwide supervisor is in a non-U.S. jurisdiction. It includes all the directly and indirectly held subsidiaries of those U.S. insurers. For purposes of subgroup reporting, capital instruments, loans, reinsurance, guarantees would only include those that exist within the U.S. insurers. Amounts included for the U.S. insurers shall include all amounts contained within the financial statements of those entities included in the subgroup reporting, whether those amounts are directly attributable or allocated to a company in the subgroup from an affiliate outside of the U.S. insurers and its direct or indirect subsidiaries.

12. **Lead State Regulator**: As defined in the *Financial Analysis Handbook*; i.e., generally considered to be the one state that "takes the lead" with respect to conducting groupwide supervision within the U.S. solvency system.

13. **Reciprocal Jurisdiction**: As defined in the *Credit for Reinsurance Model Law* (#785).

14. **Entity Not Subject to A Regulatory Capital Requirement**: This is a financial entity other than an entity that is subject to a specified regulatory capital requirement.

15. **Scope of Application**: Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s).

    NOTE: U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting.

16. **Limited Group Capital Filing**: Refers to a GCC filing that includes sufficient data or information to complete the "Input 4 Analytics" tab and the "Summary 3 – Analytics" tab of the GCC template. This includes Schedule 1 of the template and may include limited data from other input tabs as deemed necessary for purposes of the analytics.

17. **Material Risk**: Risk emanating from a non-insurance/non-financial entity not owned by an insurer that is of a magnitude that could adversely impact the financial stability of the group as a whole such that the ability of insurers within a group to pay policyholder claims or make other policy related payments (e.g., policy loan requests or annuity distributions) may be impacted.

    To determine whether an entity within the Broader Group poses material risks to the Insurance Group, the totality of the facts and circumstances must be considered. The determination of whether risk posed by an entity is material requires analysis of various aspects pertaining to the subject entity. A determination that a non-insurance/non-financial entity does not pose material risk allows the filer to request exclusion of that entity from the calculation of the GCC ratio in the "Inventory" tab. A number of items as listed below should be considered in making such a determination, to the extent they apply.

    Caution is necessary, however. The fact that one or more of these items may apply does not necessarily indicate risk to the Insurance Group is, or is not, material. The group should be able to support its determination of material risk if requested by the Lead State Regulator. This should not be used as a checklist or as a scorecard. Rather, the list is intended to illuminate relevant facts and circumstances about a subject entity, the risk it poses, how the Insurance Group might be exposed to that risk and means to mitigate that risk.

    Primary Considerations:

    - Past experience (i.e., the extent to which risk from the entity has impacted the Insurance Group over prior years/cycles).
    - The degree to which capital management across the Broader Group has historically relied on funding by the Insurance Group to cover losses of the subject entity.
    - The existence of intragroup cross-support mechanisms (as defined below) between the entity and the Insurance Group.
    - The means by which risk can be transmitted; i.e., the existence of sufficient capital within the entity itself to absorb losses under stress and/or if adequate capital is designated elsewhere in the Broader Group for that purpose.

- The degree of risk correlation or diversification between the subject entity and the Insurance Group (e.g., where risks of one or more entities outside the Insurance Group are potentially offset (or exacerbated) by risks of other entities) and whether the corporate structure or agreements allow for the benefits of such diversification to protect the Insurance Group.
- The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk to the Insurance Group (e.g., whether the corporate shell can be broken).

Other Considerations (*if primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions*):

- The location of the entity in relation to the Insurance Group within the Broader Group's corporate structure and how direct or indirect the linkage, if any, to the Insurance Group may be.
- The activities of the entity and the degree of losses that the entity could pose to the group under the current economic environment or economic outlook

The guidance above recognizes that there are diverse structures and business models of insurers that make it impracticable to apply a one-size-fits-all checklist that would work for materiality determinations across all groups. Strict or formulaic quantitative measures based on size of the entity or its operations of a non-insurance affiliate are an insufficient proxy for materiality of risk to the insurance operations. The GCC Instructions thus consider the unique circumstances of the relevant entity and group and uses an interactive process whereby the group brings forward its suggestions as to entities that should be excluded from the scope of application for a discussion with the lead state, ultimately culminating in an agreement on the scope of application. The guidance in this section helps to facilitate that process and discussion with criteria for cross-support mechanisms that can potentially transmit material risk, as defined, to the Insurance Group as well as safeguards that can mitigate such risk or its transfer.

18. **Cross-Support Mechanism**: For purposes of evaluating material risk, depending on the nature of the transaction and the specific circumstances, these may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group.

19. **Ultimate Controlling Person**: As used in the *Insurance Holding Company System Regulatory Act* (#440). This the entity that exercises control directly or indirectly over all entities within the Broader Group.

20. **Control**: As used in the Model #440, 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 non-management 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 of Model #440 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.

21. **Affiliate**: As used in Model #440, 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. For purposes of the GCC, affiliates will NOT include those affiliates reported on Schedule A or Schedule BA, EXCEPT in cases where there are financial entities reported as or owned indirectly through Schedule A or Schedule BA affiliates In general Schedule A and Schedule BA affiliates will otherwise remain as investments of a Parent insurer will be reported as Parent of the value and capital calculation of the Parent insurer. Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g., foreign insurers or other type of Parent entity) should be treated in the same way.

22. **Person**: As used in Model #440, a "person" is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert, but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

III. Exemptions and Scope

A. Groups Exempted from the GCC

23. These instructions do not address groups that are exempt from completing the GCC; those matters are addressed instead within proposed changes to Model #440.

B. Scope of the Broader Group and Scope of Application

24. When considering the scope of application, preparers of the GCC must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the preparers of the GCC shall complete Schedule 1, which, except in the case of an Insurance Subgroup (as defined in Section II), requests data for all of the entities directly or indirectly owned by the Ultimate Controlling Person (including the Ultimate controlling Person) that are listed in the insurer's most recent Schedule Y or in relevant Holding Company Filings. This will require the preparers of the GCC to complete basic information about each such entity in Schedule 1, including its total assets, and total revenue and net income for this specific year identified, and the initial filing will require the same information for the prior year. The primary purpose of the Schedule 1 is to: 1) assist the lead state in making an assessment on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. This valuable information produces various ratios and other financial metrics that will be used in the analysis of the GCC and the group by the lead state for their holding company analysis.

25. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the "Inventory" tab of the template will be completed by each preparer to provide information and certain financial data on all the entities in the group. Each preparer will also use the include/exclude column in Schedule 1 to request its own set of entities to be excluded from the calculation after applying criteria for material risk (as defined in Section II) which will be described in the template and evaluated by the Lead State Regulator. A second column will be used by the regulator to reflect entities that the regulator agrees should be excluded.

26. Although all entities must be listed in Schedule 1 and in the "Inventory" tab, the preparer is allowed to group data for certain financial entities not subject to a regulatory capital requirement and certain non-insurance and non-financial entities. Thus, while the Schedule 1 would include the full combined financial results/key financial information (for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based on major groupings of entities to maximize its usefulness and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Prior to completing the GCC annually, the Insurance Group should determine if the proposed grouping is satisfactory to the lead state or if there are certain non-insurance and non-financial entities (such entities are required to be broken out and reported separately) that should be broken out and reported separately.

C. General Process for Determining the Scope of Application

27. The starting point for "Scope of Application" (i.e., for purposes of the GCC specifically) is the entire group except in the case of an Insurance Subgroup (as defined in Section II). However, in the case of groups with material diverse non-insurance/non-financial activities isolated from the financial/Insurance Group and without cross-support mechanisms as defined in Section II, the preparer may request a narrower scope starting at the entity that controls all insurance and financial entities within the group [i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group)]. However, the adjustments as to the Scope of Application suggested by the preparer in consultation and in agreement with the Lead State Regulator should include consideration of guidance in paragraph 29 ("Identify and Include all Financial Entities") the totality of the facts and circumstances, as described in paragraph 17 ("Definition of Material Risk"). The rationale and criteria applied in allowing the reduced scope should be documented and made available to non-lead states if requested.

    The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators.

D. Guiding Principles and Steps to Determine the Scope of Application

28. For most groups, the Scope of Application is initially determined by the preparer in a series of steps, listed here and then further explained as necessary in the text that follows:

    - Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1).

    - Denote in Schedule 1 for each non-financial entity whether it is to be "included in or excluded from" the Scope of Application" using the criteria in the "Identify Risks from the Broader Group" subsection below.

    - All entities, whether to be included in or excluded from the Scope of Application are to be reported in the "Inventory" tab of the template. Information for excluded entities will be limited to Schedule 1B and the corresponding columns in the Inventory tab.

    - Non-financial entities may qualify for grouping on this Inventory tab as described elsewhere in these instructions.

E. Steps for Determining the Scope of Application

29. Identify and list all entities in the Insurance Group or Insurance Subgroup (where required).

    Include all entities that meet the definition of an affiliate in Section II, above and that that fit the criteria identified in the definition of the Insurance Group or Insurance Subgroup (if applicable), in Section II, above except as modified in paragraph 31 (Identify Risks from the Broader Group), below. All insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application and reported in the Schedule 1 and Inventory of the Group template. Other non-insurance/nonfinancial entities within the Insurance Group may be designated as "exclude" as described in paragraph 31.

30. Identify and include all Financial Entities.

    Financial Entities (as defined in Section II) within the Inventory of the Group template shall be included in (i.e., may not be designated as "excluded from") the Scope of Application, regardless of where they reside within the Broader Group.

    As learned from the 2008 financial crisis, U.S. insurers were not materially impacted by their larger group issues; however, materiality of either equity or revenue of an entity might not be an adequate determinant of potential for risk transmission within the group. Furthermore, risks embedded in financial entities are not often mitigated by the activities of the insurers in the group and may amplify their (the insurers') risks.

    Any discretion in evaluating the ultimate risk generated by a defined financial entity that is not subject to a regulatory capital requirement should be applied via review of the material risk definitions/principles included in paragraph 17 to set the level of risk as low, medium or high and **not** to exclude such entities from the calculation. The rationale should be documented, and all data required in Schedule 1 must be provided for the entity for purposes of analysis and trending.

