

Draft Pending Adoption

Draft: 10/20/25

Financial Stability (E) Task Force E-Vote October 17, 2025

The Financial Stability (E) Task Force conducted an e-vote that concluded Oct. 17, 2025. The following Task Force members participated: Justin Zimmerman, Chair, represented by Dimelit Robles (NJ); Elizabeth Kelleher Dwyer, Vice Chair (RI); Jimmy Harris (AR); Andrew N. Mais represented by William Arfanis (CT); Karima M. Woods represented by Philip Barlow (DC); Doug Ommen represented by Carrie Mears (IA); Holly W. Lambert represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Michael T. Caljouw (MA); Marie Grant represented by Jessica Blackmon (MD); Grace Arnold represented by Ben Slutsker (MN); Angela L. Nelson represented by John Rehagen (MO); Remedio C. Mafnas (MP); Mike Causey represented by Jacqueline Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Ned Gaines represented by Hermoliva Abejar (NV); Adrienne A. Harris represented by Bob Kasinow (NY); Glen Mulready represented by Eli Snowbarger (OK); Carter Lawrence represented by Trey Hancock (TN); Cassie Brown represented by Jamie Walker (TX); and Nathan Houdek represented by Rebecca Easland (WI).

1. Adopted its 2026 Proposed Charges

The Task Force considered adoption of its 2026 proposed charges, including those of the Macroprudential (E) Working Group. The Task Force's 2026 proposed charges are consistent with the Task Force's work and remain unmodified from its 2025 charges, except for a minor edit in the first sentence suggested by a Task Force member.

The first sentence of the 2025 charges reads, "The mission of the Financial Stability (E) Task Force is to consider domestic or global financial stability issues and their impact on the role of state insurance regulators."

In the proposed 2026 charges, the word "or" will be changed to "and" to affirm that the Task Force looks at both, not leaving out either one, in issues that are discussed. The sentence will now read, "The mission of the Financial Stability (E) Task Force is to consider domestic and global financial stability issues and their impact on the role of state insurance regulators."

Easland made a motion, seconded by Obusek, to adopt the Task Force's 2026 proposed charges (Attachment One-A). The motion passed.

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

SharePoint/NAIC Support Staff Hub/Committees/E Committee/FSTF/FSTF E-vote Minutes Oct 17 2025.docx

Draft Pending Adoption

Draft: 8/22/25

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

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

1. Adopted its March 17 Minutes

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

2. Heard an Update on the FSOC

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

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

FSOC then turned to several reports and presentations from member agencies. These included updates on developments in the Treasury market, progress on the U.S. Securities and Exchange Commission's (SEC's) central clearing rule, data collection efforts by the Office of Financial Research (OFR) on repo transactions, and the Federal

Draft Pending Adoption

Reserve's work in monitoring cyber incidents and promoting interagency coordination on cybersecurity vulnerabilities. Most relevant to the insurance sector, Director Dwyer and other state representatives presented an analysis of the homeowners insurance market, focusing on the impacts of recent natural disasters and the broader implications for the housing market and the financial system.

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

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

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

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

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

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

Draft Pending Adoption

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

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

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

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

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

5. Heard an International Update

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

Nauheimer noted that the NAIC completed the U.S. portion of the sector-wide monitoring (SWM) exercise, which included aggregate industry data, a qualitative risk assessment, a climate component, and reinsurance data.

Draft Pending Adoption

Nauheimer added that the SWM includes a feedback loop through which jurisdictions report on how they are addressing the identified risk themes. Input from the Task Force and Macroprudential (E) Working Group has been incorporated into the U.S. response.

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

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/FSTF/2025/National Meetings/2025 2 Summer/FSTF Summer NM Minutes Aug 12

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability (E) Task Force

FROM: Robert Kasinow, Chair, Macroprudential (E) Working Group

DATE: December 10, 2025

RE: MWG Report to FSTF

Liquidity Stress Testing:

Regarding Liquidity Stress Testing Results: the insurer Liquidity Stress Testing submissions were due June 30, 2025 and all required filers' submissions were received by states and the NAIC.

Attachment Five of today's materials includes the aggregated results and key observations of those submissions, which were completed with data as of December 31, 2024. As a reminder, the primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in the various stress scenarios. However, the results also provide regulators with a secondary benefit of insights for the supervision of individual insurers and groups.

There were 27 submissions by life insurance groups (referred to as insurers in the attachment). There were two companies added this year who satisfied the scope criteria to be included in the LST. NAIC staff reviewed the narratives, aggregated the quantitative results, and provided the attached analysis to working group regulators as well as this public summary. The NAIC provided a new LST template to be utilized for the current and future LST submissions by companies. Asset sales are reported by asset type, the aggregates of which is compared to average daily trading volumes and issues outstanding. Similar to last year's results, the largest asset sales emanated from the investment grade corporate bonds and U.S. Treasury and Agency bond categories. The comparison to market data showed there should be no material impact on the capital markets from insurers' potential sales of these two asset classes. As a reminder, state regulators may wish to review a copy of their regulated companies' submission as part of their Financial Analysis and/or Examination function.

FABN Blanks Proposal:

The Macroprudential Working Group (MWG) conducted an open call on November 7, minutes of which are included in the materials as attachment Four. The purpose of the call was to discuss potential disclosures for funding agreements that back funding agreement-backed notes to improve data transparency and regulatory oversight. The Working Group exposed a proposal for a 30-day public comment period which ended on December 8, to add a footnote to Exhibit 7 of the annual statement, requiring insurers to report aggregate Funding Agreement data. The goal is to implement these new reporting requirements for year-end 2026. More on this later in agenda items 5&6.

Macroprudential Risk Assessment:

Turning to the Macroprudential Risk Assessment, NAIC staff has updated all the key risk indicators for the Macro risk dashboard. The next step is to have a call with regulators to update the risk assessment levels to reflect the updated underlying risk indicator data. Then the public macroprudential report can be updated and issued upon approval of the working group. We expect this to be completed in the first quarter of next year.

On a related note, the Natural Catastrophe Risk Dashboard has been approved by the Climate and Resilience Task Force. This work originally began in the MWG and was transferred to the CRTF. The Nat Cat Dashboard results do feed into the Comprehensive Macroprudential risk dashboard.

13 Considerations:

Regarding the List of 13 MWG Considerations related to private equity, the tracking of the 13 items has been updated and posted the macroprudential working group webpage. The MWG will continue its heightened monitoring of the 13th point regarding Cross-border reinsurance. When year-end data is available the Working Group will again run and assess exposures by type of reinsurance, assuming jurisdiction, product types ceded and affiliated transactions.

Draft Pending Adoption

Draft: 11/13/25

Macroprudential (E) Working Group Virtual Meeting November 7, 2025

The Macroprudential (E) Working Group of the Financial Stability (E) Task Force met Nov. 7, 2025. The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis (CT); Philip Barlow (DC); Tom Hudson (DE); Carolyn Morgan (FL); Roy Eft (IN); Greg Ricci (MD); Patrick Tess (MI); Fred Andersen (MN); John Rehagen (MO); Cynthia Iu (NE); Jennifer Li (NH); David Wolf (NJ); Diana Sherman (PA); Liz Ammerman (RI); Rachel Hemphill and Jamie Walker (TX); Greg Chew and Dan Bumpus (VA); and Amy Malm (WI).

1. Heard Opening Remarks

Kasinow began by outlining the meeting's objective, which was to discuss statutory reporting for funding agreements (FAs) and funding agreement-backed notes (FABNs). Market developments and regulatory issues were included in the agenda, with a focus on data transparency and recent changes in FABN issuance. There was discussion of discrepancies in aggregate data from the Federal Reserve and Bloomberg, as well as related regulatory attention. Kasinow noted that comprehensive statutory reporting was lacking, which presented a challenge for macroprudential oversight.

Kasinow stated that NAIC committee support prepared a proposal for improving statutory reporting for FAs and FABNs. The proposal addresses data gaps and aims for accurate and uniform disclosure of aggregate issuance and FABN types, which supports regulatory monitoring and identification of transmission risk channels. The process includes feedback from organizations such as the American Council of Life Insurers (ACLI). The Financial Stability (E) Task Force's interest in expanded disclosures was included, citing a need for closer monitoring of FABN market activity and risk transmission.

Supervisory interest from the Financial Stability Oversight Council (FSOC) and the Federal Reserve supported a shift in policy toward direct insurer-level reporting rather than relying solely on third-party sources. The goal is to build better data availability for analysis and regulatory coordination while avoiding unnecessary reporting burdens for insurers when risk is low. The agenda for this meeting included a review of background information, a summary of the ACLI's responses, and further consideration of the blanks proposal.

2. Discussed the FABN Presentation

Tim Nauheimer (NAIC) presented a flowchart overview that detailed activities and relationships involved in FABNs, including the roles of insurers and special purpose vehicles (SPVs). The discussion reviewed how SPVs issue foreign-denominated FABNs, and insurers provide corresponding funding agreements denominated in the same currency. This structure was highlighted, along with an estimated \$48 billion in outstanding foreign exchange (FX) FABNs in the market, based on Fitch Ratings data. A previous review of these items in regulator-to-regulator sessions was noted.

Regulators and industry participants addressed risk management practices for FX FABNs. Insurers commonly use currency and interest rate swaps as hedges for FX exposure, with these derivative transactions recorded in Schedule DB. The approach is to record derivatives on the insurer's balance sheet, rather than at the SPV level, since the terms of the FA and FABN are designed to match. No further hedging is required for the SPV. The

Draft Pending Adoption

discussion clarified that proceeds from FABN issuance are invested and treated as operating leverage, which was confirmed by ACLI responses. Details on operating versus financial leverage and booking derivatives were highlighted for future regulatory disclosures.

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

Nauheimer reviewed specific questions posed to ACLI and industry, including whether the proceeds from FABNs and the related FAs are invested in the same manner as other insurance products.

The first question addressed how the proceeds from FABNs and the backing FAs are managed. The Working Group sought to clarify whether these instruments function as operating leverage (used for spread lending purposes and invested as part of the insurance company's general account) or financial leverage (used for general corporate borrowing). The ACLI's response explained that FABNs are recognized as operating leverage under insurance regulations. They are classified as operational insurance company liabilities—deposit-type contracts filed with and approved by state insurance departments. Insurance companies invest proceeds from FABNs in their general account, subject to the same asset-liability management, cash flow testing, and statutory asset adequacy analysis as other policyholder obligations. These are not classified as debt, and state regulation requires that funding agreements be treated equally to other general account liabilities, not as general corporate borrowings. Marc Altschull (ACLI) highlighted this distinction to clarify that proceeds are allocated to insurance activities and not to support unrelated company funding needs.

The next question the Working Group posed concerned the treatment and reporting of derivatives used for hedging, specifically those managing FX exposures. Regulators asked whether derivatives used in connection with FABNs are booked at the insurance company level or if hedging is done at the SPV level. ACLI responded that hedges are booked on the insurer's balance sheet and are reported in Schedule DB as part of statutory reporting; special purpose vehicles do not undertake separate hedging activities, as the funding agreement and FABN are structured to match and eliminate the need for additional risk mitigation at the SPV. This approach reduces mismatches, locks in funding terms, and simplifies reporting. A follow-up question was posed to ACLI regarding the possibility of including a summary of the hedges used for each FA and whether companies can match the swaps reported in Schedule DB with the FAs backing FABNs. ACLI's view is that they do not believe it is feasible to map hedges to the FAs due to hedges not necessarily being a one-to-one basis and inconsistencies in the use of derivatives or non-U.S.-dollar (USD) FABN with assets denominated in that same currency.

Lastly, Nauheimer discussed questions regarding the required level of disclosure for these instruments. Nauheimer described the ACLI's proposal to add a single footnote to Exhibit Seven in the statutory annual statement, reporting the aggregate amount of FAs. He explained that while some regulators suggested more granular, individual funding agreement-level reporting, the ACLI's position was that such detail would be unwieldy and impractical for the industry. Instead, summary-level information would provide regulators with needed oversight without imposing unnecessary complexity or data collection requirements. Throughout this portion of the meeting, Altschull expressed the ACLI's ongoing openness to regulator questions, offered willingness to provide further written responses, and supported efforts to enhance transparency in a practical way.

4. Exposed the Blanks Proposal

Draft Pending Adoption

Nauheimer then went over the proposed blanks revision. He discussed each line item that will be included and its similarity to the ACLI's proposal. The only difference between the two proposals is to indicate whether the FX FAs are hedged or not.

Kasinow then spoke on the intent to expose the blanks proposal for a 30-day public comment period to attempt to include the blanks proposal for year-end 2026. Kasinow then explained that the 30-day comment period will extend to the Fall National Meeting, where the Working Group will make a formal recommendation to the Financial Stability (E) Task Force. From there, the Task Force will make formal referrals to the Blanks (E) Working Group and to the Statutory Accounting Principles (E) Working Group.

Mears made a motion, seconded by Eft, to expose the blanks proposal for a 30-day public comment period ending Dec. 8, 2025.

6. Discussed Other Matters

Kasinow described the Receivership and Insolvency (E) Task Force's research on the current treatment of FAs in an insolvency, specifically the pari passu treatment of FX FAs and foreign FABN holders. The Task Force is working to understand exposures exceeding certain thresholds and how rating agencies treat them.

Kasinow then mentioned the possibility of future education modules and regulatory tools. These topics can be seen as quite complex with FX exposures, derivative use, repurchase agreements (repos) out of SPVs, and bank counterparty credit risk. Questions that were posed to regulators regarding training on this topic from the Oct. 7 regulator-to-regulator call were presented. There was regulator interest in training modules on these topics or leveraging tools that aggregate Federal Home Loan Bank (FHLB) advances, FABNs, securities lending, and repos for insurers.

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

SharePoint/NAIC Support Staff Hub/Committees/Committee Folders/E CMTE/FSTF/MWG/110725/Minutes



MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability Task Force and Macroprudential Working Group

FROM: NAIC Staff

DATE: December 10, 2025

RE: LST Report Summary

Overview:

The NAIC alongside regulators and with input from interested parties continue to enhance the U.S. Insurance Solvency Framework since the 2008 financial crisis. The Liquidity Stress Testing (LST) Framework development began in 2017 as part of the Macroprudential Initiative. While regulators have existing tools and processes for assessing liquidity risk at a legal entity level (i.e., ‘inward’ impacts to the insurer), there was recognition that the solvency regulator toolbox could be further enhanced with a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., ‘outward’ impacts) of a liquidity stress impacting a large number of life insurers simultaneously. The primary macroprudential objective of the LST is to assess the amount of potential asset sales the life insurance industry would generate in the various stress scenarios. However, the LST results also provide regulators with additional insights for the micro prudential supervision of individual insurers, which is a secondary benefit.

The 2024 Liquidity Stress Test filings were submitted by 27 life insurance groups (insurers), which represents approximately 60% of the Life industry’s cash and invested assets. Subsequent to receiving LST submissions, NAIC staff reviews the narratives, aggregates the quantitative results, and provides detailed analysis to regulators and this summary analysis.