31. Identify Risks from the Broader Group

    An Insurance Group or Insurance Subgroup may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, financial entities, and non-financial entities. In considering the risks to which the Insurance Group or Insurance subgroup is exposed, it is important to take account of those material risks (as defined in Section II) to the Insurance Group from the Broader Group within which the Insurance Group operates. All non-insurance/non-financial entities included within the Insurance Group or Insurance Subgroup that pose material risk to the insurers in the group should be included within (i.e., may not be designated as "excluded from") the Scope of the Application. Non-financial entities within the Broader Group but outside the Insurance Group that pose material risks to the Insurance Group should be included within (i.e., may not be designated as "excluded from") the Scope of Application; non-material non-insurance/non-financial entities within the Broader Group or within the Insurance Group (as both terms are defined in Section II) other than those entities owned by entities subject to a specified regulatory capital requirement should be reported as "excluded." However, no entities outside an Insurance Subgroup (as defined in Section II) should be included in the GCC. When determining which non-financial entities from the Broader Group to include in the Scope of Application, the preparer must include any entity that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims or provide services to policyholders consistent with the primary focus of insurance regulators.

32. Review of Submission

The Lead State Regulator should review the Inventory of the Group template to determine if there are entities excluded by the preparer using the criteria above that the Lead State Regulator agrees do not pose material risk to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. For entities where the Lead State Regulator agrees with the request to exclude, the GCC may exclude the data for such entities. Ultimately, the decision to include or exclude entities from the GCC will occur based on the Lead State Regulator's knowledge of the group and related information or filings available to the Lead State and whether they believe an applicable entity would not adversely impact the entities within the Scope of Application to pay policyholder claims.

A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested, but not approved for exclusion by the lead state.

33. The preparer, together with the Lead State Regulator , would use the above steps, which includes considering the Lead State Regulator's understanding of the group, including inputs such as Form F, ORSA and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

34. Updating the Scope of Application

The Scope of Application could be re-assessed by the preparer and the Lead State Regulator each successive annual filing of the GCC provided there has been substantial changes in corporate structure or other material changes from the previous year's filing. Any updates should be driven by the assessment of material risk and changes in group structure as they impact the exclusion or inclusion of entities within the Scope of Application based on material risk considerations.

IV. General Instructions

35. The GCC template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs.

36. **Attestation**: This tab is intended to work similar to the annual financial statement and RBC attestations, which are both intended to give the regulator greater comfort that the company has completed in accordance with its (these) instructions. It will also indicate whether the group consists of predominantly life, P/C, or health insurers and whether the submission is a full or limited group capital filing.

37. **Input 1 – Schedule 1**: This tab is intended to provide a full inventory of the group, including the designation by the filer of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (see Schedule A and Schedule BA exception) within the group so as to allow for analyzing multiple options for scope, grouping and sensitivity criteria, as well as, allowing the Lead State Regulator to make a determination as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group as a whole, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.

38. Except as noted in on the "Inventory" tab, equity method investments that are accounted for based on *Statement of Statutory Accounting Principles* (*SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are not required to be de-stacked (separately listed) in Schedule 1; i.e., their value would be included in amounts reported by the Parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire GCC, which is to produce an expected level of capital and a corresponding level of available capital that are derived by aggregating the amounts reported of capital of the individual entities under the GCC methodology. The available capital for such joint ventures, partnerships and limited liability companies is already considered in Schedule 1 but its inclusion in its Parent's financial statements amounts and can thus be excluded from an inventory (not separately listed) because the Parent already receives a corresponding capital charge within its RBC.

    NOTE: Data for this tab is required for a Limited Group Capital filing.

39. **Input 2 – Inventory**: This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de-stacking of the entities. While some of this information is designed to "pull" information from Schedule 1, other cells (blue cells) require input from the group. This tab will include the adjustments for investment in subsidiary other than were an exception is described in these instructions and adjust for intragroup arrangements. This tab is set up to subtract those adjustments from capital and therefore should be entered as: 1) a positive figure if the adjustment currently has a positive impact on the available capital or the capital calculation; or 2) a negative figure if the adjustment currently has a negative impact on the available capital or the capital calculation. It will also be used to add relevant entities included as equity investments in Schedule A and Schedule BA and to aggregate the resulting adjusted values for use in the actual GCC.

    NOTE: For a Limited Group Capital filing, data will be presented in a summarized format in a limited version of the "Inventory" tab in lieu of completing the full "Inventory" tab (see below).

    Limited Group Capital Filing Only: Input 2 – Inventory: Manually enter data in Inventory B, Column 8 and Inventory C, Column 8 to report a single aggregated value for each entity category in the group. This will require that eliminations and adjustments normally found in a "full" Inventory B, Column 2 through Column 7 and Inventory C, Column 2 through Column 7 to be addressed offline.

40. **Input 3 – Capital Instruments**: This tab is intended to be used to gather necessary information to that will be used to calculate an allowance for additional available capital based on the concept of structural subordination applied to senior or other subordinated debt issued by a holding company. It will also provide information on all debt issued within the group.

    NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

41. **Input 4 – Analytics**: In recognizing a primary purpose of the GCC is to enhance groupwide financial analysis, this tab includes or draws from entity-category-level inputs reported in the tab or elsewhere in the GCC template to be used in GCC analytics. Separate guidance for Lead State Regulators to reference in analysing the data provided in the GCC template (reference applicable location of the guidance; e.g., *Financial Analysis Handbook*).

    NOTE: Data for this tab is required for a Limited Group Capital filing.

42. **Input 5 – Sensitivity Analysis and Inputs**: This tab includes inputs and/or describes informational sensitivity analysis for other than XXX/AXXX captives, permitted and prescribed practices, debt designated as "Other," unscaled foreign insurer values and other designated sensitivity analysis. The inputs are intended to simply be a disclosure, similar to the disclosure required under Note 1 of the statutory financial statements. The analysis will be applied in the "Summary 2" tab.

    NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

43. **Input 6 – Questions and Other Information**: This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intragroup debt and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the "Inventory" tab.

    NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

44. **Calc 1 – Scaling (Ins)**: This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to a comparable basis relative to the U.S. RBC figures. It also allows for set scaling options (which vary by insurance segment such as life, P/C, and health).

    NOTE: This tab is NOT required for a Limited Group Capital filing.

45. **Calc 2 – Scaling (Non-Insurance)**: This tab is used to determine calculated capital for non-insurance entities.

    NOTE: This tab is NOT required for a Limited Group Capital filing.

46. **Summary 1 – Entity Category Level**: This tab provides a summary of available capital and calculated capital for each entity category before the application of capital instruments.

    NOTE: This tab is NOT required for a Limited Group Capital filing.

47. **Summary 2 – Top Level**: This tab calculates various informational GCC ratios resulting from applying "on top" and entity level adjustments to adjusted carrying value and adjusted calculated capital and are described in the "Sensitivity Inputs and Analysis" tab. These "what if" scenario analysis will not be part of the GCC ratio.

    NOTE: This tab is NOT required for a Limited Group Capital filing.

48. **Summary 3 – Analytics**: Provides a summary of various GCC analytics.

    NOTE: This tab is required for a Limited Group Capital filing.

49. **Summary 4 – Grouping Alternatives**: This tab currently calculates and displays a grouping option that was submitted by an interested party.

    NOTE: This tab is NOT required for a Limited Group Capital filing.

50. All cells in the template are color-coded based on the chart below. Inputs should only be made in blue cells. Do not add/delete rows, columns or cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

The following set of colors is used to identify cells:	*Colors used*
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	

V. Detailed Instructions-Template Included at the following Link:

https://content.naic.org/sites/default/files/inline-files/2020%20GCC%20Template%20Nov%2030%202020%20Version%20%28Blank%29.xlsx

Input 1 – Schedule 1

51. Schedule 1A is a small table at the top for identification of the filer. Enter the "Name of Group," name of the person the template is "Completed by" and the "Date Completed." Indicate the version number of the template if there are updates or multiple persons completing the template. All figures (in all tabs) should be converted to $'000s. For example, a book value of $123,450 should be entered as "123.45" in the template.

52. More detailed information on each legal entity should be reported in Schedule 1B through Schedule 1D. The order of the entries in Schedule 1 should match that in the "Inventory" tab. The first entity listed should be the ultimate controlling party.

53. U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator. They should be reported under the appropriate entity category in **[Sch 1B Col 6]**.

54. Entries are required for every entity within the scope of the group. However, while recognizing that Lead State Regulator retain the discretion to ask for greater detail, the following simplifications **may** be applied as long as information for every entity is entity is listed in Schedule 1B:

    - A single numerical entry for like Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common Parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an "Entity Category" in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g., an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager). Entries

for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included."

- In addition, a single numerical entry would be allowed for all included non-insurance/non-financial entities at the intermediate holding company level assuming that the intermediate holding company owns only non-insurance/non-financial entities assuming that the entities are owned by a common Parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. This would include any positive residual value of the holding company itself. Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as "included."

- Values for, non-insurance/non-financial subsidiaries of U.S. RBC filers may remain with their Parent insurers and will not be de-stacked. Entries for these individual entities in the grouping will be reported in Schedule 1B only as "included."

- Mutual Insurance Groups may use the amount of required capital from the top-level Insurer's RBC Report at 200% x ACL RBC and further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-through basis) via RBC filing subsidiaries. Such foreign insurance subsidiaries or other financial subsidiaries shall be reported at the carrying values and capital calculations as described later herein.

- Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values, and capital requirements of a foreign insurer.

NOTE: These simplifications will be treated in a similar manner in Input 2 – Inventory.

55. Any financial entity owned by a Parent insurer and listed in Schedule A or Schedule BA, any insurance or financial entity that is owned indirectly through a Schedule BA affiliate should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information. (See also the instructions for Part B of the Inventory). These entities will be de-stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they owned by a foreign insurer or other non-insurance entities.

56. Schedule 1B contains descriptions of each entity. Make selections from drop-down menu where available.

    - **[Sch 1B Col 1] Include/Exclude (Company)** – This column is to select entities where a request is made for exclusion. The filer will indicate which non-insurance/non-financial entities not owned directly or indirectly by an insurer that should be excluded from the GCC as not posing material risk to the group. The filer's definition of material risk will be reported in the "Other Information" tab.