Most insurers prepared the 2024 LST filings due June 30, 2025, utilizing year-end 2024 data and projected cash flows based on various stress scenarios for three different time horizons. The three required time horizons are one month, three months, and one year. The five scenarios are as follows: a Baseline scenario, an Adverse scenario, a “What If” modification to the Adverse scenario, an Interest Rate Spike scenario, and the insurer’s own Worst-Case scenario. Insurers were not required to provide Worst-Case scenario data, but they were required to provide a narrative for the scenario. Economic metrics are prescribed by the regulators for the adverse scenario, and for the interest rate scenario insurers establish their own assumptions based on the regulators’ stress scenario description. The insurers report their potential stressed cash flows for sources and uses of cash and the resulting potential asset sales needed to satisfy any cash flow deficiency. Asset sales are reported by asset type, which are aggregated by NAIC staff and compared to average daily trading volumes and issues outstanding. The potential impact of asset sales to the capital markets is the primary macroprudential objective of this exercise. The largest asset sales emanated from the investment grade corporate and U.S. Treasury and Agency categories. The impact of insurers’ asset sales of these two asset classes were compared to market data for these two categories. The 2024 LST results show a nil effect of potential asset sales to the capital markets in the most severe scenarios. Please see Appendix for details.



Another key objective is the assessment of the Life industry's liquidity profile. Overall, insurers demonstrated their ability to manage any actual and projected cash flow deficits. Most cash flow deficits projected in the various scenarios were reported as satisfied with cash on hand. In some cases, relatively small asset sales were projected, which are a very small percentage of the industry's overall liquid assets.

2024 LST RESULTS:

1. Baseline Scenario

Baseline scenario cash flows are the insurer-specific cash flows from normal expected operations. For this reason, a positive net cash flow is presumed in the baseline cash flows since companies are typically not projecting to be operating in a net cash flow deficiency.

2. Adverse Scenario

The Adverse Scenario is one of the two regulatory required liquidity stress scenarios. The Adverse liquidity stress scenario contains a regulator provided narrative and regulator-prescribed assumptions, and company-specific liability assumptions.

In the Adverse Scenario for 2024 the aggregate results did not show any cashflow deficit but there were assets projected to be sold. Similar to last year we advised companies not to report asset sales if there was no deficit in a given scenario. However, there is continuous improvement from last year regarding this instruction. Although there were still companies that reported asset sales when they had no cash flow deficit, we did receive less reported assets sold over the twelve-month time horizon. Total invested assets available for sale increased as compared to 2023 for the three month and twelve month horizons. The total invested assets available for sale increase was less than the increase from 2022 to 2023 and there was a decrease of total invested assets in the 1 month horizon from 2023 to 2024.

3. Adverse What-If Scenario

The "What-If" modification to the adverse stress scenarios removes the ability for insurers to use extraordinary internal and external funding sources such as Bank and FHLB lines of credit to satisfy any liquidity deficiency under stress.

Compared to the Adverse Scenario, companies experienced higher cash flow deficits. The total assets sold decreased from 2023 and there is an overall decrease in the deficit prior to asset sales. Aggregate results show a deficit in the one month and the three-month horizon, however most companies had sufficient cash on hand to apply to the deficit, therefore less asset sales were required.

4. Interest Rate Spike

The Interest Rate Spike is the second of the two regulatory required liquidity stress scenarios. The interest rate spike scenario allows insurers to use the economic variables they use for their own internal liquidity stress testing function, (including the amount of interest rate spike).

The Interest Rate Spike scenario saw less asset sales as compared to 2023. Although there were deficits for the 1 month time horizon, there was enough cash to satisfy the deficit. For the 3



month and 12 month horizons, there was a decrease in total assets sold from the previous year. Most assumptions remained the same, with insurers reporting a range of 200-400 bps increase in rates with 300 bps being the most common over the one-year horizon.

Worst-Case Scenario

A detailed reporting template was not required for this scenario. However, insurers were still required to communicate these results in their written narrative submission.

This scenario requires insurers to provide a detailed narrative of their most severe liquidity stress test scenario. The scenario should be focused on the insurers internal model scenario with the worst-case outcome for the group. Some insurers reported their worst-case scenario is an interest rate spike and therefore their own worst case and interest rate spike scenario was the same.

There were insurers that adopted the 2008-2009 financial crisis as a means of a worst-case scenario assumption. Those who adopted this assumption did not need to sell assets or sold very little to meet their deficit.

Conclusion:

Overall, most insurers' assumptions for all scenarios remained the same as or similar to the prior year's submissions.

The total potential assets sold increased this year for the Baseline, Adverse, the Adverse What-if scenarios and Interest Rate Spike scenario. However, these observed changes appear reasonable. Most potential asset sales are comprised of Treasury and Agency Bonds and Investment Grade Public Corporate Bonds, which is also consistent with last year's report.

The 2024 LST filings continue to show the amount of potential assets sold would not be significant given historical average daily trading volumes by asset type.

Appendix:

A. Total Asset Sales for Interest Rate Spike (in millions)

	1 Month	3 Month	12 Month
Interest Spike Rate	21,350	27,032	23,974

B. Asset sales as a Percentage of ADTV and Issues Outstanding for IG Public Corporate Bonds and US Treasury Bonds in the Interest Rate Spike Scenario over the 1-month horizon.

	ADTV	Issues Outstanding
IG Public Corporate Bonds	3.1%	0.16%
US Treasury Bonds	0.6%	0.01%

C. Percentage of Industry Assets Sold (in millions) Interest Rate Spike Scenario

	Total Assets Sold applied to deficit	Life Invested Assets	Assets Sold as a Percentage of Life Industry Invested Assets
1 Month	23,791	5,751,219	0.41%
12 Month	44,350	5,751,219	0.77%

Draft: 11/~~4/24~~24/25



NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

NAIC 2025 LIQUIDITY STRESS TEST FRAMEWORK For Life Insurers Meeting the Scope Criteria

November 24, 2025

Draft: 11/4/2424/25

Table of Contents (To be updated after adoption)

Formatted: Font color: Red

INTRODUCTION	42
Macroprudential Implications of a Liquidity Stress	42
BACKGROUND	53
NAIC Macroprudential Initiative.....	53
Liquidity Assessment Subgroup.....	64
Mandate.....	64
Data Gaps	75
Discussions with Insurers.....	86
Regulatory Goals of the Liquidity Stress Test	97
[Beginning of] Current Year Liquidity Stress Testing Framework – to be included/referenced in the NAIC Financial Analysis Handbook	108
Section 1. Scope Criteria for Determining Groups Subject to Current Year LST	108
Section 2. Liquidity Stress Test	119
2.1 Summary	119
2.2 Time Horizons	129
2.3 Insurer’s Internal Liquidity Stress Testing System	1341
Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria	1341
Section 4. Cash Flow Approach – Liquidity Sources and Uses	1745
4.1 Baseline Assumptions for Cash flows	1745
Section 5. Stress Scenarios and their Assumptions	1846
5.1 Adverse Liquidity Stress Scenario for Insurers.....	1947
5.1.1 Narrative	1947
5.1.2 Regulator-Prescribed Assumptions.....	2048
5.1.3 Market Capacity Assumption.....	2249
5.1.4 Economic Variables for Adverse Scenario	2422
5.1.5 SWAP Spreads	2523
5.1.6 Swaption Volatility	2523
5.1.7 Moody’s Transition Matrix/Migration Rates	2623
5.1.8 Moody’s Default Table.....	2624
5.1.9 Moody’s Recovery Rate Table	2624
5.1.10 “What If” Modification	2724
5.1.11 Company-Specific Assumptions.....	2725

Draft: 11/4/24/25

5.2 Interest Rate Spike Scenario	<u>2725</u>
5.2.1 Narrative	<u>2725</u>
5.2.2 Regulator-Prescribed Assumptions.....	<u>2826</u>
5.2.3 Company-Specific Assumptions.....	<u>2826</u>
5.3 Insurer Specific Information Request - Worst-Case Scenario.....	<u>2927</u>
5.3.1 Narrative	<u>2927</u>
Section 6. Available and Expected Asset Sales	<u>2927</u>
Section 7. Reporting	<u>3028</u>
Section 8. Templates	<u>3331</u>
8.1 Liquidity Sources Template.....	<u>3331</u>
8.2 Liquidity Uses Template.....	<u>3431</u>
8.3 Assets Template.....	<u>3532</u>
Narrative/Explanatory Disclosures noted in the current year LST.....	<u>3734</u>
[End of Current Year Liquidity Stress Testing Framework – to be included as an appendix in the NAIC Financial Analysis Handbook]	<u>3835</u>
Data Aggregation.....	<u>3836</u>
Regulatory Authority	<u>3836</u>
Confidentiality	<u>3936</u>
Timeline.....	<u>3937</u>
Annex 1: Original Scope Criteria with Annual Statement References	<u>4037</u>
Annex 2: Regulatory Prescribed Assumptions.....	<u>4239</u>
Annex 2i. Economic and Market Variables	<u>4240</u>
Annex 2ii. Market Capacity Assumption.....	<u>4543</u>
Annex 2iii. A. Year-end Structured Spread Baseline Values	<u>4643</u>
Annex 2iv. SWAP Spread Table	<u>4744</u>
Annex 2v. Implied Volatility of IR Swaptions	<u>4845</u>
Annex 2vi. Credit Assumptions: Moody's Transition Matrix/Migration Rates	<u>4846</u>
Annex 2vii. Credit Assumptions: Moody's Default Table.....	<u>4946</u>
Annex 2viii. Credit Assumptions: Moody's Recovery Rate Table	<u>4947</u>

Draft: 11/4/24/25

INTRODUCTION

Macroprudential Implications of a Liquidity Stress

Beginning mid-year 2017, the NAIC embarked on a project to develop a liquidity stress testing framework. While the NAIC has existing tools and processes for assessing liquidity risk at a legal entity level (i.e., ‘inward’ impacts to the insurer), there was recognition that the NAIC toolbox could be further enhanced with the addition of more granular data in the annual statement and a tool that would enable an assessment of macroprudential impacts on the broader financial markets (i.e., ‘outward’ impacts) of a liquidity stress impacting a large number of insurers simultaneously.

Post-financial crisis, there were several attempts to assess potential market impacts emanating from a liquidity stress in the insurance sector. Many of these analyses relied heavily on anecdotal assumptions and observations from behaviors of other financial sectors. To provide more evidence-based analyses, the NAIC decided to develop a Liquidity Stress Test (LST) Framework for large life insurers that would aim to capture the outward impacts on the broader financial markets of aggregate asset sales under a liquidity stress.

The stress test will be run annually and the findings, on an aggregate basis, reported annually as part of the NAIC’s continuous macroprudential monitoring efforts. The NAIC’s pursuit of the liquidity stress test should not suggest any pre-judgement of the outcomes. The NAIC believes there is value to the exercise whether it points to vulnerabilities of certain asset classes or markets or, alternatively, suggests that even a severe liquidity stress impacting the insurance sector is unlikely to have material impacts on financial markets. The NAIC liquidity stress testing framework is intended to supplement, not replace, a firm-specific liquidity risk management framework. The NAIC has not yet discussed steps that might be taken to address any identified vulnerabilities but acknowledges that any recommendations may require collaboration with other financial regulators.

Draft: 11/4/24/25

The NAIC's revised proposed liquidity stress testing framework is contained in the pages that follow. The NAIC recognizes that, at least in the early years, the stress testing process and analyses will be iterative.

BACKGROUND

NAIC Macroprudential Initiative

The NAIC's Macroprudential Initiative (MPI) commenced in 2017. It recognized the post-financial crisis reforms that became part of our Solvency Modernization Initiative (SMI) that continue to serve us well today. However, in the ensuing years since those reforms, insurers have had to contend with sustained low interest rates, changing demographics and rapid advancements in communication and technology. They have responded by offering new products, adjusting investment strategies, making structural changes, and expanding into new global markets. There are new market players, new distribution channels, and a complex web of interconnections between financial market players.

What has not changed since the financial crisis is the scrutiny on the insurance sector in terms of understanding how insurers react to financial stress, and how that reaction can impact, via various transmission channels, policyholders, other insurers, financial market participants, and the broader public.

The proposed work on macroprudential measures is reflective of the state insurance regulators' commitment to ensure that the companies they regulate remain financially strong for the protection of policyholders, while serving as a stabilizing force to contribute to financial stability, including in stressed financial markets. To that end, the NAIC's three-year strategic plan (2018-2020), "State Ahead", reflects the objective of "Evaluating Gaps and regulatory opportunities arising from macroprudential surveillance, and develop appropriate regulatory responses."

The NAIC's work on macroprudential surveillance is overseen by the Financial Stability Task Force of the NAIC (E) Committee. In April 2017, the Task Force was asked to consider new and improved tools to better monitor and respond to both the impact of external financial and economic risks

Draft: 11/4/2424/25

on supervised firms, as well as the risks emanating from or amplified by these firms that might be transmitted externally. The Task Force, in turn, focused its efforts on potential enhancements to identify and monitor liquidity risk, among other areas. More specifically, the Task Force was requested to further develop the U.S. regulatory framework on liquidity risk with a focus on life insurers due to the long-term cash-buildup involved in many life insurance contracts and the potential for large scale liquidation of assets.

Liquidity Assessment Subgroup

To carry out its work on assessing liquidity considerations, the Task Force established the Liquidity Assessment Subgroup (“Subgroup”) mid-year 2017.

Mandate

The charges and workplan of the Subgroup reflect the following assignments:

- Review existing public and regulator-only data related to liquidity risk, identify any gaps based on regulatory needs and determine the scope of application, and propose recommendations to enhance disclosures.
- Develop a liquidity stress testing framework proposal for consideration by the Financial Condition (E) Committee, including the proposed universe of companies to which the framework will apply (e.g., large life insurers).
- Once the stress testing framework is completed, consider potential further enhancements or additional disclosures.

In addition, a small informal study group comprised of regulators, industry participants and NAIC staff was formed to consider the specific data needs and technical aspects of the project. The study group is NOT an official NAIC working group. All recommendations from the study group must be vetted and considered by the Liquidity Assessment Subgroup and/or the Financial Stability (E) Task Force according to NAIC procedures.

Draft: 11/4/24/25

Data Gaps

Prior to undertaking work on the Liquidity Stress Test, the Subgroup constructed an inventory list of existing life insurer disclosures as of 2018 that contribute to an understanding of liquidity risk. When assessing the current state, the Subgroup recognized the availability of significant detailed investment-related disclosures but contrasted it to the relatively sparse liability-related disclosures. To remedy this imbalance, a blanks proposal was constructed to significantly increase the disclosures for life insurance products.

Specifically, the Analysis of Operations by Line of Business schedule was expanded from a single exhibit to five exhibits, one each for Individual Life, Group Life, Individual Annuity, Group Annuity, and Accident and Health. The Analysis of Increase in Reserves schedule was similarly expanded. Within each of the five new exhibits, columns were added for more detailed product reporting. For example, columns were added to the Individual and Group Life exhibits to capture universal life insurance and universal life insurance with secondary guarantees, and columns were added to the Individual and Group Annuity exhibits to capture variable annuities and variable annuities with guaranteed benefits. In addition, two new lines were added to the now five exhibits of the Analysis of Increase in Reserves schedule: one capturing the cash surrender value of the products outstanding and another capturing the amount of policy loans available (less amounts already loaned). A new addition was also proposed to the Life Notes to Financial Statement. The new Note 33 considered the type of liquidity concerns disclosed in Note 32 for annuities and deposit-type contracts and added disclosures for life insurance products not covered in Note 32.

These proposals were exposed and commented upon several times at the Liquidity Assessment Subgroup, the Financial Stability (E) Task Force, and at the Blanks (E) Working Group. Ultimately, they were adopted by NAIC Plenary for inclusion in the 2019 Life Annual Statement Blank. As an interim step, The Financial Stability Task Force performed a data call requesting a few key lines of information from the newly adopted 2019 format of the Analysis of Operations by Line of Business schedule and the Analysis of Increase in Reserves schedule, as well as the new Note 33, but populated with 2018 year-end data. This data call was completed in July 2019.