    - **[Sch 1B Col 2] Include/Exclude (Supervisor)** – Column to be filled in by supervisor. These are entities where the Supervisor agrees with the filer's assessment of material risk and these entities will be excluded from the GCC and may be included in a sensitivity analysis later in the template.

      NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.

- **[Sch 1B Col 3] Include/Exclude (Selected)** – Formula to determine treatment of tab for later sensitivity analysis. If supervisor has made a determination of include/exclude in the prior column, that will be used. If not, company's selection will be used.

- **[Sch 1B Col 4] Entity Grouping** – Column denotes whether this is an insurance or non-insurance/non-financial entity and is also automatically populated based on the entry in Column 8.

- **[Sch 1B Col 5] Entity Identifier –** Provide a unique string for each entity. This will be used as a cross-reference to other parts of the template. If possible, use a standardized entity code such as NAIC Company Code (CoCode) or Insurance Services Office (ISO) Legal Entity Identifier. CoCodes should be entered as text and not number (e.g., if CoCode is 01234, then the entry should be "01234" and not "1234"). If there is a different code that is more appropriate (such as a code used for internal purposes), please use that instead. If no code is available, then input a unique string or number in each row in whatever manner is convenient (e.g., A, B, C, D, … or 1, 2, 3, 4…). Do not leave blank.

- **[Sch 1B Col** 6**] Entity Identifier Type –** Enter the type of code that was entered in the "Entity Identifier" column. Choices include "NAIC Company Code," "ISO Legal Entity Identifier," "Volunteer Defined" and "Other."

- **[Sch 1B Col** 7**] Entity Name –** Provide the name of the legal entity.

- **[Sch 1B Col** 8**] Entity Category –** Select the entity category that applies to the entity from the following choices (all U.S. life captives shall select the option for "RBC Filing Captive," complete the calculation using the life RBC formula in accordance with instructions below regarding "Additional clarification on capital requirements where a U.S. formula (RBC) is not required," regardless of whether the company is required by their captive state to complete the RBC formula. Insurers or financial entities that are de-stacked from an insurer's Schedule A or Schedule BA should be assigned the corresponding insurer or financial entity category:

RBC Filing U.S. Insurer (Life)	**UK Solvency II – Life**	**Colombia**
RBC Filing U.S. Insurer (P/C)	**UK Solvency II – Composite**	**Indonesia**
RBC Filing U.S. Insurer (Health)	**Australia – All**	**Thailand**
RBC Filing U.S. Insurer (Other)	**Switzerland – Life**	**Barbados**
U.S. Mortgage Guaranty Insurers	**Switzerland – Non-Life**	**Regime A (Participant Defined)**
U.S. Title Insurers	**Hong Kong – Life**	**Regime B (Participant Defined)**
Other Non-RBC Filing U.S. Insurers	**Hong Kong – Non-Life**	**Regime C (Participant Defined)**
RBC filing (U.S. Captive)	**Singapore – All**	**Regime D (Participant Defined)**
Canada – Life	**Chinese Taipei – All**	**Regime E (Participant Defined)**
Canadian – P/C	**South Africa – Life**	**Bank (Basel III)**
Bermuda – Other	**South Africa – Composite**	**Bank (Other)**
Bermuda – Commercial Insurers	**South Africa – Non-Life**	**Financial Entity with a Regulatory Capital Requirement**
Japan – Life	**Mexico**	**Asset Manager/Registered Investment Advisor – High Risk**
Japan – Non-Life	**China**	**Asset Manager/Registered Investment Advisor – Medium Risk**
Japan – Health*	**South Korea**	**Other Financial Entity without a Regulatory Capital Requirement – High Risk**
Solvency II – Life	**Malaysia**	**Other Financial Entity without a Regulatory Capital Requirement – Medium Risk**
Solvency II – Composite	**Chile**	**Other Financial Entity without a Regulatory Capital Requirement – Low Risk**
Solvency II – Non-Life	**India**	**Other Non-Ins/Non-Fin with Material Risk**
Solvency II – Non-Life	**Brazil**	**Other Non-Ins/Non-Fin without Material Risk**
UK Solvency II – Non-Life	**Argentina**	**Non-Operating Holding Co.**

* If the GCC group's Japanese insurer health business (referred to as "Third Sector") is greater than 60% of total life business (referred to as "First Sector") and health business combined, as reflected by annualized premium for the year reported, then that group may elect to use the Japan health scalar set rather than the life scalar set.

NOTE: All U.S. captives are required to complete the applicable RBC formula template. In addition, any insurer, other than U.S. captive, that submits an RBC filing to either the state of domicile or the NAIC will be considered an RBC filer.

- **[Sch 1B Col 9] Alternative Grouping –** This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line on the "Grouping Alternative Exhibit." For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called "Dental HMOs," as opposed to listing each entity separately. This is a level of granularity below "Entity Category" but above individual entities. No entity should be put in the same "Alternative Grouping" as its Parent. It is acceptable to put only one entity in a grouping. If any entries are left blank then, in Column 17, the "Entity Name" will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the "Inventory" tab.

- **[Sch 1B Col 10] Parent Identifier –** Provide the Entity Identifier of the immediate Parent legal entity for each entity, as applicable. If there are multiple Parents, select the Parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter "N/A."

- **[Sch 1B Col 11] Parent Name –** This will be populated by a formula, so input is not required.

- **[Sch 1B Col 12] % Owned by Parent –** Enter the percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to state holding company regulation filings (Form B or equivalent).

- **[Sch 1B Col 13] % Owned within Group Structure –** Enter the percentage of the entity that is owned by all entities within the Group.

- **[Sch 1B Col 14] State/Country of Domicile –** Enter state of domicile for U.S. insurance entities and country of domicile for all other entities. (Use references that are consistent with those use on Schedule Y, where available.)

- **[Sch 1B Col 15] Zero Valued and Not Admitted Entities – Report for U.S. Insurers Only.** Select the treatment of the entity from following options: "Zero Valued for RBC" or "Nonadmitted for Accounting and RBC (Direct or Indirect)."

  Zero Valued for RBC are affiliated insurance and financial entities that are otherwise reported in the RBC filer's annual financial statement at their accounting value (i.e., per SAP) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers directly owned by U.S. life RBC filers. The carrying value and capital calculation specified in these instructions for the specific insurance or financial entity type should be reported in Inventory B, Column 2 and Inventory C, Column 2, respectively.

  NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column.

  Nonadmitted for Accounting and RBC (Direct or Indirect) are insurance or other financial affiliates that owned directly indirectly by an RBC filer via a downstream non-financial entity or holding companies that are reported at zero value per SAP and are also reported at zero value and zero capital requirements for RBC purposes. Examples include U.S. insurers indirectly owned by a U.S. RBC filer through a nonadmitted holding company that has not been subject to an independent audit. The carrying values and capital calculations specified herein associated with the specific insurance or financial

indirectly owned entity type should be reported Inventory B, Column 2 and Inventory C, Column 2, respectively.

NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column. The excess value in the nonadmitted Parent entity may be reported at zero value.

No entry is required in this column for any nonadmitted directly or indirectly owned non-insurance/non-financial subsidiary. Report zero for these affiliates in Column 2 of Inventory B and Inventory C.

- **[Sch 1B Col 16] Is Affiliates on Schedule A or Schedule BA –** Column is meant to identify an entity with a financial entity identifier in Column 8 that is otherwise reported on Schedule A or Schedule BA but is being moved to this Schedule. Provide a "Y" response where that is applicable. Otherwise leave blank.

- **[Sch 1B Col 17] Selected Alternative Grouping –** This will be populated by a formula, so input is not required. If there are any blank entries in Column 9 (Alternative Grouping), this column will set them equal to the name of the entity.

57. Schedule 1C contains financials for each entity:

- **[Sch 1C Col 1] Basis of Accounting –** Enter basis of accounting used for the entity's financial reporting.

- **[Sch 1C Col 2 and Col 3] Gross and Net Written Premium** – Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (life, P/C, and health). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 4] Reinsurance Assumed from Affiliates –** Report for all U.S. and non-U.S. insurers**.** Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 1 and life and health Schedule S, Part 1, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 5] Reinsurance Ceded to Affiliates –** Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 3 and life and health Schedule S, Part 3, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.

- **[Sch 1C Col 6] Book Assets –** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total assets as reported in the basic financial statements before eliminations (because that is presumed to be less burdensome on the insurance holding company). Other financial data should similarly be prepared using financial data before eliminations. However, insurance holding companies are allowed to present such figures after eliminations if they do so for all figures and consistently for all years.

- **[Sch 1C Col 7] Book Liabilities –** This should be valued based on the applicable basis of accounting reported under the entity's local regime and represents the total liabilities as reported in the basic financial statements.

- **[Sch 1C Col 8] Gross Paid-in and contributed Capital and Surplus** – For U.S. insurers, report the current year end amounts from annual financial statement Page 3 as follows:

  a. Life Insurers: lines 29, 30 and 33.

  b. P/C Insurers: lines 30, 31 and 34.

  c. Health Insurers: lines 26, 27 and 28.

58. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. The amounts reported should be the entity value on a stand-alone (fully de-stacked) or grouped basis (where applicable). This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership will be applied later, if necessary, to calculate a capital charge.

- **[Sch 1D Col 1] Prior Year Entity Identifier –** Report the Legal Entity Identifier, NAIC company code or other identifier used for the entity in the prior year GCC filing for the prior calendar year.

- **[Sch 1D Col 2] Prior Year Equity or Capital and Surplus –** Report the value based on net equity reported in the entity stand-alone balance sheet. This will generally be the same as what is reported in the current year column in the prior year GCC filing. Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance/non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity.

- **[Sch 1D Col 3] Net Income –** The final reported income figure from the income statement, and therefore is the figure reported after interest, taxes, extraordinary items, etc. For entities with accounting and reporting requirements that specify that dividends paid or received will be part of "net income," report the dividends received in this column. Report dividends to policyholders here as a reduction to net income if required by local accounting or reporting requirements.

- **[Sch 1D Col 4] Dividends Paid and Received (Net) –** All entity types report the net amount of dividends paid and received in reporting year to/from and affiliate, a Parent shareholder, public shareholders, or policyholders (if not required to be a reduction/increase in net income by local accounting or reporting requirements). All entity types that are subject to accounting and reporting requirements that specify that dividends paid or received will be reported as a surplus adjustment, will report dividends received in reporting year from affiliates in this column.

- **[Sch 1D Col 5] Capital and Surplus Contributions Received from Affiliates** – All entity types. Report sum of capital contribution (other than via surplus notes) during the reporting year received from any affiliated entity.

- **[Sch 1D Col 6] All Other Changes in Capital and Surplus** – Include total for all adjustments not listed above. This would include any investment income not already reported in Column 3 or Column 5. Also, report all stock repurchases or redemptions in this column.

  NOTE: Greater detail may be made available upon request.

- **[Sch 1D Col 7] Current Year Equity or Capital and Surplus** – Report the value based on net equity reported in the entity stand-alone Balance Sheet for the current year. This will generally be the same as what is reported for the entity in the Inventory B, Column 2. Where grouping is permitted, the balance reported may be on a grouped basis. Do not report values for non-insurance/non-financial entities owned directly or indirectly by RBC filers or owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity.

- **[Sch 1D Col 8] Capital and Surplus Contributions Paid to Affiliates** – All entity types report the total of capital contributions (other than via surplus notes) during the reporting year paid to any affiliated entity.

- **[Sch 1D Col 9] Dividends Declared and Unpaid –** For all applicable entities report the amount of dividends declared or approved but not yet distributed.

- **[Sch 1D Col 10] Dividends Received and Not Retained –** All holding companies, insurers and financial entities with regulatory capital requirements indicate by "Y" or "N" if part or all of dividends received reported in Column 5 have been paid (passed through) to a Parent company, to public shareholders, or used to repurchase or redeem shares of stock.

Input 2 – Inventory

59. Columns in Inventory A are being pulled from Schedule 1:

- [Column 1] Insurance/Non-Insurance
- [Column 2] Entity Identifier
- [Column 3] Entity Identifier Type
- [Column 4] Entity Name
- [Column 5] Entity Category
- [Column 6] Parent Identifier
- [Column 7] Parent Name
- [Column 8] Basis of Accounting

Columns Requiring Input

60. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this subsection.

- **[Inv B Col 1] Carrying Value (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent: 1) the subsidiary valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then a subsidiary valuation based U.S. GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements.

  The value in this column will include a zero value for entities not admitted per SAP or other jurisdictional regulatory rules. A single entry for all entities that qualify under the grouping exceptions described herein may be made in lieu of individual entries on the line for the affiliate that holds the qualifying entities. This column will include double-counting.

  The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group.

- **[Inv B Col 2] Carrying Value (Local Regime) –** Record the carrying value recognized by the legal entity's jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g., U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, then U.S. GAAP equity (including OCI) or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If an agreed-upon change in local carrying value should become effective by 2019, Volunteer Groups are expected to report on that basis. If the group is comprised entirely of U.S.-based entities under a U.S.-based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted (or otherwise zero valued financial affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column). (See instructions for **[Sch 1B Col 15]**.) However, if such an entity has been listed in the **[Sch 1B Col 2] Include/Exclude (Supervisor)** column , indicating that the Lead State Regulator agrees that the entity does

not pose material risk, then a value will be reported here, but the ultimate calculation will show the results without the excluded entity's value. The carrying value for affiliates that are U.S. RBC filers, the value will be the amount reported TAC on entity's RBC report. This column will include double-counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 1, except where TAC for RBC filers differs from BACV. A single entry for all entities that qualify under the grouping exceptions described herein may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

A sensitivity analysis is included to calculate to reflect the impact of excluded entities requested but not approved for exclusion by the lead state.

	INVENTORY B – Accounting Valuation to be Used			
Parent Entity	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
U.S. RBC filer	Other U.S. Insurer	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	BACV Per Statutory Accounting	Per Local Regulatory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Financial w/o Capital Reqmt	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Non-Financial	BACV Per Statutory Accounting	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
Other U.S. Insurer	Any Other Entity Type	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Regulatory Accounting	RBC TAC	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Regulatory Accounting	BACV Per Statutory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Regulatory Accounting	Jurisdictional or Sectoral PCR Level Per Local Capital	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Regulatory Accounting	Per risk level factor x 3-year avg revenue	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Regulatory Accounting	No entry Required	No entry Required – Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Per Local Public Accounting	RBC TAC	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Per Local Public Accounting	BACV Per Statutory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Public Accounting	Per Local Regulatory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Per Local Public Accounting*	Per Local Regulatory Accounting*	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Per Local Public Accounting*	Per Local Public Accounting*	Per Local Public Accounting
*Subject to Grouping				

In cases where a U.S. life RBC filer owns a foreign insurer and the BACV value reported for the foreign insurer in the Parent U.S. insurers financial statement is adjusted to zero for RBC purposes, then report zero in Inventory B, Column 1 and Column 3 for that foreign insurance entity.

- **[Inv B Col 3] Investment in Subsidiary –** Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from Parent's carrying value. This is intended to prevent double-counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e., the value in Column 1 in Inventory B adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the Parent. Where entities are owned partially by entities outside of the group, then the Parent's percentage of ownership will be calculated based on the value owned within the group.

  Generally, for all non-financial affiliates, Schedule A and Schedule BA assets will remain in the value of the Parent insurer and not entered in this column unless they meet the exceptions described herein. For indirectly owned Schedule A or Schedule BA financial entities, only the value of that entity will be included in this column and the remaining value of the downstream Schedule BA Parent will remain with the Parent insurer. Similarly, the carrying value of U.S. branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the Parent entity may eliminate double-counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory.

  NOTE: The "Sum of Subsidiaries" column may provide a useful check against this entry, but it will not necessarily be equal.

  When utilizing public accounting (e.g., GAAP) equity values that differ from regulatory values (e.g., SAP), it is **the GAAP equity** of the insurers must be eliminated from the GAAP Parent in this column, not the SAP (regulated capital). This is necessary in order to allow the calculation to appropriately represent SAP capital of regulated entities and GAAP equity of non-regulated entities. Data on the accounting differences between Parent and Local carrying values will be collected in Column 9 and further detail provided in the "Questions and Other Information" tab.

  NOTE: Values for Schedule A and Schedule BA affiliates that are required to be reported in the "Inventory" tab will be adjusted out of the value reported by the U.S. insurer in this column.

  [Inv B Col 4] Intragroup Capital Instruments – This column is automatically calculated from inputs to the "Capital Instruments" tab. It reflects an adjustment to remove carrying value for intragroup financial instruments that that are treated as capital by the issuer and consequently create additional capital within the group upon issuance (most notably U.S. surplus notes). Example for surplus notes: In both intragroup and unaffiliated transactions, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser's capital charge (e.g., RBC charge) on the surplus note investment in the corresponding adjustment column for the capital calculation. No adjustments are made for any intragroup capital instrument that is treated as a liability by the issuer.

- **[Inv B Col 5] Reported Intragroup Guarantees, LOCs and Other –** Enter an adjustment to reflect the notional value weighted for expected utilization for reported intragroup guarantees (including solvency insurance and capital maintenance agreements). Enter the notional value for letters of credit, or other intragroup financial support mechanisms. Explain each intragroup arrangement in the "Questions and Other Information" tab.

- **[Inv B Col 6] Other Intragroup Assets –** Enter the amounts to adjust for and to remove double-counting of carrying value for other intragroup assets, which could include intercompany balances, such as (provide an explanation of each entry in the "Questions and Other Information" tab):

  a. Loans, receivables and arrangements to centralize the management of assets or cash;
  b. Derivative transactions;
  c. Purchase, sale or lease of assets; and
  d. Other (describe).

- **[Inv B Col 7] All Other Adjustments –** Include a brief explanation in the "Description of 'Other Adjustments'" in the "Other Information" tab.

- **[Inv B Col 8] Adjusted Carrying Value** – Stand-alone value of each entity per the calculation to eliminate double-counting. This value includes permitted and prescribed practices.

- **[Inv B Col 9] Accounting Adjustments (e.g., GAAP to SAP) –** Report the total difference between the carrying value reported in Column 1 (and Column 3) and the value reported in Column 2. This column will apply to regulated entities where the stand-alone carrying value is based on regulatory accounting (e.g., SAP) while the value reported for that entity by the Parent is carried at a financial accounting (e.g., GAAP) value. Further detail is reported in the "Questions and Other Information" tab.

- **[Inv B Col 10] Gross Revenue 2nd Prior Year (Financial Entities without Regulatory Capital Requirements and Non-financial Entities)** – Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 11] Gross Revenue Prior Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** – Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 12] Gross Revenue Current Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities) –** Report gross revenue (excluding dividends from subsidiaries and affiliates).

- **[Inv B Col 13] Average Revenue over 3-years (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities –** This column is populated from data in Column 10, Column 11 and Column 12.

  This column will support the capital calculation for asset managers, broker-dealers and other Financial Entities without Regulatory Capital Requirements.

61. "Adjusted Capital Calculation" is reported in a similar manner to the "Adjusted Carrying Value" above. The columns are in the same order, although it is likely that fewer entries will be needed for Column 4 through Column 7. Further guidance is below.

- **[Inv C Col 1] Entity Required Capital (Immediate Parent Regime) –** This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, entity required capital should represents the capital requirements of the Parent's insurance or other sectoral regulator:

  a. For subsidiaries of foreign insurers or other non-U.S. financial entities, the unscaled capital required by the Parent's regulator of the regulated entity based on the equivalent of a Prescribed Capital Requirement (PCR) level.

  b. For subsidiaries, including applicable Schedule A and Schedule BA subsidiaries, of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent's RBC, adjusted for covariance where applicable (calculated by the preparer) reported at company action level (or two times authorized control level RBC) for that entity. Where the subsidiary is also an RBC filer, then the amount reported will be at company action level RBC (or two times authorized control level RBC) after covariance.

  c. For subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent's capital requirement (if any) for the subsidiary entity.

  d. In the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double-counting. The values recorded for all subsidiaries should be the 100% of the specified capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group. A single entry for all entities that qualify under the grouping exceptions described herein may be made on the line for the affiliate that holds the qualifying entities in lieu of individual entries.