Draft: 11/4/24/25

Discussions with Insurers

During the latter part of 2017 and first quarter of 2018, the Subgroup conducted calls with several large life insurers who agreed to share their internal liquidity risk assessment processes. The dialogue provided extremely helpful input and informed the establishment of the initial direction of the Liquidity Stress Testing Framework. Feedback from these discussions include:

- Scope criteria should be risk-focused, not solely based on size.
- Stress test framework should align with internal management reporting and leverage the ORSA.
- Stress test should be principle-based and complement a company's internal stress testing methodology.
- Regulatory guidance should be provided to help define liquidity sources and uses, products/activities with liquidity risk, time horizons, level of aggregation, reporting frequency, and establishing stress scenarios.
- Public disclosure of results should be carefully considered to avoid exacerbating a liquidity crisis.

Regarding the specifics of liquidity assessments/stress test approaches, significant diversity in practices exist. Key observations in this regard included:

- Liquidity tests are performed at the material entity level and at the holding company level. Definitions of material entities differ.
- Most firms determine some sort of coverage ratio (Liquidity Sources) / (Liquidity Uses), for Base and Stress scenarios and monitor results to ensure they align with the firm's (internal) risk appetite. Categories of liquidity sources and uses differ across firms and assumptions vary depending on time horizon. Some insurers determine coverage ratios utilizing balance sheet values, applying different haircuts by asset class, time horizon and type of stress. Other insurers determine liquidity coverage gaps (Liquidity Inflows – Liquidity Outflows) utilizing a cash flow approach.
- Stress scenarios vary by company, reflecting a combination of market-driven, as well as idiosyncratic and insurer-specific scenarios.

Draft: 11/4/2424/25

- Time horizons tested also vary, typically ranging from 7 days to 1 year.

Regulatory Goals of the Liquidity Stress Test

- The primary goal of this liquidity stress testing, and the specific stress scenarios utilized, is for macroprudential uses – to allow the FSTF regulators to identify amounts of asset sales by insurers that could impact the markets under stressed environments. Thus, the selected stress scenarios are consciously focused on industry-wide stresses – those that can impact many insurers within a similar timeframe. These may not be the most stressful scenarios for specific legal entity insurers, or even their groups. Regulators have indicated the liquidity stress testing is also meant to assist regulators in their micro prudential supervision, in the context of being helpful for domiciliary and lead state regulators to better understand liquidity stress testing programs at those legal entities and groups. There is no intent to require these stress scenarios to be used by individual insurers for some sort of assessment or regulatory intervention mechanism. Similarly, there has not been any consideration given to requiring them in the management of any entities in receivership.
- Regulatory concerns regarding liquidity risk for legal entity insurers and/or groups is more about the stress scenarios of most concern to those entities (not those identified for macro prudential purposes). Similarly, when considering liquidity risk at a legal entity and/or group, regulators need to understand the insurer's entire risk management framework. Much of this understanding may come from the ORSA filings. Thus, the LST is not meant to be a legal entity insurer requirement, or used as a ranking tool, etc. However, it is recognized that simply reviewing these LST results may help regulators better understand the role of liquidity stress testing within the entities – which may result in more questions and information requests regarding the entities' own liquidity risk management framework and dynamics of their internal liquidity stress tests.

Draft: 11/4/2424/25

[Beginning of] Current Year Liquidity Stress Testing Framework

An overview regarding the LST is included in the NAIC Financial Analysis Handbook (FAH-25). In the FAH-25, there is a brief overview of the regulatory goals of the LST and the non-lead state reliance on the lead state analysis of LST. The summary also includes a link to the current year LST Framework.

Formatted: Normal, Space After: 0 pt

Formatted: Font: Not Bold

Section 1. Scope Criteria for Determining Groups Subject to Current Year LST

HISTORY – Scope Criteria for the Initial 2020 LST:

In determining the companies subject to the liquidity stress test (LST), consideration was given to activities assumed to be correlated with liquidity risk. Another consideration was the desirability of tying data used in the criteria back to the statutory financial statements. Ultimately six activities were identified. Those activities are Fixed and Indexed Annuities, Funding Agreements, Derivatives, Securities Lending, Repurchase Agreements and Borrowed Money. Minimum thresholds were established for each of these six activities. A life insurance legal entity or life insurance group exceeding the threshold for any of the six activities is subject to the stress test (see Annex 1 for more details).

While the scope criteria only utilize statutory annual statement data, the stress test is not similarly limited. Thus, the stress test will consider many more liquidity risk elements than the scope criteria, and internal company data will be the source for many of those elements.

Just as the liquidity stress test structure and methodology may change over time, the scope criteria may also be modified, for example, in response to new data points in the NAIC Annual Statement Blank. The scope criteria will be reviewed annually.

Using the agreed criteria, NAIC staff obtained the amounts for all life insurance legal entities from the 2018 annual statutory financial statements (filed by March 1, 2019). If two or more life insurers were part of an insurance group with an NAIC group code, then the numbers for each of those legal entity life insurers was summed together to represent an insurance group result. Thus, a legal entity life insurer not in an insurance group can meet the threshold on its own, or the sum of legal entity life insurers in a group could meet the threshold. Twenty-three insurance groups met the initial scope criteria.

Draft: 11/4/2424/25

In establishing whether an insurer or group met or exceeded the threshold criteria, the Subgroup members supported using the most current single year activity rather than a multi-year average. This resulted in coverage amounts ranging from 60% to 80% of the industry total for each activity based on 2018 data. It was recognized that using single year activity could result in more instances of an insurance group being in scope one year and out of scope the next, but regulators viewed it more important to have the most recent financial data utilized for determining scope. To address concerns about insurers moving in and out of scope, regulatory judgment will be used to address an insurer's exit from or entry to the scope of insurers subject to the liquidity stress test. Per revisions to the model Holding Company Act, the lead state regulator will consult with the Task Force in determining when it is appropriate to remove an insurer from the LST requirement if it no longer meets the scope criteria. Similarly, lead state regulators should have the ability to consult with the Task Force and require the LST from an insurer not meeting the scope criteria (e.g., an insurer close to triggering the scope criteria for more than one year).

Scope Criteria for the Current Year LST:

Regulators have not changed the same 6 criteria and thresholds from the previous year's LST Scope Criteria for use as the current year LST Scope Criteria.

Section 2. Liquidity Stress Test

2.1 Summary

The stress testing framework employs a company cash flow projection approach incorporating liquidity sources and uses over various time horizons under a baseline assumption and some number of stress scenarios (for the current year LST there are 2 stress scenarios and also an insurer-specific request for information). The available assets are then recorded by asset category. The framework then calls for identification of expected asset sales by category, or other funding as allowed in the stress test, to cure any cash flow deficits (liquidity uses exceed liquidity sources) under the stress scenarios. The stress tests are to be performed at the legal entity level; the aggregated group does not perform the LST.

Draft: 11/4/24/25

2.2 Time Horizons

The time horizons chosen by regulators are 30 days, 90 days, and 1 year, because, overall, insurance products are designed to be for the benefit of customers as risk protection over the long term and not designed to provide short term liquidity like other financial products. Historical experience in times of stress demonstrate slow policyholder reaction in short periods of time, as opposed to an event that occurs over months or years. Features designed to protect the long-term nature of the product for the policyholders ultimately reduce the likelihood of policyholder reaction to short-term volatility in markets. Therefore, evaluating shorter than 30-day time horizons has been deemed not warranted for the overarching macroprudential purpose of gauging liquidity risk in the Life insurance industry.

Policyholders do not “run” from an insurer in times of economic stress to the extent depositors do from a bank, because insurance is purchased to obtain the protection insurance provides, not as a source of liquidity or discretionary funds. In the United States, life insurance and annuities are purchased primarily for long-term financial protections upon death or retirement. Surrendering a life insurance contract to harvest its cash surrender value would leave the policyholder without death benefit protection that would be expensive or impossible to replace at a future date. Surrendering a variable annuity contract would lock in potentially temporary decreases in account value and could result in the loss of living benefit protection that becomes more valuable when market conditions depress account values below trigger points. Further, mitigating contract features such as surrender charges and the insurer’s right to delay the processing of withdrawals and surrenders for up to 30 days are common.

There are also non-contractual mitigating factors at play, such as potential negative tax consequences, that further reduce the short-term nature of liquidity risk for life insurers.

Simply put, policyholders are highly disincentivized to give up the likely irreplaceable protection for which they have already paid. The run-like mass surrender of insurance policies would require large numbers of policyholders to act against their self-interest.

Draft: 11/4/2424/25

From a holistic risk perspective, liquidity stress is traditionally experienced on the asset side. One short-term consequence of market turmoil could be a requirement to post collateral in connection with existing derivative contracts. However, even in this scenario, collateral is typically posted in the form of securities, so a demand for cash is not generated.

We do acknowledge liquidity risk does exist with respect to shorter time horizons and that many insurers do consider shorter time horizons (7-days for example) as part of their internal liquidity stress testing framework. This is viewed as a cash management/Treasury function impacting the daily operations of individual insurers, however, that would not affect the industry as a whole. Hence, these considerations are typically reviewed as part of individual/microprudential surveillance efforts in the U.S.

2.3 Insurer's Internal Liquidity Stress Testing System

Insurers are to use their own internal liquidity stress testing system to perform the regulatory LST, adjusting for regulatory assumptions, metrics, etc., as specified in this document. For example, assessing materiality of stressed cash flows for inclusion in the liquidity uses and sources templates is per the insurer's own internal methodology, but determining which legal entities are to perform the LST and report on those templates is specified in this document. Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars (see Section 7. Reporting). The stress scenarios may vary from year-to-year and contain variations referred to as "What-if" scenarios. The following sections provide a further description of each of the key components of the framework.

Section 3. Legal Entities Required to Perform the LST for Insurers Meeting the Scope Criteria

The scope of entities included within an insurance group for the purposes of liquidity stress testing to assess the potential for large scale liquidation of assets (i.e., the legal entities within the group which should perform the LST), should include:

Draft: 11/4/24/25

- U.S. Life insurance legal entities, including reinsurers, regardless of corporate structure, so including captive (regulators specifically want all U.S. life insurance/reinsurance legal entities to perform the current year LST for informational purposes – future LST iterations may see a materiality consideration added);

Non-guaranteed/market value separate account cash flows are generally not in scope for the LST. The rationale is that even though non-guaranteed/market value separate accounts may experience asset sales during stressed environments, those sales are at the policyholder's discretion and do not generate liquidity stress for the insurer/group. As such they are deemed other market activity rather than insurance entity activity. Thus, for annuities that provide both non-guaranteed and guaranteed benefits, insurers should only include the cash flow impact of the guaranteed benefits. LST filers should consider including all cash flows related to assets and liabilities that may be grouped with general account assets in the event of a liquidation regardless of Separate Account classification.

- Non-U.S. life insurance/reinsurance legal entities should perform the current year LST if they pose material liquidity risks to the U.S. group (see below on non-U.S. legal entities).
- Where applicable, holding companies that could be a source or draw of liquidity to the life insurance legal entities; and
- Non-life insurance entities and non-insurance entities with material sources of liquidity, or that carry out material liquidity risk-bearing activities and could, directly or indirectly, pose material liquidity risk to the U.S. group. This materiality consideration should occur within the context of the specific stress scenario (and "what if" modification if applicable). The materiality criteria and initial list of legal entities in scope should be reviewed by the lead state regulator and modified by the insurer as needed based on regulator direction.
 - Non-U.S. legal entities (including non-U.S. holding companies) are subject to this materiality consideration and should be subject to performing the LST if they pose material liquidity risk to the U.S. group.
 - U.S. non-life insurers and reinsurers are not automatically exempted. If the U.S. non-life insurer poses material liquidity risk, per the stress scenario, to the U.S. group, then that legal entity insurer should perform the LST.

Draft: 11/4/24/25

- Legal entity asset managers and mutual funds (both U.S. and non-U.S.) are excluded from performing the current year LST.
 - However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity asset manager/mutual fund in their current year LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).
 - If such material stressed cash flows from/to the legal entity asset manager/mutual fund exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the narrative/explanatory disclosures submitted along with the templates).
 - Examples of when such legal entity asset manager/mutual fund considerations and disclosures would need to be made for a specific stress scenario include:
 - If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a mutual fund/asset manager (i.e., redemptions exceed the ability to sell assets), then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements);
 - If the holding company or another legal entity(ies) in the group is expected to provide capital to the mutual fund/asset manager or is expecting dividends from them, the material expected cash flows must be reflected; and
 - If the asset manager manages financial instruments under which it retains some risk, such as new European CLOs, or has contractual risk retention agreements for U.S. CLOs, the required risk retention limit (5% for Europe) must be reflected if sourced from the holding company or another legal entity(ies) in the group and considered material.

Draft: 11/4/24/25

- Legal entity banks (both U.S. and non-U.S.) are excluded from performing the current year LST.
 - However, those legal entities performing the LST (e.g., holding companies that could be a source or use of liquidity for the life insurers) must reflect any material stressed cash flows from/to the legal entity bank in their current year LST results (e.g., the liquidity sources and liquidity uses templates, as they do with any other type of legal entity that has material stressed cash flows from/to the legal entities performing the LST).
 - If such material stressed cash flows from/to the legal entity bank exist, the regulators want specific disclosures on those in the results (either by adjusting the templates to include a line for these and/or in the explanatory disclosures submitted along with the templates).
 - Examples of when such legal entity bank considerations and disclosures would need to be made for a specific stress scenario include:
 - If the holding company or another legal entity(ies) in the group is expected to fund a material liquidity shortfall of a bank, then the expected cash flows must be reflected (especially where there are established inter-affiliate support agreements); and
 - If the holding company or another legal entity(ies) in the group is expected to provide capital to the bank or is expecting dividends from them, the material expected cash flows must be reflected.

For the current year, the legal entities identified in the bullets above, per a Company's ORSA and/or other materiality criteria applied to the specific stress scenario, must be considered as material or identified as carrying out material liquidity risk bearing activities and hence subject to internal liquidity stress testing requirements. Although a legal entity in the group may not be required to perform the stress test due to materiality considerations or exemptions, those entities' material cash impacts on entities performing the stress test must be captured in the sources and uses templates of the entities performing the LST. The insurer will need to disclose

Draft: 11/4/2424/25

the materiality criteria (agreed upon by the Lead State regulator) used in determining the legal entities subject to the current LST in the submission of its results.

Section 4. Cash Flow Approach – Liquidity Sources and Uses

The Liquidity Stress Testing Framework is anchored by a cash flow approach, utilizing companies' actual cash flow projections of sources and uses of liquidity over various time horizons based upon experience and expectations. This contrasts with a Balance Sheet Approach, which employs static balance sheet amounts and generic assumptions about asset liquidity. While a Balance Sheet Approach is easier to apply and provides calculation consistency (and thus the perception of increased comparability), its 'one-size fits all' approach could result in a misleading assessment of liquidity risk and fail to capture certain asset activities or product features under different stress scenarios and time horizons. The cash flow approach is deemed more dynamic and hence to capture liquidity risk impacts more precisely.

The insurer should produce cash flow projections for sources of liquidity and uses of liquidity that cover: operating items, investments and derivatives, capital items, and funding arrangements. (See Liquidity Sources and Uses templates in Section 7). To clarify an issue regarding funding arrangements, the projected cash flows for liquidity sources and uses should include already existing funding arrangements such as FHLB draws outstanding in the current time period. Also, specific to the holding company, these projected cash flows for liquidity sources and uses should include material non-U.S. impacts as well.

The insurer will produce these liquidity sources and uses cash flow projections in a baseline, normal course of business scenario, for each time horizon. The insurer will also produce these cash flows for each time horizon for a specific number of required stress scenarios (for the current year LST there are 2 stress scenarios and also an insurer-specific worst-case scenario).