- **[Inv C Col 2] Entity Required Capital (Local Regime) –** Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing Parent the amounts will be the same in both the Parent and Local Regime columns, except where the RBC filing subsidiary is subject to an operational risk charge. In such cased the amount reported in this column for the subsidiary will include the operational risk charge while the amount reported in Column 1 will exclude the subsidiary's operational risk charge. However, for some entity types his will result in entries for the entities under a U.S.-based insurance Parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted (or otherwise zero valued) financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in **[Sch1B Col 2] Include/Exclude (Supervisor)** column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then report the capital calculation in accordance with entity instructions, but the ultimate calculation will show the results without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, may be carried at zero value in this column. A single entry for all entities that qualify under the grouping exceptions described herein may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries. This column will include double-counting. The values recorded for all subsidiaries should be the 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities

outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

62. For financial entities without a regulatory capital requirement and for non-insurance/non-financial entity types where additional options are noted below, the options are shown here for informational purposes only and the calculations are described in the tabs where the relevant data and calculations reside.

63. Additional clarification on capital requirements where a formula is required:

- **U.S. RBC filing Insurers**: Report RBC at Company Action Level (200% x ACL)
- **Foreign Insurance Entities**: The local capital requirement as specified below for each jurisdiction should be reported, by legal entity, at a Prescribed Capital Requirement (PCR) level. This treatment is different than what U.S. RBC would require and recognizes other regulators view of adequate capital for insurers within another jurisdiction. It is more reflective of risk within the group context. A sensitivity analysis will be included in the "Sensitivity Analysis" tab using the jurisdictional PCR scaled per the Excess Relative Ratio method (see Appendix 1) for insurers in foreign jurisdictions that are subject to scaling.
- **European Union subsidiaries**: Use the Solvency II Solo Solvency Capital Requirement (SCR) as the PCR.
- **U.S. subsidiaries**: The RBC Company Action Level of each insurer should be reported.
- **Australia subsidiaries**: The PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP." PCR is not a set multiple of MCR.
- **Bermuda subsidiaries**: The Legal Entity PCR in Bermuda for medium and large commercial insurers is called the "Enhanced Capital Requirement" (ECR) and is calibrated to Tail VaR at 99% confidence level over a one-year time horizon.
- **Hong Kong subsidiaries**: Under the current rule-based capital regime, if applied similar to the concept of PCR, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.
- **Japan subsidiaries**: The PCR is the solvency margin ratio of 200%.
- **Korea subsidiaries**: The PCR is 100% of risk-based solvency margin ratio.
- **Singapore subsidiaries**: The PCR is 120% of total risk requirement (i.e., capital requirement).
- **China Taipei subsidiaries**: The PCR is 200% of RBC ratio.
- **Canada life entities**: The baseline PCR should be stated to be "100% of the LICAT Base Solvency Buffer." The carrying value should include surplus allowances and eligible deposits.
- **Canada P/C entities**: The PCR should be the MCT capital requirement at the target level.
- **South Africa subsidiaries**: The PCR is 100% of the SAM SCR.

- For any entities that cannot be mapped to the above categories, scaling will be at 100%

64. Additional clarification on capital requirements where a U.S. formula (RBC) is not required:

- For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the GCC. This may differ from what U.S. RBC would require. It is more reflective of the regulatory view of risk in the group context. The following requirements should be used in other specified situations where an RBC does not exist:

- **Mortgage Guaranty Insurers**: The minimum capital requirement shall be based on the NAIC's requirements set forth in the *Mortgage Guaranty Insurance Model Act* (#630).

- **Financial Guaranty Insurers**: The minimum capital requirement shall be based on the NAIC's requirements set forth in the *Financial Guaranty Insurance Guideline* (#1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g., specific limits).

- **Title Companies**: The minimum capital requirement shall represent 200% of the required level of reserves carried by the insurance company.

- **Other Companies**: A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank.

- **Captives**: U.S. insurers that have captives should complete the applicable RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based on the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self-insurance (either by U.S. life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive the same charge as a non-regulated entity.

65. Non-insurance financial entities subject to a specified regulatory capital requirement:

- All banks and other depository institutions – The unscaled minimum required by their regulator. For U.S. banks, that is the Office of the Comptroller of the Currency (OCC) Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.

- Any other financial entity that is determined to be subject to a specified regulatory capital requirement will bring that requirement in the GCC at the first level of regulator intervention (if applicable).

- This differs from what U.S. RBC would require. It recognizes the sectoral regulator's view of risk for a particular financial entity type. It is more reflective of risk in the group context.

66. Non-insurance financial entities NOT subject to a specified regulatory capital requirement:

- All asset managers and registered investment advisors and all other financial entities as defined in Section II: Use the capital calculation specified below based the level of risk assigned to the entity by applying the material risk principles defined in Section II. However, asset managers and investment affiliates (not qualifying to be treated as non-financial entities per paragraph 9) will be reported at either medium or high risk. In certain cases, these entities may be subject to a layer of regulation (e.g., SEC or FINRA) but are not generally subject to a specified capital requirement.

  High Risk: 10% x 3-year average revenue

NOTE: A Basel Charge of 15% will be used for the IAIS ICS.

  Medium Risk: 5.0% x 3-year average revenue.

  Low Risk: 2.5% x 3-year average revenue

NOTE: Medium risk could be used as a starting point while the stratified methodology is further developed.

67. Other non-insurance, non-financial entities with material risk:

- Non-insurance, non-financial entities may not be as risky as financial entities. For entities not owned by RBC filers or other entities where there is a regulatory capital charge for the entity in the capital formula, use an equity charge of 10.5% (post tax) for predominantly life Insurance Groups 9.5% for predominantly P/C Insurance Groups and 3.5% for predominantly health Insurance Groups x BACV. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero in Column 1 and the charge specified in this paragraph in Column 2. These factors are based on average after covariance RBC charges for the respective insurer types and are calibrated at 200% x ACL RBC. This is meant to be consistent with how the entity would be treated if owned by an RBC filer while recognizing that the entity may be excluded from the GCC if it does not pose material risk to the insurers in the group.

  Non-insurance/non-financial entities owned by RBC filing insurers (or owned by other entities where a regulatory capital charge applied to the non-insurance/non-financial affiliate) is will remain in the Parent's capital charge and reported at that value in Column 1 but will be reported as zero in Column 2. These non-financial entities may not be excluded from the GCC.

  One additional informational capital calculation for all non-financial entities will be applied using current year gross revenue from Inventory B, Column 12 with the calculation occurring and results available in the "Calc 2" tab as follows: 5% of reporting year gross revenue based on a medium level risk for a financial entity.

68. Non-operating holding companies:

- Non-operating holding companies will be treated the same as other non-insurance/non-financial entities with material risk. Unless reported on a grouped basis (see paragraph 54), for purposes of applying the capital calculation, the carrying value of stand-alone positive valued and negative valued non-operating holding companies will be netted. If the net value is zero or less (floored at zero for purposes of applying a charge), the charge applied will be zero. If the filer chooses to designate the non-operating holding company as a non-insurance/non-financial entity without material risk and requests exclusion, then no allowance for debt issued by that holding company may be included in the calculation.

	INVENTORY C – Capital Calculation to be Applied			
Parent Entity	Entity	Inv B, Column 1	Inv B, Column 2	Parent Entity Line Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (excl. op Risk) x 2	RBC ACL x 2	RBC ACL (excl. op Risk) x 2
U.S. RBC filer	Other U.S. Insurer	Per RBC	Per GCC Entity Instructions	Per RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per RBC	Jurisdictional or Sectoral PCR Level Capital Reqmt	Per RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Per RBC	Per risk level factor x 3-year avg revenue	Per RBC
U.S. RBC filer	Non-Financial	Per RBC	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL x 2	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL x 2	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Per Local Capital	Foreign Insurer or Other Regulated w/ Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	Per risk level factor x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL x 2	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Reqmt	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	Per risk level factor x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

Capital Calculation Adjustments

- **[Inv C Col 3] Investment in Subsidiary –** Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from Parent's required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e., the value reported in Column 1 in Inventory C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent's value in this column for entities that are reported at zero value by the parent This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking financial entities that are subject to diversification in a capital formula (e.g. RBC) the amount entered on the Parent line is the post-diversified capital requirement as calculated by the preparer(which is also the amount to be reported for the de-stacked entity on the entity's line.

  Generally the capital requirements for Schedule A and BA affiliates and other non-financial affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent's Schedule A and BA, any financial entity indirectly owned through another Schedule A or BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule A and BA affiliate so that the parent entity may eliminate double counting of that capital requirement capital which will now be reported by the stand-alone Schedule A or BA affiliate listed in in the inventory.

For indirectly owned Schedule A and BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

Capital calculations for Schedule A and Schedule BA indirectly owned **financial entities** that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab.

In the "Questions and Other Information" tab, a capital requirement should be reported for the indirectly owned entity based on the insurers Schedule A or Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or Schedule BA entity that directly owns the financial entity.

- **[Inv C Col 4] Intragroup Capital Instruments –** This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).

- **[Inv C Col 5] Reported Intragroup Guarantees, LOCs and Other –** This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on guarantees or LOCs).

- **[Inv C Col 6] Other Intragroup Assets –** This column is not intended to be used for required capital but is included in case an entity believes it is necessary from reporting an inaccurate required capital figure.

  a. Loans, receivables and arrangements to centralize the management of assets or cash.
  b. Derivative transactions.
  c. Purchase, sale or lease of assets.
  d. Other (describe in "Questions and Other Information" tab).

- **[Inv C Col 7] All Other Adjustments** – Include a brief explanation in the "Description of 'Other Adjustments'" in the "Questions and Other Information" tab. Use this column is for adjustments related to required capital that correspond to adjustments in Inventory B, Column 7 and in cases where an entity believes it is necessary to adjust an inaccurate regulatory required capital figure (e.g., the RBC calculation applied as a permitted practice).

  NOTE: Consider whether this column should be used rather than Column 2 for zero value entities.