4.1 Baseline Assumptions for Cash flows

Baseline (pre-stress) cash flows are the insurer-specific cash flows from normal expected operations. Insurers should prepare cash flow projections under normal operating conditions and report the net cash flows (projected liquidity sources less uses) for each time horizon. These cash

Draft: 11/4/24/25

flow projections should be consistent with those used for internal baseline liquidity forecasts, such as those used for financial planning and analysis (FP&A), risk management, etc. A positive net cash flow is presumed in the baseline cash flows since companies are usually not expected to be operating in a net cash flow deficiency state.

Section 5. Stress Scenarios and their Assumptions

For the current year-end there are two regulatory liquidity stress scenarios: an adverse liquidity stress scenario for insurers, and an interest rate spike scenario. There is also an insurer-specific information request for each group's own most adverse liquidity stress scenario(s). The adverse liquidity stress scenario contains a regulator provided narrative, regulator-prescribed assumptions, and company-specific assumptions. The interest rate spike scenario allows all other narrative description components and key metrics (including how much interest rates spike) to be provided by each company. The insurer-specific information request contains a company provided narrative and a description of key company metrics. The regulator provided narrative will be a qualitative description of the specified stress scenario to highlight the particular risks and sensitivities associated with that stress scenario. The regulator prescribed assumptions are specific parameters insurers should incorporate into their process for a particular stress scenario. Company-specific assumptions should be consistent with the information provided in the regulator provided narrative and regulator prescribed assumptions, and represent the detailed assumptions needed for a specific company's liquidity stress testing process. Examples of where companies should provide their assumptions include: debt issuance, lapse sensitivity, new business sensitivity and mortality sensitivity. Regulators expect insurers to utilize policyholder behavior assumptions (e.g., surrenders and policy loan withdrawals, existence of new sales activity) as well as the insurer's response (e.g., assuming delays in payment of policyholder benefits), consistent with the severity of the stress, and to provide very thorough explanatory information. All key business activities and product-type impacts to liquidity should be considered by the companies.

If the insurer's internal model does not utilize a specific economic and/or company-specific assumption included in this document, the internal model does not need to be modified to

Draft: 11/4/2424/25

incorporate it. However, if the insurer's internal model does utilize a specific economic and/or company-specific assumption included in this document, the insurer should use the approach outlined below to calculate the value for that assumption. (This emphasizes the macro surveillance benefit of the current year LST, allowing for a level of consistency of assumptions across the industry. As discussed previously, this is not meant to specify assumptions used by the insurers in their own internal liquidity stress testing work.) If there is no specific value included in the current year LST Framework and instead there is an illustrative value or suggested guidance, the company should use a value consistent with the illustrative value or suggested guidance. For example, guidance is given below on using Moody's values for migration, default, and recoveries. However, insurers may use S&P data or other appropriate data sources.

5.1 Adverse Liquidity Stress Scenario for Insurers

5.1.1 Narrative

Insurers are required to apply an adverse liquidity stress scenario as one of the two stress scenarios. The following is a summary of market conditions in the adverse scenario extracted from the Federal Reserve Board's 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule.

The adverse scenario is characterized by weakening economic activity across all economies included in the scenario. This economic downturn is accompanied by a global aversion to long-term fixed-income assets that, despite lower short-term rates, brings about a near-term rise in long-term rates and steepening yield curves in the United States and the four countries/country blocks in the scenario.

The economic indicator levels described below provide the backdrop for the economic climate insurers should assume in the adverse scenario. The actual levels insurers should use in the adverse scenario are provided in Annex 2.

- Macroeconomic
 - Real GDP falls slightly more than 2 percent from the pre-recession peak in the fourth quarter of 2016 to the recession trough in the first quarter of 2018.

Draft: 11/4/24/25

- *Unemployment rate increases.*
 - *Headline CPI falls and then rises over the scenario period.*
- Interest Rates and Credit Spreads
 - *Short-term Treasury rates fall and remain near zero throughout the stress.*
 - *10-year Treasury yields rise.*
 - *Investment Grade (IG) corporate credit spreads widen.*
- Asset Valuations
 - *Equity prices decline by roughly 40%.*
 - *The Volatility Index (VIX) peaks at approximately 35.*
 - *Housing prices and commercial real estate prices decline through 8 quarters.*
- Description of International Market Conditions
 - *Recessions and slowdowns in growth are experienced in the Euro area, United Kingdom, Japan, and developing Asia economies.*
 - *All foreign economies experience a decline in consumer prices.*
 - *U.S. Dollar appreciates against the Euro, British Pound, and developing Asia currencies.*
 - *U.S. Dollar depreciates modestly against the Japanese Yen, driven by flight-to-safety capital flow.*

5.1.2 Regulator-Prescribed Assumptions

Insurers should utilize the values for the economic indicators from the Federal Reserve Board's annual Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule as the basis for scenario assumptions, Table A.1 Historical data and Table A.5 (Annex 2i, A) Supervisory adverse scenario. Insurers should use the version published in February 2017 (refer to the tables in Annex 2i). Specifically, insurers should run the adverse liquidity stress scenario using the deltas for the Treasury curve, Corporate spreads, GDP, Unemployment, U.S. Inflation (CPI), Housing Price Index (HPI), S&P 500 index (SPX SPOT), Commercial Real Estate Index (CREI) and VIX index. These economic variables should be used to

Draft: 11/4/24/25

the extent these variables are included in an insurer's internal liquidity stress test process or models.

Insurers should apply the same change in economic variables experienced between Q4 2016 Table A.1 and the stress scenarios in Table A.5 to current economic variable levels (Annex 2i, D). Insurers should use the tables in Annex 2i for an illustrative example of how the deltas from the 2017 Fed's CCAR are applied to the current reference quarter (Annex 2i, B). For example, insurers should use current year (or most recent year-end) 10 Yr. Treasury rates and apply the same percentage or absolute b.p. change shown from Q4 2016 to the 2017 Table A.5 amounts in their current year LST stress scenarios. Table C (Annex 2i, C) shows the 2017 deltas applied to the current year-end levels on an absolute and percentage basis for 3 month and 1-year horizons for ease of use. The deltas to apply are provided for the 30-day, 90-day and 1-year horizons. Note, the tables also include structured spread assumptions described below in section 5.1.4. The tables are included in Annex 2i of this document.

In addition, other market indicators are necessary for insurers to apply to stressed cash flows and to assess the impact on expected asset sales. These are as follows (with details to be found in Annex 2):

- Market Capacity Assumption
- Economic Variables for Adverse Scenario
- SWAP Spreads
- Swaption Volatility
- Credit Assumptions: Moody's Transition Matrix/Migration Rates
- Credit Assumptions: Moody's Default Table
- Credit Assumptions: Moody's Recovery Rate Table

Necessary edits for 2025 year-end values will be posted as Lead State Guidance to the Annexes in late February/early March of every year.

Draft: 11/4/2424/25

5.1.3 Market Capacity Assumption

The following is suggested guidance to determine market constraints on asset categories to be sold in times of stress. It represents standards followed by many insurers to estimate assets sales by stress scenario, asset category and time horizon that can be sold without meaningfully impacting the entire market by widening bid-offer spreads. We recognize each company has its own individual methodology for determining potential asset sales under stress, and we request a written narrative be provided as to how they make their determination.

Once an asset class has been identified as available to be sold to satisfy a cash deficiency from cash flow stress testing, the insurer should calculate its percentage of the total amount issued and outstanding. Next the insurer should obtain average daily trading volumes (ADTV) and make an assumption for the haircut amount to apply to that volume to reflect stressed conditions (the “haircut ADTV”). Next, the insurer would apply its calculated percentage of total outstanding owned to the haircut ADTV, and the result would be divided by the number of days in the stress testing time horizon to arrive at a daily amount that can be sold. This daily amount able to be sold would be multiplied by the number of days in the prescribed time horizon: 30 days for the 30-day horizon, 60 days for the 90-day horizon (31-90 days) and 274 days for the 1-year horizon (91-365 days). An illustrative example best explains the above-described process.

Illustrative example (also included in Appendix 2ii):

Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a \$100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A’s unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	10%	97	\$9.7 B	\$440 M
31-90 Days	20%	94	\$18.8 B	\$430 M

Draft: 11/4/2424/25

91-365 Days	50%	90	\$45.0 B	\$230 M
-------------	-----	----	----------	---------

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been \$13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to \$8.0 B per day. Since Insurer A is 5% of the market, Insurer A can only trade \$400 M per day (\$8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

Draft: 11/4/2424/25

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	\$440 M	\$400 M	(\$40 M)
31-90 Days	\$430 M	\$400 M	(\$30 M)
91-365 Days	\$230 M	\$400 M	\$0

5.1.4 Economic Variables for Adverse Scenario

Insurers should use Annex 2i and 2iii to assist in determining cash flows, asset values and the quantity of assets to be sold in stressed markets. For baseline values, the industry shall submit year-end spreads to the regulators shortly after year-end. The regulators will review and approve the values for use in the table for liquidity stress testing purposes. Structured spread data was derived from the JPMorgan ABS Weekly Asset Spread Datasheet. The spreads were scaled to a stressed economic environment consistent with an adverse scenario as described by the Fed, described above and adopted for this stress testing. For the 2020 LST, economic conditions experienced in March of 2020 were deemed consistent with an adverse scenario. Therefore, structured spreads from March 2020 were used as the basis for the stressed spreads assumptions for insurers to use in their stress testing scenario for the 30-day, 90-day and 1-year horizons. Note, to calculate structured spreads for CLO/CDO 5.5-7 year and ABS Auto3 year, it was necessary to construct a Treasury yield curve with 3-year and 7-year points. These points were calculated using a straight-line linear interpolation method. For the current LST, the same March 2020 structured spreads were deemed appropriate for use.

Regulators ask industry members to agree on one set of structured spread values amongst themselves to submit for approval, not each insurer submitting values that each need to be approved. Regulators and/or the NAIC need to do a reasonableness check of current baseline/market levels of spreads insurers use before applying the stressed amounts in the JPMorgan spreadsheet. For example, if current spreads are already greater than the JPMorgan stressed spread amounts, regulators may have to consider alternatives or additional stressed levels. One agreed upon set of values will help provide uniformity, consistency, and comparability of stress testing results across insurers.

Draft: 11/4/24/25

When utilizing these spreads, insurers should assume the percentage increase in spreads experienced in March 2020 from the JPMorgan ABS Weekly Asset Spread Datasheet; and apply the absolute increase to the agreed upon December 31 baseline spreads. These tables are provided in Annex 2i, B.

Since the reasonableness check is merely a check of current market rates, it is not anticipated that it will be burdensome for insurers to provide an agreed upon set of December 31 baseline values to regulators by January 31 of each year or for the regulators to be able to respond by February 28 of every year to allow insurers sufficient time to incorporate into their stress testing framework. Baseline amounts are included in Annex 2i, B.

For the current year LST – NAIC values are to be established as Lead State guidance in late February/early March of every year after the current year LST Framework has been adopted. These NAIC values will be established using the industry developed process.

5.1.5 SWAP Spreads

Stressed spread levels may impact assets prices for expected sales calculations necessary for the stress scenarios. Insurers should complete the SWAP Spread table in Annex 2iv to document assumptions used in determining asset values and the quantity of assets to be sold in stressed markets. SWAP spread source data is no longer provided in the Federal Reserve’s H.15 FRED data. Use of Bloomberg Swap Spreads is preferred – if options exist within Bloomberg, identify which option was used. If a different source from Bloomberg is used, then identify the source and option.

5.1.6 Swaption Volatility

Insurers should use the table in Annex 2v to assist in determining asset values and the quantity of assets to be sold in stressed markets. Insurers should obtain the information to populate the table using Bloomberg’s Swaption Volatility for various time horizons and expiry. For consistency, insurers should use the table found on Bloomberg at NSV [Go].

Commented [EB1]: To be updated as Lead State Guidance in early 2026

Draft: 11/4/2424/25

5.1.7 Moody's Transition Matrix/Migration Rates

Insurers should use the table in Annex 2vi to assist in determining corporate credit migrations, asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 36 - Average one-year alphanumeric rating migration rates, 1983-2025. If available, insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

5.1.8 Moody's Default Table

Insurers should use the table in Annex 2vii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 41 - Average cumulative issuer-weighted global default rates by letter rating, 1983-2025. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

5.1.9 Moody's Recovery Rate Table

Insurers should use the table in Annex 2viii to assist in determining asset values and the quantity of assets to be sold in stressed markets. The table is imported from Moody's Corporate-Global: Annual default study, Exhibit 8 - Average corporate debt recovery rates measured by ultimate recoveries, 1987-2025. Insurers should use the equivalent Moody's tables for U.S. Public Finance for municipal bonds and the appropriate Moody's tables for structured /asset-backed securities. Alternative sources may be used but should be disclosed as well as the rationale for their use.

If relevant for a given insurer, the adverse liquidity stress scenario for insurers can be run considering sources other than expected asset sales (e.g., FHLB credit line draws, bank lines of credit and holding company contributions). Should that be the case, the insurer must clearly identify the sources other than asset sales utilized to meet expected liquidity deficiencies.

Draft: 11/4/2424/25

5.1.10 “What If” Modification

The “What if” modification to the adverse liquidity stress scenario removes the ability for insurers to use extraordinary internal and external funding sources to satisfy any liquidity deficiency under stress, i.e., no actions taken in response to the stress (as opposed to ongoing operational funding agreements included in the insurer’s baseline templates) or in response to a liquidity deficiency. Intragroup “keep well” agreements would be considered extraordinary transactions. Thus, expected asset sales will be the primary source of meeting any liquidity deficiency for the “What if” scenario. Any existing funding such as commercial paper will not be assumed to roll, nor will FHLB facilities ability to roll upon maturity.

5.1.11 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above adverse liquidity stress scenario for insurers. Company specific assumptions should be consistent with the above scenario as narrative and regulator prescribed assumptions. Examples include the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).

5.2 Interest Rate Spike Scenario

5.2.1 Narrative

Insurers should run an interest rate spike stress test that resembles the late 70’s/early 80’s inflationary period as it most closely mirrors the regulatory desired interest rate spike scenario. Historical data from the late 70’s/early 80’s show the following economic conditions:

- Inflationary forces caused interest rates to rise quickly.
- Investors rotated out of fixed income and into equities, real estate, and commodities.
- Central bank responded by tightening monetary policy in tandem, eventually causing the yield curve to invert.

Insurers should provide a detailed narrative outlining their scenario and assumptions around general economic conditions bulleted above and specific assumptions for economic variables for each time horizon. The economic variables in the table below and the amount of expected

Draft: 11/4/2424/25

movement in each variable should be fully described in the narrative to the extent are used in a company's internal model. The table outlines the directional movement of the relevant economic indicators. Insurers should specify the amount of movement for each variable they consider to be part of the scenario for a severe interest rate spike. For example, insurers may indicate a parallel shift in Treasury rates up 100bps in the first 30 days, up 200bps in 90 days and 300bps over 12 months. The table is a guide and not to be interpreted as a strict template and may be supplemented or customized by the insurer. Narrative/Explanatory disclosures should explain these assumptions.

5.2.2 Regulator-Prescribed Assumptions

Regulators did not adopt any regulator-prescribed assumption values for this stress scenario. Instead, they provided the below regulator guidance for insurers to use when establishing their own company specific assumptions for this stress scenario.

Economic Variable	Expected Movement	Comments
Treasury rates	Increase rapidly	Critical factors for modeling impacts to asset prices, collateral flows, and product cash flows
Equity prices	Increase rapidly	
Credit spreads	Increase moderately	
Inflation rates	Increase rapidly	These factors help define the macroeconomic conditions of the scenario
Real GDP growth	Flat	These factors help define the macroeconomic conditions of the scenario
Unemployment rate	Flat	
Real estate prices	Increase	
Swap spreads	Increase	Impact derivative collateral requirements
FX rates	Unclear	
Implied volatility	Increase	
Credit assumptions (transition, default, recovery rates)	Unclear	May not be an important assumption to define for the scenario

5.2.3 Company-Specific Assumptions

Insurers must construct the assumptions needed for their internal models to run the above stress scenario. Companies are encouraged to provide more information beyond these guidelines as they feel is appropriate to help regulators understand their assumptions for the scenario.

Draft: 11/4/24/25

Company specific assumptions should be consistent with the stress scenario's narrative and regulator prescribed assumptions. Based on the 2022 significant increases to inflation and interest rates, insurers should consider appropriately stressed interest rates in the current LST to ensure a "severe interest rate spike."

5.3 Insurer Specific Information Request - Worst-Case Scenario

5.3.1 Narrative

This information request requires insurers to provide a detailed narrative of their most severe liquidity stress scenario(s) to obtain greater insight to the drivers of liquidity risk for specific insurers. The most severe scenario should be one that results in the largest liquidity deficiency (liquidity sources less uses) from their existing internal liquidity stress testing process. The scenario should be focused on the insurer's internal model scenario with the worst-case outcome for the group. Regulators may use this information to inform future prescribed stress scenarios.

Insurers should provide a comprehensive narrative describing the stress scenario(s) and the economic environment(s). This stress scenario(s) could be a combination of multiple stressors. Insurers should review these scenarios to ensure they are worst case for their business model, products, etc., particularly if no liquidity deficiencies are identified.

Section 6. Available and Expected Asset Sales

Once the stressed sources and uses of liquidity have been established, and the net cash flows calculated, insurers then project the assets available at the end of the time horizon by asset category (please refer to the asset categories in the Assets Template in Section 7). The valuation of available assets for the baseline scenario utilizes current and projected asset values for a normal operating environment. The valuation of available assets for a stress scenario will be based upon fair value haircuts per the specific stress scenario narrative, its regulatory prescribed assumptions, and/or the company assumptions based on the narrative and regulatory prescribed assumptions (e.g., fair market value haircuts and capacity indicators). Note: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and

Draft: 11/4/2424/25

considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

To the extent that stressed cash inflows are insufficient to meet the anticipated cash outflows, the insurer must provide for cash flows to meet the deficiency. Unless a stress scenario (or “What-if” modification of a stress scenario) indicates otherwise, the insurer can utilize internal and external funding sources (e.g., FHLB new draws) as well as asset sales to satisfy a liquidity deficiency. Any expected asset sales must be reported in the appropriate column(s) of the template. Insurers decide which categories of available assets to sell, as well as the quantity to sell. (Please refer to the Assets Template in Section 7.)

Asset sales will appear in two different places - 1) within the liquidity sources template for expected/planned activity during the time horizon (pre-liquidity deficiency calculation), and 2) in the assets template for any amount of asset sales used to meet a liquidity deficiency (Liquidity Sources less Liquidity Uses). If an insurer has no liquidity deficiency, then there are no asset sales needed in the Assets Template (though available assets still apply). Similarly, if cash on hand was sufficient to meet the liquidity deficiency and the insurer chose to utilize that cash, then no asset sales would be reported in the Assets template.

The expected asset sales amounts calculated based on the insurer’s own models should also be subjected to portfolio manager and/or Chief Investment Officer (CIO) feedback. This feedback may take the form of “topside” adjustments to the expected asset sales. Regulators expect robust disclosures around the chief investment officer’s (or equivalent title or designee) assumptions and decisions on expected asset sales. The intent is for these asset sales to most accurately represent what actions the insurer could reasonably take in the given scenario, market conditions, and the company’s anticipated investment policy and/or strategy.

Section 7. Reporting

Insurers should submit data in the reporting template for liquidity sources, liquidity uses, and assets (available assets and expected asset sales) in U.S. dollars. These templates utilize

Draft: 11/~~4/24~~24/25

categories for 30-day, 90-day and 1-year time horizons. The assets template further illustrates available assets and final expected asset sales by asset sub-category to cover any liquidity deficiency (negative amounts of net liquidity sources less liquidity uses over the prescribed time horizons). Use of these consistent sub-categories of assets is critical for allowing the Task Force to aggregate the asset sales results.

DRAFT

Draft: 11/4/2424/25

Liquidity Sources and Liquidity Uses Templates:

A liquidity sources report and a liquidity uses report should be generated for each legal entity within the group that was subjected to liquidity stress testing, using the NAIC templates. These legal entity amounts should also be aggregated into a group liquidity sources report and a group liquidity uses report for submission (the LST is not performed at the group level; rather it is performed at the legal entity level and those results are aggregated to present a group level report).

- For the Baseline, the Adverse Liquidity stress scenario, and the Interest Rate Spike stress scenario, Liquidity Sources and Liquidity Uses templates at both the individual entity level and the aggregated group level are to be submitted.
- For the “What If” Variation of the Adverse Liquidity stress scenario, a group level Liquidity Sources template and/or a group level Liquidity Uses template is only required if there is a material difference from the Adverse Liquidity stress scenario’s group level Liquidity Sources and Liquidity Uses templates.

Assets Template:

As with the Liquidity Uses and Liquidity Sources templates, the Assets template is to be generated for each legal entity performing the LST. For the current year LST, the insurer may submit the assets template at the group level only, without submission of the legal entity asset sales templates.

- A group level assets template is required for the Baseline and all stress scenarios, including the “What If” variation of the Adverse Liquidity stress scenario.

Modification of Templates:

Insurers are allowed to add lines to the templates to provide more detailed breakdown of existing categories (e.g., for cash flows to/from legal entity asset manager/mutual funds as well as banks), but deletions of existing lines/categories are highly discouraged.

Submission Deadline:

Draft: 11/4/24/25

The reporting templates and many other narrative disclosures referenced in this document are to be submitted to the Lead State by June 30 of every year.

Section 8. Templates

8.1 Liquidity Sources Template

Cash Flow Sources	CF Type	CF Category	Group Summary			Legal Entity 1		
			1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
	Operating	Premiums and Deposits (Renewal / New Business)	-	-	-	-	-	-
		Cash Charges / Fees	-	-	-	-	-	-
		Reinsurance Recoverables	-	-	-	-	-	-
		Expenses – Intercompany Settlements	-	-	-	-	-	-
		Tax Payments (Inflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Investment and Derivatives	Principal and Interest	-	-	-	-	-	-
		Dividends / Distributions	-	-	-	-	-	-
		Initial and Variation Margin Received	-	-	-	-	-	-
		Other Collateral Received	-	-	-	-	-	-
		Asset Sales (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Capital	Capital Contributions	-	-	-	-	-	-
		Commitments	-	-	-	-	-	-
		Dividends from Subsidiaries	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
	Funding	Debt Issuance / Refinancing	-	-	-	-	-	-
		GICs	-	-	-	-	-	-
		FHLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
		Credit Facilities (Incl. Contingency Funding Facilities)	-	-	-	-	-	-
		Intercompany Loans	-	-	-	-	-	-
		Commercial Paper	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			Total Sources (before Asset Sales)	-	-	-	-	-

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Sales (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/31 trade date and 01/01 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company's best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

Draft: 11/4/24 24/25

8.2 Liquidity Uses Template

Cash Flow Uses	CF Type	CF Category	Group Summary			Legal Entity 1		
			1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
	Operating	Non-Elective Benefits / Claims	-	-	-	-	-	-
		Elective Benefits / Claims	-	-	-	-	-	-
		Commissions	-	-	-	-	-	-
		Reinsurance Payables	-	-	-	-	-	-
		Expenses - Other	-	-	-	-	-	-
		Expenses - Intercompany Settlements	-	-	-	-	-	-
		Insurance Product Commitments	-	-	-	-	-	-
		Tax Payments (Outflows)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
			-	-	-	-	-	-
	Investment and Derivatives	Asset Commitments	-	-	-	-	-	-
		Initial and Variation Margin Paid	-	-	-	-	-	-
		Other Collateral Pledged	-	-	-	-	-	-
		Asset Purchases (Pending Settlement)	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
		-	-	-	-	-	-	
	Capital	Shareholder/Policyholder Dividends	-	-	-	-	-	-
		Capital Contributions to Subsidiaries	-	-	-	-	-	-
		Dividends to Parent	-	-	-	-	-	-
		Other Flows	-	-	-	-	-	-
		-	-	-	-	-	-	
	Funding	Debt Maturities / Debt Servicing	-	-	-	-	-	-
		GLCs Benefits / Maturities	-	-	-	-	-	-
		FHLB	-	-	-	-	-	-
		Repo / Securities Lending	-	-	-	-	-	-
		Credit Facilities (incl. Contingency Funding Facilities)	-	-	-	-	-	-
Intercompany Loans		-	-	-	-	-	-	
Other Flows		-	-	-	-	-	-	
		-	-	-	-	-	-	
Total Uses			-	-	-	-	-	

Note 1: Certain flows could be settled in securities (e.g., margins on derivatives, capital contributions/dividends, etc.). See the more specific Security Collateral guidance within the Excel templates.

Note 2: Asset Purchases (pending settlement) should include trades executed prior to the reporting date with a known settlement date after the reporting date (for example 12/31 trade date and 01/01 settle date).

Note 3: Asset Commitments should include anticipated cash flows related to settlement of a future obligation to a counterparty to the extent, and in the amount, appropriate for the specific stress scenario and economic assumptions. Examples could include capital calls for alternative investments, mortgage loan fundings, etc., and should include each company's best estimate as to what they would expect to fund under each scenario. If these commitments have been explicitly prefunded/collateralized by highly liquid assets, asset commitments should be reported on a net basis, including proceeds from the sale of the highly liquid assets in an amount consistent with the specific stress scenario and economic assumptions. This line item may include some percentage amount of commitments to fund private placement revolvers consistent with the specific stress scenario and economic assumptions, but revolvers and lines of credit themselves should be captured in the credit facilities line in the Sources Funding section.

Draft: 11/~~4/24~~24/25

8.3 Assets Template

Cash and Invested Assets Available for Sale		Group Summary		
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month
Cash	Cash & Cash Equivalents	-	-	-
Government Securities	Treasury Bonds	-	-	-
	Agency Bonds	-	-	-
	Other IG Sovereigns & Regional Government	-	-	-
	Below IG Sovereigns & Regional Government	-	-	-
	Agency CMO	-	-	-
	Agency MBS	-	-	-
	Agency CMBS	-	-	-
	Agency ABS	-	-	-
Public Bonds	IG Public Corporate Bonds	-	-	-
	IG Municipal Bonds	-	-	-
	Below IG Public Corporate Bonds	-	-	-
	Below IG Municipal Bonds	-	-	-
Private Bonds	IG Private Placement Bonds	-	-	-
	IG 144As	-	-	-
	Below IG Private Placement Bonds	-	-	-
	Below IG 144As	-	-	-
Non-Agency Structured Debt	IG CMO	-	-	-
	IG MBS	-	-	-
	IG CMBS	-	-	-
	IG ABS	-	-	-
	IG CLO	-	-	-
	Below IG CMO	-	-	-
	Below IG MBS	-	-	-
	Below IG CMBS	-	-	-
	Below IG ABS	-	-	-
	Below IG CLO	-	-	-
Equity	Common Stock	-	-	-
	Preferred Stock	-	-	-
	Other Equity and Alternative Investments	-	-	-
Other	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-
	Other	-	-	-
Total Invested Assets Available for Sale		-	-	-

Confidential - For Discussion Purposes Only, Do Not Distribute

Scenario	Summary	Group Summary			Legal Entity 1		
As of Date		1 Month	3 Month	12 Month	1 Month	3 Month	12 Month
	Total Sources (before Asset Sales)	-	-	-	-	-	-
	Total Uses	-	-	-	-	-	-
	Net Sources & Uses (Deficit before Asset Sales)	-	-	-	-	-	-
	Total Invested Assets Available for Sale	-	-	-	-	-	-
	Cash applied to deficit	-	-	-	-	-	-
	Deficit Sub-total	-	-	-	-	-	-
	Total Assets Sold	-	-	-	-	-	-
	Deficit satisfied if zero or greater	-	-	-	-	-	-

Draft: 11/4/24 24/25

Final Expected Asset Sales After Adjustments		Group Summary		
Asset Category	Asset Sub-Category	1 Month	3 Month	12 Month
Cash	Cash & Cash Equivalents	-	-	-
Government Securities	Treasury Bonds	-	-	-
	Agency Bonds	-	-	-
	Other IG Sovereigns & Regional Government	-	-	-
	Below IG Sovereigns & Regional Government	-	-	-
	Agency CMO	-	-	-
	Agency MBS	-	-	-
	Agency CMBS	-	-	-
Public Bonds	Agency ABS	-	-	-
	IG Public Corporate Bonds	-	-	-
	IG Municipal Bonds	-	-	-
	Below IG Public Corporate Bonds	-	-	-
Private Bonds	Below IG Municipal Bonds	-	-	-
	IG Private Placement Bonds	-	-	-
	IG 144As	-	-	-
	Below IG Private Placement Bonds	-	-	-
Non-Agency Structured Debt	Below IG 144As	-	-	-
	IG CMO	-	-	-
	IG MBS	-	-	-
	IG CMBS	-	-	-
	IG ABS	-	-	-
	IG CLO	-	-	-
	Below IG CMO	-	-	-
	Below IG MBS	-	-	-
	Below IG CMBS	-	-	-
	Below IG ABS	-	-	-
Equity	Below IG CLO	-	-	-
	Common Stock	-	-	-
	Preferred Stock	-	-	-
Other	Other Equity and Alternative Investments	-	-	-
	Commercial, Residential, Agricultural, Bank and Other Loans	-	-	-
	Other	-	-	-
Total Invested Assets Final Sale		-	-	-

Note 1: Insurers will enter "Illiquid" in a data field for any asset category deemed such within a specific time horizon.

(Regulators can then follow up with questions later if there are concerns, etc.)

Note 2: Any securities pledged as part of institutional funding agreements (e.g., FHLB) should be excluded and considered encumbered. However, any pre-pledged assets that are not securing credit that has been extended and remains outstanding (i.e., excess) should be considered unencumbered.

Note 3: Reminder that regulators want robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales. Might need to supplement the template comments with additional narrative disclosures.

Note 4: Excluding the "What If" variation, insurers are to provide disclosures indicating when affiliated amounts are provided to assist a legal entity in addressing a liquidity deficiency.

Draft: 11/4/24/25

Narrative/Explanatory Disclosures noted in the current year LST

Narrative/explanatory disclosures are expected to be in English.

- Insurers should provide a narrative description of their internal liquidity stress testing system and processes, including for example their materiality thresholds for stressed cash flows and methodology for converting foreign currencies to U.S. dollars.
- Specific disclosures on material stressed cash flows to/from legal entity banks/asset managers/mutual funds if needed.
- Company-specific narrative on assumptions and metrics used for the adverse liquidity stress scenario for insurers, for example the inability to roll or issue new debt, potential increases in lapse rates, new business sensitivity, mortality experience and policyholder behavior (e.g., surrenders and policy loans).
- Company-specific narrative on the interest rate shock scenario, assumptions around general economic conditions bulleted in 5.2.1 Narrative, and specific metrics for economic variables for each time horizon. The economic variables in the table in 5.2.2 Regulator-Prescribed Assumptions should be fully described in the narrative, to the extent they are use in the company's internal model.
- Insurers should provide a comprehensive narrative describing their worst-case liquidity stress scenario(s) and the economic environment(s), including assumptions, key metrics and results.
- Written narrative on the insurer's own individual methodology for determining asset sales under stress.
- Robust disclosures regarding the chief investment officer's (or equivalent title or designee) assumptions and decisions on expected asset sales, if needed.
- Excluding the "What If" variation, disclosures to identify when affiliated amounts are contributed to assist a legal entity in addressing a liquidity deficiency.
- Disclose when a regulatory prescribed variable is not used for the LST because it is not used in the internal liquidity stress testing process or models.