- **[Inv C Col 8] Adjusted Capital Calculation** – Stand-alone capital calculation for each entity per the calculation to eliminate double-counting. This value includes the impact of permitted and prescribed practices

- Inventory D is for "Reference Calculations Checks." These are calculations that can serve as checks on the reasonability/consistency of entries.

  a. [**Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value) –** This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the "Investment in Subsidiary" column. This sum will often, but not always, be equal to the "Investment in Subsidiary" column.

  b. **[Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital)** – Similar to above but for calculated capital.

  c. [Inv D Col 7 – 8] Carrying Value/Adj Calc Cap – This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were done correctly.

Input 3 – Capital Instruments

69. Provide all relevant information pertaining to paid-up (i.e., any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to capture all financial instruments such as surplus notes, senior debt, hybrid instruments and other subordinated debt. Where a Volunteer Group has issued multiple instruments, the Volunteer Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). All qualifying debt should be reported as follows.

70. Debt issued by U.S.-led groups:

- Surplus Notes – Report the outstanding value of all surplus notes in Column 8 whether issued to purchasers within or outside the group. The outstanding value of surplus notes issued to entities outside the group and that is already recognized by state insurance regulators and reported 100% as capital in the carrying value of U.S. insurer issuers in "Inventory B" and will not be included in the additional capital allowance. Surplus notes issued within the group generally result in double-counting and will not be included in the additional capital allowance. (See instructions below.)

- Subordinated Senior Debt and Hybrid Debt Issued (e.g., debt issuances that receive an amount of equity credit from rating agencies) – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital. For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:

    a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options other than make whole provisions[1]). However, if the instrument is callable within the first five years from the date of issue it may be considered qualifying debt if any such call is at the option of the issuer only (the instrument is not retractable by the holder) AND it is the intent of management to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument.

    b. Supervisory review or approval is required for any ordinary* or extraordinary dividend respectively or distribution from any insurance subsidiary to fund the repurchase or redemption of the instrument. Supervisory approval of ordinary dividends is met if the supervisor has in place direct or indirect supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the payment of any distributions should it find that the insurer is presently, or may potentially become, financially distressed. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.

*The concept of approval for ordinary dividends is for GCC purposes and is met as described in subparagraph b, above. It is not intended to require explicit regulatory approval or in any

[1] NAIC staff have been informed that make whole provisions are a form of a call feature that can be exercised by the issuer at any time; that they nonetheless are most frequently utilized near the end of the term of the instrument, generally in connection with refinancing; and that the cost to the issuer to exercise the make whole provision and associated financial reporting impacts, combined with the very low interest rate environment, make it much less likely that such provisions will be triggered, particularly within five years of issuance. Staff will continue their research, and assuming these observations are confirmed, the referenced criteria will continue to scope out make whole provisions.

way alter current provisions of Model #440 or the *Insurance Holding Company System Model Regulation* (#450).

- "Other" Debt – The outstanding value will be reported in Column 8 and will be further described in the "Other Information" tab and will be reported in a manner that is consistent with Senior Subordinated Debt, as described above. Such debt will not initially be included in the additional capital allowance for the GCC. An additional allowance of this debt as additional capital will be calculated in this tab and reported as a sensitivity analysis in the "Summary" 2 tab, subject to future determination on whether it will become part of the GCC calculation.

- Foreign Debt – Report the outstanding value of Non-U.S. senior debt issued to entities outside the group in Column 8. Debt specifically recognized by statute, regulation or accounting rule as additional capital resources by the lead jurisdiction based on contractual subordination or where a regulatory regime proactively enforces structural subordination through appropriate regulatory/supervisory controls over distributions from insurers in the group will not be included in the calculation of an additional capital allowance if it is already reported as capital in the carrying value of the issuer in "Inventory B". It will be included in the calculation of an additional capital allowance if recognized by the local jurisdiction and NOT already included in the value of the issuer in "Inventory B". Cases where the value of debt instruments issued to purchasers outside the group has not been recognized by the legal entity's insurance or other sectoral supervisor will not be included in the additional capital allowance.

71. Please fill in columns in Section 3A as follows for all capital instruments:

- **[Sec 3A Col 1] Name of Issuer –** Name of the company that issued the capital financial instrument.[2] Will populate automatically from the "Entity Identifier" column in this subsection.

- **[Sec 3A Col 2] Entity Identifier –** Provide the reference number that was input in Schedule 1.

- **[Sec 3A Col 3] Type of Financial Instrument –** Select type from the drop-down menu. Selections include Senior Debt, Surplus Notes (or similar), Hybrid Instruments and "Other" Subordinated Debt.

- **[Sec 3A Col 4] Instrument Identifier –** Provide a unique security identifier (such as CUSIP). ALL debt instruments must include an internal identifier if not external identifier is available.

- **[Sec 3A Col 5] Entity Category –** Links automatically to selection made on the "Inventory" tab worksheet.

- **[Sec 3A Col 6] Year of Issue –** Provide the year in which the financial instrument was issued or refinanced.

- **[Sec 3A Col 7] Year of Maturity –** Enter the year in which the financial instrument will mature.

- **[Sec 3A Col 8] Balance as of Reporting Date –** Enter the principal balance outstanding as reported in the general-purpose financial statements of the issuer.

- **[Sec 3A Col 9] Intragroup Issuance –** Select whether the instrument was issued on an intragroup basis (that is, issued to a related entity within the group). This column will be used to remove "double-counting." This column is a drop-down menu box with options "Y" and "N."

- **[Sec 3A Col 10] Treatment in Inventory B –** Select option that applies:

  a. **Capital** – This instrument is recognized or credited as capital in local regulatory regime and reported as part of the adjusted carrying value of the issuer and was not purchased by an affiliate. This includes the value of qualifying senior and hybrid debt instruments (if recognized as capital) and U.S. surplus notes (or similar local regime instruments) that are issued to entities outside the group recognized in the "Inventory B" tab. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital.

  b. **Liability** – This instrument is reflected by the issuer as a liability in the adjusted carrying value in the "Inventory B" tab and was not purchased by an affiliate. This would apply to all qualifying senior and hybrid debt issued to purchasers outside the group that is not recognized as capital by the local regulator that are issued to entities outside the group recognized in the "Inventory B" tab. The value will be included in the calculation of a proxy allowance for additional capital.

  c. **Liability designation** would also apply to all non-qualifying senior and hybrid instruments and all debt categorized as "Other" issued to purchasers outside the group that is not recognized as capital by the local regulator. The value of these instruments will NOT be included the calculation for the in the calculation of a proxy allowance for additional capital.

  d. **Intragroup –** This would apply to all qualifying instruments purchased by an affiliate within the group. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital. If the financial instrument is recognized or credited as part of the issuer's available capital in Inventory B, then an adjustment for intragroup capital instruments is made in Inventory B, Column 4 and Inventory C adjustments(if necessary to eliminate an associated capital requirement). If the financial instrument is treated as a liability by the issuer, then no intragroup capital instrument adjustment is required in Inventory B or Inventory C.

  e. The outstanding value of all non-qualifying senior and hybrid instruments and financial instruments categorized as "Other Debt" whether issued to purchasers inside or outside the group will not be included in the calculation of a proxy allowance for additional capital and no other adjustments are required in the template. However, in the unlikely event that the instrument is treated as available capital to the issuer in Inventory B, an adjustment in Inventory B, Column 4 to remove the available capital would be required.

  NOTE: Additional information on instruments categorized as "Other Debt" in the Type of Financial Instrument Column will require additional information to be provided in the "Questions and Other Information" tab.

For intragroup surplus notes, the adjustment will impact the carrying value and associated capital calculation of the purchasing affiliated entity.

- **[Sec 3A Col 11] Intragroup Purchaser Identifier –** Enter the entity identify for the affiliate entity that purchased the instrument.

- **[Sec 3A Col 12] Description of Other Debt Instruments –** Provide a description of instruments designated as "Other."

- **[Sec 3A Col 13] Call Provisions Criteria –** Respond "Y" or "N" as to whether the instrument is subject to a call provision in the first five years AND it is management's intent to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument.

- **[Sec 3A Col 14] Potentially Recognized Instrument –** This is an automatic calculation to determine if this is instrument that has potential to be recognized as additional capital in the GCC and/or in sensitivity analysis. The column will show "Y" if each of the following is true: 1) it is Senior Debt, Hybrid or Other instrument; 2) the instrument is not intragroup; and 3) the instrument is treated as liability on Inventory B. These are calculated using Column 3, Column 9, and Column 10, respectively.

- **[Sec 3A Col 15] Other Criteria Met–** This is an automatic calculation to determine if instrument qualifies due to criteria beyond those in Column 14. The column will show "Y" if: 1) the instrument has initial maturity of greater than five years; and 2) it meets the "Call provisions criteria" in Column 13.

- **[Sec 3A Col 16] Qualified Debt –** This column is calculated automatically using data from the entries in Column 14 and Column 15. To qualify, an instrument needs a "Y" in both columns. It represents the amount of qualifying debt that will be used in the calculation of an allowance for addition capital under the alternate subordination method and the proxy allowance method. This amount will be carried into Section 3C, Column 1, Line 3.

72. Section 3C will be auto-filled, with the exception of Column 1, Line 2.

- **[Sec 3C Col 1, Line 1] Total Paid-In and Contributed Capital and Surplus** – This is the amount reported on Page 3 of the annual financial statement submitted to regulators by a U.S. insurer.

- **[Sec 3C Col 1, Line 2] Alternate Subordination Calculation –** This manual entry is the excess of qualifying debt issued over liquid assets held by the issuing consolidated holding company as reported in the consolidated financial statements. No entry is expected for a mutual group.

- **[Sec 3C Col 1, Line 4] Downstream Estimate -**The total reported under the alternate subordination approach will be compared to the total amount of gross paid-in or contributed capital and surplus reported by the insurance entities within the group as reported in Schedule 1. The greater value will be carried into the calculation for an additional capital allowance.

  NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 5] Proxy Calculation for Additional Capital Allowance** – A calculation will be made in this tab in Section 3B that will apply 30% of available capital plus the value of all qualifying debt to become part of the proxy allowance for additional capital for qualifying senior subordinated. An additional amount of 15% of available capital plus the value of all qualifying debt will be calculated to become part of a proxy allowance for additional capital be for hybrid debt.

NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 6 through Line 8]** – The greater of the proxy calculation or the larger of paid in capital or alternate subordination calculation will be allowed as additional capital in **[Sec 3C Col 6]**. However, an overall limit of no more than 75% of the total adjusted carrying value in Inventory B will be applied in **[Sec 3C Col 7]**. Adjustments to increase available capital will be calculated from data on this page. The summary results of the components of the calculation (paid in capital and surplus, alternate subordination, proxy calculation and limitations) are populated as titled in the calculation columns in this section. The final amount recognized as additional capital is shown in [**Sec 3C Col 8]**.

- The additional capital allowance recognized for capital instruments will be shown as an "on-top" adjustment in the "Summary 1 – Entity Level" tab.

73. **Informational calculation to include "Other Subordinated Debt"** – A sensitivity analysis will be applied in [**Sec 3C Col 2, Line 1 through Line 8]** and carried into the "Summary 2" tab to adjust the amount of additional capital in the proxy calculation by the amount of "Other Debt" reported in **[Sec 3C Col 8]** issued to purchasers outside the group. This informational sensitivity analysis will include an additional allowance for such debt up to 15% of available capital plus the value of all qualifying debt including qualifying "Other" debt subject to the same limitations noted for the proxy allowance in general.

Input 4 – Analytics

74. The entity type information supporting analytics summarized in Summary 3 – Analytics are pulled into this tab from data or information reported in other tabs in the GCC template. That data is exported into summaries in the "Summary 3 – Analytics" tab. Only 2020 data is currently to be populated. However, it is contemplated that going forward, data for prior years will also be populated such that it will provide the Lead State Regulator with metrics to identify trends over time.

Input 5 – Sensitivity Analysis and Inputs

75. The sensitivity analysis is calculated in the "Summary 2" tab. Most inputs for the analysis are populated from other tabs as described below and carried into the analysis which are reported in the "Summary 2" tab. However certain analysis requires inputs from this tab. Inputs are required in this tab for Analysis 3, Analysis 4, Analysis 8, and Analysis 9. Sensitivity Analysis are intended to provide the Lead State Regulator additional information that helps them better understand the financial condition of the group. Similar to the sensitivity analysis included in the legal entity RBC, it provides the regulator with additional information and allows them to consider "what-if" scenarios to better understand the impact of such items. The results of these analysis will not impact the GCC ratio.

- **[Analysis 1]: GCC overall sensitivity analysis –** No additional data is needed in the tab. The overall GCC ratio will be presented at 300% x ACL level. This calculation will increase the calculated capital for most entity types by a factor of 1.5. However, entities with existing regulatory capital requirements (e.g., foreign insurers and banks) will be reported at the same level specified in these instructions for both the GCC and the sensitivity analysis (i.e., at 100% of the jurisdictional or sectoral PCR requirements.

- **[Analysis 2]: Excluded non-insurance/non-financial entities without material risk –** No additional data is needed in the tab. The data for entities where exclusion has been requested and the lead state does not agree will be populated based on entries in **[Sch 1B Col 3]** and data in Inventory B, Column 2 and Inventory C, Column 2. This analysis will be applied and reported in the "Summary 2" tab. It will provide the regulator with the impact of excluding non-agreed-upon entities on the GCC ratio.

- **[Analysis 3 and Analysis 4]: Permitted practices –** This information shows the amount of U.S. permitted practices as described in the Preamble of the *Accounting Practices and Procedures Manual* and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio.

    - **Prescribed Practices –** This information to be entered on this tab shows the amount of U.S. prescribed and prescribed practices as described in the Preamble of the *Accounting Practices and Procedures Manual* and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio. This analysis will be applied and reported in the "Summary 2" tab.

- **Permitted and Prescribed Practices** – Report values from annual financial statement Note 1 (excluding those pertaining to XXX/AXXX captives):

  a. Entity identifier
  b. Value of permitted practice
  c. Capital Requirement attributable to permitted practice (if any)
  d. Description of permitted practice
  e. Value of prescribed practice
  f. Capital requirement attributable to permitted practice (if any)
  g. Description of prescribed practice

- **[Analysis 5]: Foreign Insurer Capital Requirements Scaled** – No additional data is needed in the tab. This information shows the amount of foreign insurer capital calculations scaled by applying scalars using the Excess Relative Ratio approach at a 200% x ACL RBC calibration level and at 300% x ACL for all non-U.S. jurisdictions where scalar data is available (see Appendix 1). The sensitivity analysis allows the state to understand the impact of scaling on the GCC ratio. This information is populated from the "Scalar" tab. This analysis will be applied and reported in the "Summary 2" tab.

- **[Analysis 6]: <u>Debt Classified as "Other"</u>** – No additional data is needed in the tab. The analysis data will be populated from the "Capital Instruments" tab and the analysis and will be applied and reported in the "Summary 2" tab.

- **[Analysis 7]: Alternative Capital Calculation for Non-Financial Entities –** No additional data is needed in the tab. The values reported will represent the alternative values for capital calculation that is being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reported in the "Scaling Non-Insurance" tab (Calc 2).

- **[Analysis 8]** For captives other than XXX/AXXX, all other U.S. captives shall make an asset adjustment as described below;

<u>Asset Impact</u>

76. For the asset impact, it is ONLY required for the assets included in a captive or an entity not required to follow the statutory accounting guidance in the *Accounting Practices and Procedures Manual*. It is not required for assets for those groups that retain such business in a non-captive traditional insurance company(ies) already required to follow the *Accounting Practices and Procedures Manual*.

NOTE: Variations for state prescribed and permitted practices are captured in the separate sensitivity analysis.

77. The asset impact amount shall be determined based on a valuation that is equivalent to what is required by the *Accounting Practices and Procedures Manual* (SAP). For this purpose, "equivalent" means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the *Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g., mark-to market bonds used by some captives under U.S. GAAP versus full SAP that considers NAIC designations). To be more specific, the asset impact shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraph 78 and paragraph 79 combined.

NOTE: Letters of credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either SAP or U.S. GAAP and are required

to be adjusted out of the available assets (i.e., the asset reduction is recorded as a negative figure in the template).

78. To achieve the above, accumulate the effect of making the following impact and record as a negative figure in the template, an asset adjustment for all the following explicit assets not allowed to be admitted under SAP:

- Assets *specifically* not allowed under the *Accounting Practices and Procedures Manual* in accordance with paragraph 9 of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers.*
- *SSAP No. 16R—Electronic Data Processing Equipment and Software.*
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements.*
- *SSAP No. 20—Nonadmitted Assets.*
- *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP).
- *SSAP No. 29—Prepaid Expenses.*
- *SSAP No. 105—Working Capital Finance Investments.*
- Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.).
- Depreciation for certain assets in accordance with the following SSAPs:
  - *SSAP No. 16R—Electronic Data Processing Equipment and Software.*
  - *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements.*
  - *SSAP No. 68—Business Combinations and Goodwill.*
- The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- Any surplus notes held by the SCA issued by the reporting entity.

79. In addition, record as a negative figure, an asset impact for any assets that are not recognized as an admitted asset under the principles of *SSAP No. 4—Assets and Nonadmitted Assets*, including:

- Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and, therefore, do not meet the definition of "asset" as required under paragraph 2.
- Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third-party interests, should not be recognized on the balance sheet and are, therefore, considered nonadmitted.
- Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not

available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.

- **[Analysis 9]: Other Regulator Discretion –** This analysis is designed to reflect other regulator adjustments including for transactions other than XXX/AXXX reinsurance where there are differences in regulatory regimes exist and there is a desire to fully reflect U.S. Statutory Accounting treatment or to reflect the lead state's view of risk posed by financial entities without specified regulatory capital requirements or risk posed by non-insurance/non-financial entities that have been included in the GCC. This will be a post-submission item completed by the Lead State Regulator. Enter the following information here:

  a. Entity identifier.
  b. Amount of adjustment.
  c. Description of regulatory issue.

NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.

Input 6 – Questions and Other Information

80. This tab provides space for participants to describe or provide greater detail for specified entries in other tabs (as noted in the instructions for the columns in those tabs) or additional relevant information not captured in the template. Examples include the materiality method applied to exclude entities in Schedule 1; adjustments for intragroup debt, description of permitted practices; scalars proposed/supporting information for jurisdiction without a prescribed scalar; and adjustments to available capital or capital calculations that are included in the "other adjustment" column in the "Inventory" tab. Specified items are included in the tab. Other information that the filer believes is relevant should be added freeform in this tab.

Information or Detail for Items Not Captured in the Template

- Intercompany Guarantees – Provide requested information:

  a. Entity identifier issuing the guarantee.
  b. Entity identifier of entity or entities that are covered by the guarantee.
  c. Indicate the notional or fixed value of the guarantee.
  d. Describe the nature of the guarantee.

- Capital Maintenance Agreements – Provide requested information:

  a. Entity identifier obligated under the agreement.
  b. Entity identifier for entity or entities that are covered by the guarantee.
  c. Indicate the notional or fixed value of the agreement.
  d. Describe the nature of the agreement.

Information or Detail for Items Captured in the Template

- Value of intangible assets included in non-insurance Holding Companies – Provide the requested information for all entities designated in the non-operating holding company entity category.

  a. Entity identifier.
  b. All goodwill.
  c. All intangibles related to health care services acquisitions included in local carrying value column in Inventory B. Examples include, but are not limited to, customer relationships (policy retention, long-term health services contracts) and technology/patents/trade names and provider network contracts.
  d. All other intangible assets included in local carrying value column in Inventory B.
  e. Total of line b, line c and line d.*
  f. A description of each intangible asset included in line d.

  * Auto populated.

  Further detail on amounts reported for specific intangibles other than goodwill may be requested by the Lead State Regulator during review of the GCC template.

- Currency Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 2 is different than the amount in Inventory B, Column 1 due to currency conversion.

  a. Entity identifier.
  b. Currency type reported in Inventory B, Column 1 and Inventory C, Column 1 (foreign currency).
  c. Conversion rate applied.
  d. Source of conversion rate applied.