Draft: 11/4/2424/25

[End of] Current Year Liquidity Stress Testing Framework]—to be
included as an appendix in the NAIC Financial Analysis Handbook]

Data Aggregation

Given the NAIC's primary focus is on macroprudential impacts of a liquidity stress impacting the life insurance sector, the NAIC will aggregate final expected asset sales data across the insurance groups subject to the liquidity stress test. The aggregation will be done by asset category. The NAIC aims to compare the aggregated results against various benchmarks, potentially including normal and/or stressed trading volumes and asset values for various asset classes, to determine the impact such sales may have on the capital markets in times of stress. Findings from this analysis may also inform expected asset sale assumptions utilized in future runs of the liquidity stress test.

As part of its macroprudential surveillance, the insurance regulators and/or NAIC may reach out to other regulatory agencies to discuss aggregate results that may impact other regulated industries such as banks, securities brokers, and asset managers. Insurance regulators may also coordinate with other agencies to identify appropriate and perhaps coordinated action they may take to prevent or minimize the effect large asset sales may have on the financial markets and overall economy.

Regulatory Authority

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers and to keep the data confidential. A long-term solution was developed at the Financial Stability (E) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the 2025 LST as well, while others may rely upon adopted revisions to their Holding Company Act.

Draft: 11/4/24/25

Confidentiality

For the 2020 through 2022 liquidity stress tests, lead state regulators utilized their examination authority to collect the reporting results from insurers identified by the scope criteria. Existing protocols for collecting confidential/sensitive data for each state and insurer were utilized. A long-term solution was developed at the Financial Stability (E) Task Force in coordination with addressing similar issues related to the Group Capital Calculation project, resulting in revisions to Model #440. However, it will take several years for states to adopt these revisions. As a result, some regulators will utilize their examination authority for the current year LST as well, while others may rely upon adopted revisions to their Holding Company Act.

Timeline

- December – Adopt next year’s LST Framework.
- Regulators agreed to make no substantive changes for the current LST Framework, including the Scope Criteria. Minor template revisions and Annex updates to the current LST Framework document need to be finalized early in the year every year as Lead State Guidance to allow insurers adequate time to generate the current LST filings in time for the June 30, filing deadline; ideally by the end of March.
- June – Incorporate all appropriate Lead State Guidance into the current LST Framework document as the starting place for the next year’s LST Framework and begin work on any changes specific to the following year’s LST.

Draft: 11/4/24/25

Annex 1: Original Scope Criteria with Annual Statement References

The Subgroup proposes to include in the scope of the Liquidity Stress Testing Framework any insurer/group that exceeds the following thresholds for any of the noted activities (or account balance as a proxy for that activity). The thresholds have been established taking into consideration both the account balance of the insurer/group to the total balance for the life insurance sector, as well as the aggregate account balance of insurers/groups within scope to the aggregate account balance for the life insurance sector.

Account Balances	Threshold in \$B "greater than"	Reference to NAIC life/accident and health (A&H) annual financial statement blank
Fixed and Indexed Annuities	25	Analysis of Increase in Annuity Reserves <u>Page:</u> Analysis of Increase in Reserves <u>Line:</u> Reserves December 31, current year (15) <u>Column:</u> Sum of Individual Fixed Annuities, Individual Indexed Annuities, Group Fixed Annuities, and Group Indexed Annuities
Funding Agreements and GICs ⁱ	10	Deposit-Type Contracts <u>Page:</u> Exhibit 7 – Deposit-Type Contracts <u>Line:</u> 9 <u>Column:</u> Guaranteed Investment Contracts (Column 2) + <u>Column:</u> Premium and Other Deposit Funds (Column 6) IF the amount of FHLB Funding Reserves from Note 11.B(4)(b) suggests funding agreements are not reported in Column 2 of Exhibit 7 + Synthetic GICS <u>Page:</u> Exhibit 5 – Interrogatories <u>Line:</u> 7.1
Derivatives–Notional Value (absolute value)	75	Derivatives – Notional Value (absolute value) <u>Pages:</u> Schedule DB, Part A; Schedule DB, Part B, Section 1 <u>Column:</u> Notional Value (sum all)
Securities Lending	2	Securities Lending Collateral Assets <u>Pages:</u> Schedule DL, Part 1; Schedule DL, Part 2 <u>Line:</u> Total (9999999) <u>Column:</u> Fair Value
Repurchase Agreements	1	Repurchase Agreements <u>Page:</u> Notes to Financial Statement Investments Restricted Assets <u>Line:</u> Sum of 05L1C, 05L1D, 05L1E, 05L1F <u>Column:</u> Total (General Account Plus Separate Account)

Draft: 11/4/2424/25

Borrowed Money (includes commercial papers, letters of credit, etc.)	1	Borrowed Money <u>Page:</u> Liabilities <u>Line:</u> Borrowed Money (22) <u>Column:</u> Current Year
--	---	--

¹ In performing the addition of the FHLB funding agreement amount to the GICs amount, NAIC staff discovered that the reporting of FHLB funding agreements is not consistent in Exhibit 7, Deposit-Type Contracts. The source of the FHLB amount is Note 11.B(4)(b):

Line: Funding agreements, current year, amount as of the reporting date, borrowing from FHLB, collateral pledged to FHLB Column: Funding Agreement Reserves Established

For some insurers, we were able to match amounts from the FHLB funding agreement footnote to the exact same amount in Exhibit 7, either Column 2 (GICs) or Column 6 (Premiums and Other Deposit Funds). For those insurers where the FHLB amount matched Exhibit 7, Column 2, we did not add the FHLB funding agreement amount to the GICs amount, because that would be double-counting the FHLB funding agreements. For other insurers, even though the amounts did not match exactly, we were able to assume the FHLB funding agreements were reported in either Column 2 or Column 6 (e.g., the amount in Exhibit 7, Column 2 was zero or much smaller than the FHLB note, while the Column 6 amount was larger). However, for several insurers, we were not able to make an informed assumption (e.g., both Column 2 and Column 6 amounts were larger than the FHLB funding agreement amount). To be conservative in these instances, we added the FHLB funding agreement amount to the GICs amount. Overall, for the \$10 billion threshold, adding FHLB funding agreements to GICs does not result in a different list of insurance groups from the list with GICs of more than \$10 billion.

Draft: 11/4/2424/25

Annex 2: Regulatory Prescribed Assumptions

Annex 2i. Economic and Market Variables

A. Fed reference Table A.5 Adverse Scenario

2017 CCAR Adverse Scenario

Date	Real GDP growth	Nominal GDP growth	Real disposable income growth	Nominal disposable income growth	Unemployment rate	CPI inflation rate	3-month Treasury rate	5-year Treasury yield	10-year Treasury yield	BBB corporate yield	Mortgage rate	Prime rate	Level			
													Dow Jones Total Stock Market Index	House Price Index	Commercial Real Estate Price Index	Market Volatility Index
Q1 2017	-1.5	0.9	0.7	2.4	5.2	1.8	0.1	1.7	2.3	5.6	4.7	3.3	15,960	181	291	37.1
Q2 2017	-2.8	-0.7	-0.6	1.1	5.8	1.8	0.1	1.8	2.4	5.9	4.9	3.3	15,042	179	283	32.7
Q3 2017	-2.0	0.0	-0.5	1.1	6.3	1.8	0.1	1.8	2.5	6.1	5.1	3.3	14,290	176	275	34.4
Q4 2017	-1.5	0.5	-0.5	1.2	6.8	1.8	0.1	1.9	2.5	6.2	5.2	3.2	13,982	173	267	32.0
Q1 2018	-0.5	1.4	0.2	1.9	7.1	1.8	0.1	1.9	2.6	6.0	5.2	3.2	14,367	170	259	28.5
Q2 2018	1.0	3.0	0.6	2.4	7.3	2.0	0.1	1.9	2.7	5.8	5.2	3.2	15,001	166	254	25.8
Q3 2018	1.4	3.3	1.0	2.7	7.4	2.0	0.1	2.0	2.7	5.6	5.1	3.2	15,893	163	250	23.6
Q4 2018	2.6	4.4	1.5	3.4	7.3	2.1	0.1	2.0	2.7	5.4	5.1	3.2	16,803	161	249	21.6
Q1 2019	2.6	4.3	1.6	3.5	7.2	2.1	0.1	2.0	2.7	5.2	5.0	3.2	17,519	161	249	20.1
Q2 2019	3.0	4.6	2.1	3.8	7.1	2.0	0.1	2.0	2.7	5.0	4.9	3.2	18,514	161	251	18.7
Q3 2019	3.0	4.5	2.2	3.8	7.0	2.0	0.1	2.0	2.7	4.8	4.8	3.2	19,243	162	255	18.2
Q4 2019	3.0	4.5	2.1	3.8	6.9	1.9	0.1	2.0	2.7	4.7	4.8	3.2	20,025	163	259	17.6
Q1 2020	3.0	4.5	2.0	3.5	6.8	1.8	0.1	2.0	2.7	4.5	4.7	3.2	20,867	164	262	17.3

"Adverse Scenario":
BBB corporate yield spread is 3.7% at its peak in Q4:2017 when financial conditions are generally at their most acute

Narrative: "The U.S. economy experiences a moderate recession. Real GDP falls slightly more than 2 percent from the pre-recession peak, while the unemployment rate rises steadily, peaking at about 7½ percent in the third quarter of 2018. The U.S. recession is accompanied by an initial fall in inflation through the third quarter of 2017, with the rate of increase in consumer prices then rising steadily and reaching 2 percent by the middle of 2018. Reflecting weak economic conditions, short-term interest rates in the United States fall and remain near zero for the rest of the scenario period. With the increase in term premiums, 10-year Treasury yields gradually rise to a little less than 2½ percent by the second half of 2018. Financial conditions tighten for corporations and households during the recession. Spreads between investment-grade corporate bond yields and 10-year Treasury yields widen to about 3½ percentage points by the end of 2017, while spreads between mortgage rates and 10-year Treasury yields widen to about 2½ percentage points over the same period. Asset prices decline in the adverse scenario accompanied by a rise in equity market volatility. Aggregate house prices and commercial real estate prices experience less sizable but more sustained declines compared to equity prices; house prices fall 12 percent through the first quarter of 2019 and commercial real estate prices fall 15 percent through the fourth quarter of 2018. Following the recession in the United States, real activity picks up slowly at first and then gains momentum; growth in real U.S. GDP accelerates from an increase of 1 percent at an annual rate in the second quarter of 2018 to an increase of 3 percent at an annual rate by the middle of 2019. The unemployment rate declines modestly."

Source: Federal Reserve

Source: 2017 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule

<https://www.federalreserve.gov/publications/2017-june-dodd-frank-act-stress-test-appendix-a-supervisory-scenarios.htm>

Draft: 11/4/24/25

B. Economic Variables-data deltas to apply to current levels (Including Structured)

	Inputs to Use		
	Adverse: 1 Mo	Adverse: 3 Mo	Adverse: 12 mo
Real GDP Growth	-1.5	-1.5	-1.5
Nominal GDP Growth	0.9	0.9	0.5
Real Disposable Income Growth	0.7	0.7	-0.5
Nominal Disposable Income Growth	2.4	2.4	1.2

- Use 3 month value for 1 month horizon since CCAR does not prescribe monthly values.

	Deltas to Apply		
	Adverse: 1 Mo	Adverse: 3 Mo	Adverse: 12 mo
Unemployment	0.2	0.5	2.1
CPI Inflation Rate	-0.5	-1.6	-1.6
3M Treasury	-1.3	-4.0	-4.0
3Y Treasury	-0.1	-0.2	0.2
5Y Treasury	0.0	0.0	0.2
7Y Treasury	0.0	0.1	0.5
10Y Treasury	0.1	0.2	0.6
BBB Corporate Yield	0.8	2.3	3.2
Agency MBS 10 Year Yield	0.2	0.7	2.4
Non-Agency MBS 10 Year AA Yield	0.7	2.2	8.5
CMBS 10 Year AA Yield	0.7	2.1	8.3
CLO/CDO 5.5-7 Year AA Yield	0.5	1.4	5.8
ABS -Cards 5 Year AAA Yield	0.3	1.0	4.4
ABS-Auto Near prime 3 year AAA Yield	0.4	1.1	5.3
Mortgage Rate	0.5	1.5	2.4
Prime Rate	-0.2	-0.5	-0.7
Dow Jones	-10.5%	-31.4%	-39.9%
House Price Index	-0.4%	-1.1%	-5.5%
Commercial Real Estate Price Index	-0.3%	-1.0%	-9.2%
VIX	4.9	14.6	9.5

- 1 month delta is 1/3 of 3 month value

Draft: 11/4/24/25

C. 2017 CCAR Economic variable delta calculations

Annex 2iii, A

Spreads (%)
2016:Q4
Averages*
0.71
1.27
1.37
1.87
0.45
0.44

*Quarterly averages;
Spread to treasuries

2017 CCAR					
	12/31/2016	Adverse: Q1	Adverse: Q4	3-Month	12-Month
1 Real GDP Growth	3.1	-1.5	-1.5	Spreads over horizon (in %)*	
2 Nominal GDP Growth	6.1	0.9	0.5		
3 Real Disposable Income Growth	1.6	0.7	-0.5	0.92	1.56
4 Nominal Disposable Income Growth	4.5	2.4	1.2		
5 Unemployment	4.7	5.2	6.8		
6 CPI Inflation Rate	3.4	1.8	1.8		
7 3M Treasury	0.4	0.1	0.1		
8 3Y Treasury	1.3	1.2	1.3		
9 5Y Treasury	1.7	1.7	1.9		
10 7Y Treasury	2.0	2.0	2.2		
11 10Y Treasury	2.2	2.3	2.5		
12 BBB Corporate Yield	4.1	5.6	6.2		
13 Agency MBS 10 Year Yield	2.9	3.2	4.1	2.23	5.10
14 Non-Agency MBS 10 Year AA Yield	3.5	4.5	7.6		
15 CMBS 10 Year AA Yield	3.6	4.7	7.8		
16 CLO/CDO AA 5.5-7 Year AA Yield	3.8	4.7	7.2		
16 ABS - Cards 5 Year AAA Yield	2.1	2.5	3.9		
18 ABS-Auto Near prime 3 year AAA Yield	1.7	2.0	3.4		
19 Mortgage Rates	3.9	4.7	5.2		
20 Prime Rate	3.5	3.3	3.2		
21 Dow Jones	\$23,277.0	\$15,960.0	\$13,982.0		
22 House Price Index	183.0	181.0	173.0		
23 Commercial Real Estate Price Index	294.0	291.0	267.0	0.85	2.04
24 VIX	22.5	37.1	32.0		

*Spread to treasuries

Draft: 11/4/2424/25

Annex 2ii. Market Capacity Assumption

Illustrative Example only

Step 1: Estimate Unconstrained Sales Per Day

Insurer A has a \$100 billion portfolio of investment-grade corporate bonds, priced at par. Insurer A estimates that it holds approximately 5% of outstanding corporate bonds. In the adverse liquidity stress scenario, Insurer A's unconstrained liquidity stress testing model assumes that it can sell:

Time Horizon	% Able to Be Sold	Sale Price	Total Sale	Sales / Day
First 30 Days	10%	97	\$9.7 B	\$440 M
31-90 Days	20%	94	\$18.8 B	\$430 M
91-365 Days	50%	90	\$45.0 B	\$230 M

Step 2: Add Market Capacity Constraint

Assume the average daily trading volume in the secondary market for investment grade corporate bonds has been \$13.0 Billion over the past year. Insurer A estimates that trading volumes would decline by 40% in the adverse liquidity stress scenario to \$8.0 B per day.

Since Insurer A is 5% of the market, Insurer A can only trade \$400 M per day (\$8B x 5%) without paying a significant illiquidity premium and impacting the overall market.

Insurer A then repeats this process for every asset class in its investment portfolio.

Time Horizon	Unconstrained Sales / Day	Market Capacity Assumption	Impact
First 30 Days	\$440 M	\$400 M	(\$40 M)
31-90 Days	\$430 M	\$400 M	(\$30 M)
91-365 Days	\$230 M	\$400 M	\$0

Draft: 11/4/2424/25

Annex 2iii, A. Year-end Structured Spread Baseline Values

Commented [EB2]: To be updated as Lead State Guidance in early 2026

	Q4 2016 Baseline Spreads (%)	Q4 2024 Spreads (%) Averages*
Agency MBS 10 Year Yield	0.71	1.642
Non-Agency MBS 10 Year AA Yield	1.27	2.665
CMBS 10 Year AA Yield	1.37	2.565
CLO/CDO 5.5-7 Year AA Yield	1.87	2.181
ABS -Cards 5 Year AAA Yield	0.45	0.810
ABS-Auto Near prime 3 Year AAA Yield	0.44	0.851

*Quarterly averages;
Spread to treasuries

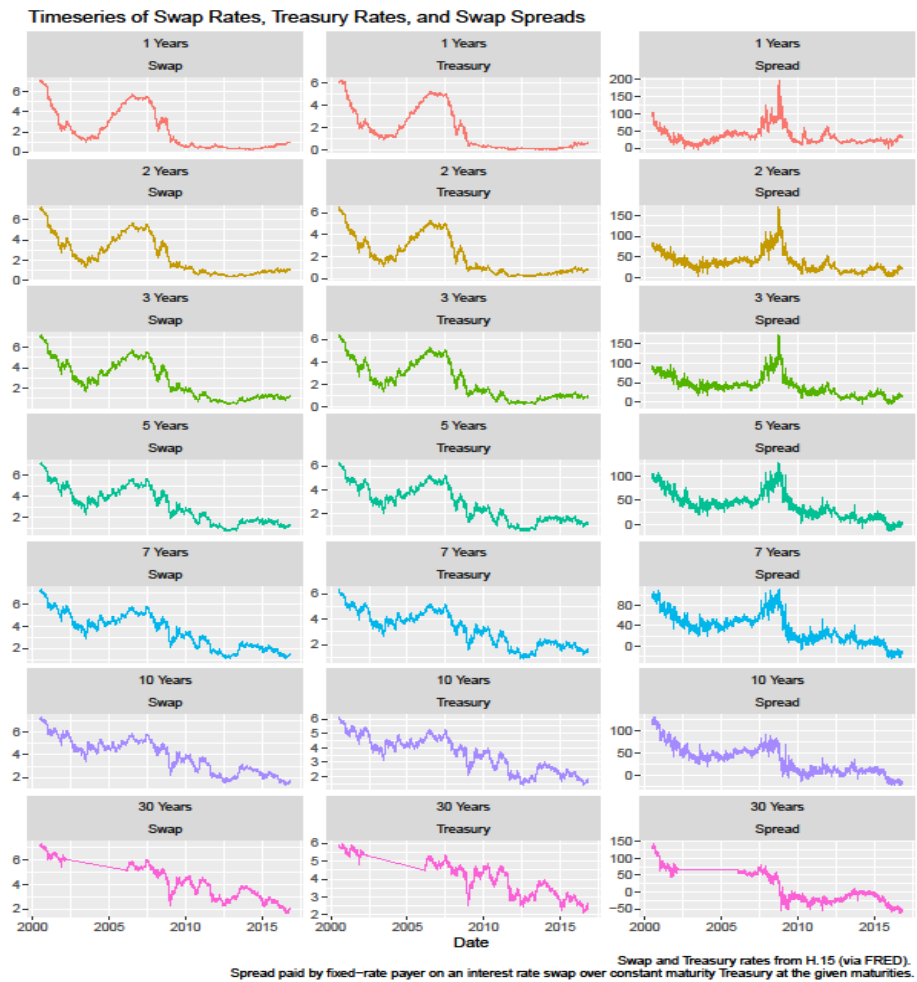
Draft: 11/4/24/25

Annex 2iv. SWAP Spread Table

Swap Spreads ^{1,2}						
Maturity	Baseline	1 Mo.	3 Mo.	6 Mo.	9 Mo.	12 Mo.
3 Mo.	X	X	X	X	X	X
5 Yr	X	X	X	X	X	X
10 Yr	X	X	X	X	X	X
20 Yr	X	X	X	X	X	X
30 Yr	X	X	X	X	X	X

1 - (Nominal) Swap Spreads (in BPS)

2 - IR Par Swap Spreads for USD, EUR, JPY, GBP, AUD and CAD



Source: Federal Reserve

Draft: 11/4/2424/25

Annex 2v. Implied Volatility of IR Swaptions

Implied Volatility		
Implied Normal Volatility of IR Swaption by Tenor and Expiry		
Time Horizon 0		
Tenor/Expiry	3Y	7Y
3 Mo.	X	X
3Y	X	X
5Y	X	X
7Y	X	X
10Y	X	X

Annex 2vi. Credit Assumptions: Moody's Transition Matrix/Migration Rates

Average one-year alphanumeric rating migration rates, 1983-2023

Commented [EB3]: To be updated as Lead State Guidance in early 2026

From\To	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca C	NR	Def
Aaa	87.36%	5.11%	2.16%	0.53%	0.28%	0.14%	0.02%	0.05%	0.00%	0.00%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.30%	0.00%
Aa1	1.60%	77.10%	7.79%	5.52%	1.35%	1.00%	0.20%	0.14%	0.07%	0.01%	0.00%	0.00%	0.01%	0.04%	0.02%	0.01%	0.02%	0.00%	0.00%	0.00%	5.08%	0.00%
Aa2	0.94%	4.11%	75.12%	9.59%	3.19%	1.50%	0.40%	0.08%	0.14%	0.06%	0.00%	0.01%	0.00%	0.00%	0.01%	0.02%	0.00%	0.00%	0.00%	0.00%	4.75%	0.00%
Aa3	0.14%	0.98%	4.02%	76.30%	8.53%	3.28%	0.78%	0.23%	0.23%	0.11%	0.00%	0.00%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.26%	0.04%
A1	0.04%	0.08%	0.97%	4.94%	77.66%	7.18%	2.43%	0.55%	0.38%	0.17%	0.15%	0.11%	0.04%	0.05%	0.01%	0.01%	0.01%	0.01%	0.01%	0.00%	5.14%	0.06%
A2	0.05%	0.03%	0.19%	0.93%	5.72%	77.54%	6.98%	2.33%	0.89%	0.33%	0.15%	0.12%	0.14%	0.05%	0.00%	0.01%	0.02%	0.00%	0.00%	0.00%	4.44%	0.04%
A3	0.04%	0.04%	0.08%	0.26%	1.32%	6.10%	76.86%	6.55%	2.33%	0.78%	0.30%	0.13%	0.11%	0.09%	0.04%	0.02%	0.02%	0.01%	0.00%	0.01%	4.86%	0.06%
Baa1	0.01%	0.02%	0.06%	0.09%	0.19%	1.31%	6.17%	77.64%	6.27%	1.97%	0.49%	0.25%	0.18%	0.21%	0.05%	0.02%	0.04%	0.00%	0.00%	0.00%	4.88%	0.09%
Baa2	0.03%	0.03%	0.01%	0.06%	0.14%	0.51%	1.64%	6.54%	77.21%	5.85%	1.15%	0.53%	0.38%	0.27%	0.16%	0.07%	0.08%	0.01%	0.01%	0.01%	5.13%	0.16%
Baa3	0.02%	0.01%	0.02%	0.03%	0.08%	0.14%	0.39%	1.62%	6.67%	74.16%	4.45%	1.86%	0.85%	0.88%	0.22%	0.22%	0.12%	0.08%	0.05%	0.04%	6.09%	0.26%
Ba1	0.01%	0.00%	0.01%	0.01%	0.14%	0.11%	0.20%	0.59%	2.20%	10.01%	65.67%	5.53%	3.81%	1.47%	0.55%	0.48%	0.14%	0.19%	0.04%	0.11%	8.03%	0.49%
Ba2	0.00%	0.00%	0.01%	0.02%	0.08%	0.10%	0.14%	0.31%	0.63%	3.52%	7.98%	65.12%	6.19%	3.63%	1.34%	0.81%	0.33%	0.21%	0.07%	0.12%	8.60%	0.71%
Ba3	0.00%	0.01%	0.01%	0.01%	0.05%	0.14%	0.15%	0.08%	0.38%	0.77%	2.77%	7.11%	64.91%	6.91%	3.01%	1.76%	0.69%	0.36%	0.08%	0.11%	9.41%	1.25%
B1	0.01%	0.01%	0.01%	0.01%	0.04%	0.02%	0.07%	0.08%	0.17%	0.34%	0.62%	2.68%	6.97%	63.74%	6.33%	4.35%	1.31%	0.73%	0.22%	0.24%	10.28%	1.76%
B2	0.00%	0.01%	0.00%	0.01%	0.01%	0.02%	0.08%	0.11%	0.12%	0.22%	0.19%	0.62%	2.03%	7.48%	62.51%	7.96%	3.54%	1.87%	0.42%	0.44%	9.61%	2.74%
B3	0.01%	0.00%	0.02%	0.00%	0.03%	0.03%	0.05%	0.03%	0.04%	0.08%	0.13%	0.23%	0.79%	2.47%	6.48%	60.65%	7.50%	3.35%	1.07%	0.77%	12.05%	4.23%
Caa1	0.00%	0.01%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.03%	0.05%	0.10%	0.20%	0.57%	1.25%	7.55%	59.33%	9.39%	2.82%	1.24%	13.68%	3.78%
Caa2	0.00%	0.00%	0.01%	0.00%	0.01%	0.01%	0.00%	0.00%	0.03%	0.05%	0.03%	0.02%	0.03%	0.25%	0.71%	1.75%	6.37%	60.43%	6.61%	2.81%	14.31%	6.49%
Caa3	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.02%	0.02%	0.09%	0.18%	0.89%	2.68%	9.92%	47.02%	9.22%	14.10%	15.82%
Ca C	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.00%	0.06%	0.11%	0.10%	0.12%	0.07%	0.35%	1.42%	1.61%	3.30%	5.98%	38.16%	19.02%	29.67%

Source: Moody's

Draft: 11/4/2424/25

Annex 2vii. Credit Assumptions: Moody's Default Table

Exhibit 40

Average cumulative issuer-weighted global default rates by letter rating, 1983-2023

Rating/Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Aaa	0.00%	0.01%	0.01%	0.03%	0.06%	0.09%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Aa	0.02%	0.06%	0.11%	0.19%	0.29%	0.37%	0.46%	0.54%	0.61%	0.69%	0.77%	0.88%	0.98%	1.05%	1.12%	1.19%	1.27%	1.39%	1.56%	1.70%
A	0.05%	0.16%	0.33%	0.50%	0.71%	0.94%	1.18%	1.43%	1.67%	1.92%	2.16%	2.40%	2.64%	2.93%	3.27%	3.60%	3.91%	4.23%	4.50%	4.78%
Baa	0.17%	0.43%	0.74%	1.08%	1.43%	1.78%	2.12%	2.51%	2.91%	3.32%	3.74%	4.19%	4.69%	5.16%	5.60%	6.06%	6.55%	6.96%	7.31%	7.61%
Ba	0.89%	2.45%	4.27%	6.18%	7.96%	9.62%	11.14%	12.56%	13.95%	15.36%	16.66%	17.96%	19.14%	20.25%	21.48%	22.59%	23.56%	24.42%	25.27%	25.78%
B	3.13%	7.52%	12.09%	16.31%	20.16%	23.62%	26.68%	29.39%	31.86%	34.04%	36.01%	37.90%	39.76%	41.64%	43.25%	44.82%	46.20%	47.54%	48.78%	50.07%
Caa-C	8.95%	16.14%	22.43%	27.87%	32.64%	36.60%	39.88%	42.79%	45.49%	47.75%	49.70%	51.08%	52.14%	52.87%	53.78%	54.80%	55.41%	55.99%	56.66%	57.24%
IG	0.09%	0.24%	0.43%	0.65%	0.88%	1.12%	1.35%	1.60%	1.85%	2.10%	2.36%	2.62%	2.89%	3.17%	3.45%	3.74%	4.02%	4.29%	4.54%	4.77%
SG	4.16%	8.40%	12.46%	16.11%	19.33%	22.12%	24.52%	26.64%	28.58%	30.34%	31.92%	33.39%	34.77%	36.08%	37.36%	38.57%	39.61%	40.58%	41.50%	42.26%
All	1.69%	3.38%	4.93%	6.28%	7.44%	8.42%	9.24%	9.97%	10.63%	11.22%	11.77%	12.28%	12.77%	13.25%	13.71%	14.16%	14.57%	14.96%	15.31%	15.62%

Commented [EB4]: To be updated as Lead State Guidance in early 2026

Source: Moody's

Annex 2viii. Credit Assumptions: Moody's Recovery Rate Table

Exhibit 9

Average debt ultimate recovery rates, 1987-2023

Debt type	Emergence year			Default year		
	2023	2022	1987-2023	2023	2022	1987-2023
Revolvers*	75.6%	94.5%	86.5%	81.2%	82.7%	86.5%
Term loans**	54.6%	73.6%	71.1%	49.1%	67.6%	71.1%
Senior secured bonds	49.2%	81.5%	61.7%	39.0%	84.5%	61.7%
Senior unsecured bonds	19.3%	40.9%	46.9%	12.4%	46.6%	46.9%
Subordinated bonds	—	—	27.9%	—	—	27.9%

The Moody's Ultimate Recovery Database primarily covers default resolutions of US nonfinancial companies. The emergence year column refers to recovery rates of companies that resolved their defaults that year regardless of when they defaulted. The default year column refers to recovery rates of companies that both defaulted and resolved their defaults in that same year.

* Includes cash revolvers and borrowing base facilities.

** Includes all types of term loans: first-, second-lien and unsecured

Source: Moody's Ultimate Recovery Database

Commented [EB5]: To be updated as Lead State Guidance in early 2026



DRAFT

MEMORANDUM

TO: Members, Interested Regulators, and Interested Parties of the Financial Stability Task Force and Macprudential Working Group

FROM: NAIC Committee Support

DATE: November 7, 2025

RE: Funding Agreement Blanks Proposal

Overview:

This memo contains NAIC staff recommendations for a Blanks Proposal to obtain additional disclosures for funding agreements that support Funding Agreement Backed Notes (FABNs) issued by life insurance companies.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) formed by life insurance companies. The life insurance regulated legal entities issue funding agreements to the SPV to pay principal and interest and the SPV in turn pays the principal and interest to the holders of FABNs.

The current insurance statutory Annual Statement reporting framework does not require the reporting of FABNs. However, under the current reporting system insurers do report the amount of funding agreements issued in the aggregate for all purposes, with disclosure of funding agreements issued in connection with FHLB advances. This proposal seeks separate reporting of funding agreements that back FABNs.