- Intragroup Assets – Description of Adjustments for intragroup assets reported in Inventory B, Column 6 and Inventory C, Column 6. Provide the following information:

  a. Entity identifier.
  b. Amount reported in Inventory B, Column 6.
  c. Description of adjustment.

- Other Adjustments – Description of adjustments reported in Inventory B, Column 7 and Inventory C, Column 7. Provide the following information:

  a. Entity identifier.
  b. Amount reported in Inventory B, Column 7.
  c. Description of adjustment.

- Accounting Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 1 is different than the amount in Inventory B, Column 2 due to differences in accounting basis

  a. Entity identifier.
  b. Value reported in Inventory B, Column 1.*
  c. Value reported in Inventory B, Column 2.*
  d. Total amount of adjustments related to difference in accounting basis.*
  e. Nature of adjustment (e.g., GAAP to SAP).

  * Auto populated.

- The tab also includes a listing of all Schedule A and Schedule BA affiliates, along with the following information:

  a. Parent identifier (if available) – This is the same information as is included in Schedule 1 **[Sch 1B Col 3]** as would be entered for non-Schedule A/Schedule BA affiliates.

  b. Parent Name – Enter the Name of the Parent.

  c. Is Parent a Schedule A or Schedule BA Asset? – This column is only required for financial entities that are Directly owned by a Schedule A or Schedule BA Affiliate. No other downstream affiliates owned by Schedule A or Schedule BA entities need to be listed. These entities are not normally independently reported in Schedule A and Schedule BA so are extra entries.

  d. Financial? (Y/N) – If the entity meets the criteria as being a financial entity, indicate with a "Yes" response. A "No" response is not required for other entities listed. "Yes" entries should correspond to "Yes" entries in Schedule 1 **[Sch 1B Col 16]**.

  e. Carrying Value of Immediate Parent – Report the value listed in Schedule A and Schedule BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent.

  f. Capital Requirement for Immediate Parent – Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA Parent. The capital requirement reported in this column for the immediate Schedule BA Parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C.

Calc 1 – Scaling (Insurance Entities)

81. All entries in this tab are calculation cells populated using data from within the tab or using data from elsewhere in the template. Scaled values for calculated capital will become part of the GCC ratio. The calculated values will be summarized by entity type in the "Summary 1 – Entity Level" tab. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers so as to be comparable to an RBC-based requirement. Two approaches for scaling related to foreign insurers were presented, and others are being explored and will be reviewed. A decision on the scaling methodology to be adopted into the GCC template will be made at the end of the review. In the interim a scalar of 100% of the jurisdictional PCR will be applied to all jurisdictions where a risk-sensitive capital requirement is in place.

82. Information on the Excess Relative Ratio (ERR) scalar methodology will be collected and applied in the "Sensitivity Analysis" tab.

    NOTE: See Appendix 1 for more information and examples on how the ERR scalars are calculated.

83. For jurisdictions without risk-sensitive capital requirements a 100% charge will be applied to adjusted carrying value.

Calc 2 – Capital Calculations for Non-insurance Entities

84. All entries in this tab are either calculation cells using data from within the tab or using data populated from elsewhere in the template. Calculated capital for all entities except insurers will be reported in this tab. The calculated values will be summarized by entity type in the "Summary 1 – Entity Level" tab.

85. In addition, one informational option for calculated capital for financial entities without an existing regulatory capital requirement and one informational option for calculated capital for non-financial entities will be reported in this tab. Those calculation will not be carried into the "Summary 1 – Entity Level" tab and will not be part of the GCC ratio.

86. Only amounts for entities that the filer and the Lead State Regulator agree should **not** be excluded **[Sch 1B Col 2]** will be brought into the calculation in this tab and the "Summary 1 – Entity Level" tab. Entities where the Lead State Regulator does not agree with the filer's request to exclude an entity will be part of the GCC ratio.

Summary 1 – Entity Level GCC Summary

87. Summarized results by entity type for the GCC ratio will be reported in this tab. An on top adjustment for debt allowed as additional capital will be added at the bottom of the table. All informational sensitivity analysis will be reported in Summary 2 and will not impact the GCC ratio.

Summary 2 – Informational Sensitivity Tests

88. Summary results for each informational sensitivity analysis described in the "Sensitivity Analysis Inputs" tab will be shown here. Each sensitivity analysis will be shown on a stand-alone basis. It is expected that each informational sensitivity analysis will run automatically in the background and the results for each displayed in this tab. The results for the informational sensitivity analysis will not be included in the "Summary 1 – Entity Level" tab.

Summary 3 – Analytics

89. Summary results for metrics described in the Analytics Guidance **[insert attachment or appendix reference]** and utilizing data collected in the "Input 4 – Analytics" tab or other tabs in the GCC will be calculated and presented here.

Summary 4 – Alternative Grouping Option(s) (aka "Cigna Illustration")

90. One sample alternative structure for grouping entities in the GCC is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining data from **Schedule 1 and the Inventory** in defined ways.

    This tab is intended to be an additional analytical tool. The tool summarizes the GCC based on how a reporting entity views its organization, and provides regulators that view, to align it with regulatory information, other than what is reported elsewhere in the GCC template, that the reporting entity has submitted such as current filings, communications, etc. In this summary view, entities are organized into like regimes and multiple entities may be grouped together, in order to create a view of capital that is easy to review and analyze within each grouping. The intent of this approach is to provide an additional analytical tool designed to enhance dialogue between the Lead State Regulator and the company contemplated by the GCC filing. This view is transparent (no scalers, no adjustments, no de-stacking) so that financial information may be cross-walked to other financial submissions such as RBC filings.

91. The results are dependent on how the reporting entity populated. Input 1 – Schedule 1, Column 9 Alternative Grouping. For example, if you have a dozen small dental HMO businesses, you may wish to collapse the results to a single line called "Dental HMOs," by populating Input 1 – Schedule 1, Column 9 Alternative Grouping for each dental HMO as "Dental HMOs." Then right-click and select "Refresh" to see the results with the "Dental HMOs" combined.

92. For reference, the data for the Summary 4 – Grouping Alternative is from Calc 1 – Scaling (Ins, Bank), which is fed by the inputs made in Input 1 – Schedule 1, Input 2 – Inventory, etc.

Appendix 1 – Explanation of Scalars

93. The concept of a scalar is to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels. The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data.

Excess Relative Ratio Approach

94. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the U.S. and Country A.

Step 1: Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

In Country A, assume that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

$$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

In the U.S., capital requirements are related to the insurer's RBC ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

$$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{\text{100\% Company Action Level RBC*}}$$

* 100% Company Action Level RBC is equal to the Total RBC After Covariance, without adjustment or 200% Authorized Control Level RBC.

b. Similar to legal entity RBC requirements in the U.S., Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the U.S. Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. A separate sensitivity calculation will be applied in the GCC template using trend test level RBC.

c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory intervention. Again, this is similar to the U.S. CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells us how many "multiples of trigger level capital" that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a "multiples of the trigger level" approach, to ensure an "apples-to-apples" comparison.[3]

Step 2: Obtain Aggregate Industry Financial Data

95. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

U.S. Life Insurers – Aggregate Data
Total Adjusted Capital = $495B
Authorized Control Level RBC = $51B
Company Action Level RBC = $102B
Country A Life Insurers – Aggregate Data
Total Available Capital = $83B
BRC = $36B

Step 3: Calculate a Jurisdiction's Industry Average Capital Ratio

96. To calculate a jurisdiction's average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the U.S., this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-U.S. company should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction's industry average capital ratio:

While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where 100% CAL RBC is the reference point to calibrate against other regimes.

Calculation of U.S. Industry Average Capital Ratio – Life Insurers

$495B (Total Adjusted Capital)

$102B (CAL RBC) = **485%**

Calculation of Country A Industry Average Capital Ratio – Life Insurers

$83B (Total Available Capital)

$36B (BRC) = **231%**

Step 4: Calculate a Jurisdiction's Excess Capital Ratio

97. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

General Excess Capital Ratio Formula

Average Capital Ratio – Capital Ratio at the First Intervention Level

Capital Ratio at the First Intervention Level

98. Based on the formula above and information provided in Step 2 and Step 3, included below are how to calculate each jurisdiction's excess capital ratio.

NOTE: The first intervention level in the U.S. is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.[4]

Calculation of U.S. Excess Capital Ratio – Life Insurers

485% (Average Capital Ratio) – 100% (Capital Ratio at the First Intervention Level)

100% (Capital Ratio at the First Intervention Level) = **385%**

Calculation of Country A Excess Capital Ratio – Life Insurers

231% (Average Capital Ratio) – 150% (Capital Ratio at the First Intervention Level)

150% (Capital Ratio at the First Intervention Level) = **54%**

[4] 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.

Step 5: Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

99. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. carry approximately 385% more capital than what is needed over the first intervention level. Country A's excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

100. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be 54% ÷ 385% = 14%. Therefore, Country A's scalar for life insurers would be 14%.

Step 6: Apply to the Scalar to the Non-U.S. Insurer's Amounts in the GCC

101. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For purposes of this memo, assume that a life insurer in Country A reports required capital of $341,866 and total available capital of $1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, in order to equate the company's $341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting amount of $512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of $71,792.

102. Further, the above rationale suggests that the available capital might also be overstated (because it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of $512,799 and the required capital after scaling of $71,792, or $441,007. Therefore, we should now deduct the $441,007 from the total available capital of $1,367,463 for a new total available capital of $926,456. These two recalculated figures of required capital of $71,792 and total available capital of $926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

Calculation of Scaled Amounts for GCC

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1st Regulatory Intervention Level

341,866 (BRC) * 150% = 512,799

Scaling of Calibrated Minimum Required Capital

512,799 (Calibrated BRC) * 14% (Scalar) = 71,792 (Difference of 441,007)

Scaled Total Available Capital

1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456

103. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	*Scaled Amounts from Table Above*
Total Available Capital (TAC)	1,367,463	926,456
Base Required Capital (BRC)	341,866	71,792
Capital Ratio (= TAC ÷ BRC)	400%	1290%

104. Considering the fact that life insurers in Country A hold much lower levels of capital over the first intervention level as compared to U.S. life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that we understand is built into the U.S. life RBC formula driven primarily from the conservative reserve valuation.