The Financial Stability Task Force (FSTF) is seeking additional funding agreement disclosures to monitor the activity in the FABN market in accordance with its financial stability monitoring objectives. This proposed disclosure will provide the FSTF the ability to identify transmission channels of potential risk to and from (inward and outward risks) the insurance industry and the interconnectedness to the capital markets.

If the FSTF adopts the proposal detailed within this memorandum, a referral will be sent to the Statutory Accounting Principles (E) Working Group to incorporate a new disclosure to *SSAP No. 52—Deposit-Type Contracts* and the FSTF Chair will sponsor a blanks proposal to incorporate new footnote disclosures to Exhibit 7-Deposit-Type Contracts.

Proposed Disclosure for SSAP No. 52—Deposit-Type Contracts

Reporting entities shall disclose information on funding agreements issued by the reporting entity that back funding agreement backed notes (FABNs). Disclosed information shall include a general description, with information on the use of the funding. The reporting entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs and identify whether any funding agreement supports putable FABNs. Amounts of funding agreements by the structure they support (foreign currency FABNs and repurchase agreement FABNs), currency denomination, and by maturity date timeframe shall be reported.

New Potential Narrative Note 31:

For funding agreements issued as Deposit-Type Contracts, a general description on how the funding is used. For funding agreements that back any form of funding agreement backed notes (FABN), the entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs.

Proposed Blanks Revision – Exhibit 7 Footnote:

b) Funding Agreements Backed Note (FABN) Funding Agreement Disclosures					
	1) Foreign currency denominated funding agreements that support FXFABNs				\$
	2) Funding agreements that support repurchase agreements (FABRs)				\$
	3) All other funding agreements that support FABNs				\$
				Total	\$
	4) Of the Total, funding agreements that support putable FABNs				\$

(Total should reflect all funding agreements that back FABNs reported as Deposit-Type Contracts, with the amount putable a subset of the total.)

	Do all funding agreement terms mirror the terms of the FABNs?	Y/N
--	--	------------

Summary of Funding Agreements by Currency Denomination:		
	Year-End Balance (USD)	Hedged (Y/N)
USD	\$	
EUR	\$	
GBP	\$	
CHF	\$	
CAD	\$	
AUD	\$	
Other	\$	
Total	\$	

(Total should Agree to Total FX Funding Agreements in Line 1 Above)

Funding Agreement Maturity Buckets			
	Fixed Rate	Floating Rate	Total
Remaining Years to Maturity	\$	\$	\$
Due in One Year or Less	\$	\$	\$
Due After One Year Through Five Years	\$	\$	\$
Due After Five Years Through Ten Years	\$	\$	\$
Due After Ten Years	\$	\$	\$
Total	\$	\$	\$

(Total should Agree to Total Funding Agreements Above)

(Include funding agreements that back zero coupon FABNs in the fixed rate column)

Corresponding Annual Statement Instructions:

Below are the current instructions with proposed additions in **red text**.

7 Exhibit Instructions

Line 4 – Other Net Changes in Reserves

Include: The net difference between periods when the reserve amount held differs from the accumulated account balance, including income accumulations less withdrawal and applicable surrender charges. Enter appropriate amounts from Line 0399999 of Exhibit 5A Changes in Bases of Valuation During the Year.

Increase/(Decrease) by Foreign Currency Adjustment:

Report amounts needed to adjust from the spot rate to a periodic rate. **Include foreign currency denominated funding agreements that back foreign currency denominated funding agreement backed notes in this adjustment.** Refer to *SSAP No. 23—Foreign Currency Transactions and Translations* for accounting guidance.

Exhibit 7 Footnote Instructions

Footnote (b) Funding Agreement Backed Note (FABN) funding agreement disclosures

Line 1 Foreign Currency Denominated Funding Agreements

Include: foreign currency denominated funding agreements that back foreign currency denominated funding agreement backed notes in USD.

Line 2 Funding Agreements that support Repurchase Agreements

Include: funding agreements that support Repurchase Agreements

Line 3 All other Funding Agreements

Include: all funding agreements that back funding agreement backed notes not included in lines 1, 2 or 3.

Line 4 Funding Agreements that back funding agreement backed notes with put features

Include: all funding agreements that back funding agreement backed notes whereby the FABN contains a put feature or embedded option that allows the holder of the note to put or redeem the note at their discretion.

Do all Funding Agreement terms mirror the terms of the FABNs? Y/N

Indicate Yes or No affirming the terms of all the funding agreements issued mirror or match the terms of the corresponding FABN. By terms we mean principal, interest, maturity and fixed or floating rate of interest.

Provide an explanation if the terms of the funding agreement do not match the corresponding FABN.

Summary of Funding Agreements by Currency Denomination

Identify: separately the different currencies of foreign currency denominated funding agreements reported in Line 1 in USD.

Funding Agreement Maturity Buckets

Identify: all funding agreements that back FABNs by the specified maturity buckets identified in the table. Additionally, separately identify the funding agreements as fixed or floating interest rate. Include funding agreements that back zero coupon FABNs in the fixed rate column

Acronym Glossary

FABNs-Funding Agreement Backed Notes. Sometimes referred to as FABS-Funding Agreement Backed Securities.

Putable FABNs-Funding Agreement Backed Notes with a put feature or embedded option. The put feature or option allows the holder of the note to put or redeem the note at their discretion.

FXFABNs-Foreign Currency Denominated Funding Agreement Backed Notes.

FABRs-Funding Agreement Backed Repurchase Agreements.

DRAFT



December 8, 2025

Mr. Robert Kasinow, Chairman

Macroprudential (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Funding Agreement Blanks Proposal

Submitted Electronically

Dear Mr. Kasinow:

The American Council of Life Insurers (ACLI) welcomes the opportunity to comment on the exposed Blanks Proposal for additional disclosures for funding agreements that support Funding Agreement Backed Notes (FABNs) issued by life insurance companies. We appreciate the Working Group's consideration of ACLI's draft disclosure for Exhibit 7 Additional Data for Funding Agreements Backing FABN.

We understand the regulators' intention for the disclosure to reflect issuances backed by funding agreements beyond just funding agreement backed notes (FABNs), including funding agreement backed repos (FABRs), funding agreement backed commercial paper (FABCP), funding agreement backed loans (FABLs), and direct funding agreements. To ensure sufficient time for us to ensure the disclosure better reflects the universe of issuances backed by funding agreements, ACLI respectfully requests a 45-day extension to the comment period until January 24, 2026.

We have appreciated the opportunity to collaborate with the Working Group in developing this disclosure and look forward to continuing our discussions.

Sincerely,

A handwritten signature in blue ink that reads "Marc Altschull".

Marc Altschull, CFA, FSA, MAAA
Senior Actuary
marcaltschull@accli.com

American Council of Life Insurers | 300 New Jersey Avenue, NW, 10th Floor | Washington, DC 20001

The American Council of Life Insurers is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 93 percent of industry assets in the United States.

202-624-2089

MEMORANDUM

TO: Justin Zimmerman, Chair, Financial Stability (E) Task Force

FROM: Robert Kasinow, Chair, Macroprudential (E) Working Group

DATE: December 10, 2025

RE: Funding Agreements backing Funding Agreement Backed Notes Referral

The Macroprudential (E) Working Group received, discussed, and exposed for public comment, a proposal to disclose funding agreements backing Funding Agreement Backed Notes (FABNs). ACLI had originally provided a suggested proposal, which the working group modified slightly and exposed for 30 days ending December 8, 2025. **One comment** was received from the ACLI with overall support of the proposal. ACLI made a few suggestions and their suggested edits are incorporated below, highlighted by strikethrough and red text.

The Macroprudential (E) Working Group would now like to refer this proposal to the Financial Stability Task Force (FSTF) so they in turn can make a referral to the by the Statutory Accounting Principles (E) Working Group on accounting and reporting aspects of the proposal as well as the Blanks (E) Working Group regarding incorporation into the Annual Statement.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) formed by life insurance companies. The life insurance regulated legal entities issue funding agreements to the SPV to pay principal and interest and the SPV in turn pays the principal and interest to the holders of FABNs.

The current insurance statutory Annual Statement reporting framework does not require the reporting of FABNs. However, under the current reporting system insurers do report the amount of funding agreements issued in the aggregate for all purposes, with disclosure of funding agreements issued in connection with FHLB advances. This proposal seeks separate reporting of funding agreements that back FABNs.

The Financial Stability Task Force (FSTF) is seeking additional funding agreement disclosures to monitor the activity in the FABN market in accordance with its financial stability monitoring objectives. This proposed disclosure will provide the FSTF the ability to identify transmission channels of potential risk to and from (inward and outward risks) the insurance industry and the interconnectedness to the capital markets.

Draft Proposal

Proposed Disclosure for SSAP No. 52—Deposit-Type Contracts

Reporting entities shall disclose information on funding agreements issued by the reporting entity that back funding agreement backed notes (FABNs). Disclosed information shall include a general description, with information on the use of the funding. The reporting entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs and identify whether any funding agreement supports putable FABNs. Amounts of funding agreements by the structure they support (foreign currency FABNs and repurchase agreement FABNs), currency denomination, and by maturity date timeframe shall be reported.

New Potential Narrative Note 31:

For funding agreements issued as Deposit-Type Contracts, a general description on how the funding is used. For funding agreements that back any form of funding agreement backed notes (FABN), the entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs.

Proposed Blanks Revision – Exhibit 7 Footnote:

b) Funding Agreements Backed Note (FABN) Funding Agreement Disclosures					
	1) Foreign currency denominated funding agreements that support FXFABNs				\$
	2) Funding agreements that support repurchase agreements (FABRs)				\$
	3) All other funding agreements that support FABNs				\$
				Total	\$
	4) Of the Total, funding agreements that support putable FABNs				\$

(Total should reflect all funding agreements that back FABNs reported as Deposit-Type Contracts, with the amount putable a subset of the total.)

	Do all funding agreement terms mirror the terms of the FABNs?	Y/N
--	--	------------

Summary of Funding Agreements by Currency Denomination:		
	Year-End Balance (USD)	Hedged (Y/N)
USD	\$	
EUR	\$	
GBP	\$	
CHF	\$	
CAD	\$	
AUD	\$	
Other	\$	
Total	\$	

(Total should Agree to Total FX Funding Agreements in Line 1 Above)

Funding Agreement Maturity Buckets			
	Fixed Rate	Floating Rate	Total
Remaining Years to Maturity	\$	\$	\$
Due in One Year or Less	\$	\$	\$
Due After One Year Through Five Years	\$	\$	\$
Due After Five Years Through Ten Years	\$	\$	\$
Due After Ten Years	\$	\$	\$
Total	\$	\$	\$

(Total should Agree to Total Funding Agreements Above)

(Include funding agreements that back zero coupon FABNs in the fixed rate column)

c) Funding Agreement Backed Repurchase Agreement Disclosure	
Funding agreements that support repurchase agreements (FABRs)	\$

(Please report all funding agreements that support repurchase agreements)

MEMORANDUM

TO: Dale Bruggeman, Chair, Statutory Accounting Principles (E) Working Group
Roy Eft, Chair, Blanks (E) Working Group

FROM: Justin Zimmerman, Chair, Financial Stability (E) Task Force

DATE: December 10, 2025

RE: Funding Agreements backing Funding Agreement Backed Notes

The Macroprudential (E) Working Group received, discussed, and exposed for public comment, a proposal to disclose funding agreements backing Funding Agreement Backed Notes (FABNs). ACLI had originally provided a suggested proposal, which the working group modified slightly and exposed for 30 days ending December 8, 2025. **One comment** was received from the ACLI with overall support of the proposal. ACLI made a few suggestions and their suggested edits are incorporated below, highlighted by strikethrough and red text.

The Financial Stability (E) Task Force refers this proposal to the Statutory Accounting Principles (E) Working Group on accounting and reporting aspects of the proposal as well as the Blanks (E) Working Group regarding incorporation into the Annual Statement.

FABNs are debt instruments issued by Special Purpose Vehicles (SPVs) formed by life insurance companies. The life insurance regulated legal entities issue funding agreements to the SPV to pay principal and interest and the SPV in turn pays the principal and interest to the holders of FABNs.

The current insurance statutory Annual Statement reporting framework does not require the reporting of FABNs. However, under the current reporting system insurers do report the amount of funding agreements issued in the aggregate for all purposes, with disclosure of funding agreements issued in connection with FHLB advances. This proposal seeks separate reporting of funding agreements that back FABNs.

The Financial Stability (E) Task Force (FSTF) is seeking additional funding agreement disclosures to monitor the activity in the FABN market in accordance with its financial stability monitoring objectives. This proposed disclosure will provide the FSTF the ability to identify transmission channels of potential risk to and from (inward and outward risks) the insurance industry and the interconnectedness to the capital markets.

Draft Proposal

Proposed Disclosure for SSAP No. 52—Deposit-Type Contracts

Reporting entities shall disclose information on funding agreements issued by the reporting entity that back funding agreement backed notes (FABNs). Disclosed information shall include a general description, with information on the use of the funding. The reporting entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs and identify whether any funding agreement supports putable FABNs. Amounts of funding agreements by the structure they support (foreign currency FABNs and repurchase agreement FABNs), currency denomination, and by maturity date timeframe shall be reported.

New Potential Narrative Note 31:

For funding agreements issued as Deposit-Type Contracts, a general description on how the funding is used. For funding agreements that back any form of funding agreement backed notes (FABN), the entity shall describe situations in which the funding agreement terms do not match the terms of the related FABNs.

Proposed Blanks Revision – Exhibit 7 Footnote:

b) Funding Agreements Backed Note (FABN) Funding Agreement Disclosures					
	1) Foreign currency denominated funding agreements that support FXFABNs				\$
	2) Funding agreements that support repurchase agreements (FABRs)				\$
	3) All other funding agreements that support FABNs				\$
				Total	\$
	4) Of the Total, funding agreements that support putable FABNs				\$

(Total should reflect all funding agreements that back FABNs reported as Deposit-Type Contracts, with the amount putable a subset of the total.)

	Do all funding agreement terms mirror the terms of the FABNs?	Y/N
--	--	------------

Summary of Funding Agreements by Currency Denomination:		
	Year-End Balance (USD)	Hedged (Y/N)
USD	\$	
EUR	\$	
GBP	\$	
CHF	\$	
CAD	\$	
AUD	\$	
Other	\$	
Total	\$	

(Total should Agree to Total FX Funding Agreements in Line 1 Above)

Funding Agreement Maturity Buckets			
	Fixed Rate	Floating Rate	Total
Remaining Years to Maturity	\$	\$	\$
Due in One Year or Less	\$	\$	\$
Due After One Year Through Five Years	\$	\$	\$
Due After Five Years Through Ten Years	\$	\$	\$
Due After Ten Years	\$	\$	\$
Total	\$	\$	\$

(Total should Agree to Total Funding Agreements Above)

(Include funding agreements that back zero coupon FABNs in the fixed rate column)

c) Funding Agreement Backed Repurchase Agreement Disclosure	
Funding agreements that support repurchase agreements (FABRs)	\$

(Please report all funding agreements that support repurchase agreements)

Fred Andersen, FSA, MAAA
12/10/2025

- AG 55 update, review plan
- AG 53 findings
 - Combination risks (policyholder behavior, assets)
- Coordination re: VOSTF restructuring

- **Actuarial Guideline 55**

- Addresses need for additional information on adequacy of assets supporting reinsurance in various scenarios
- Adopted by commissioners in August 2025 (templates adopted in Nov. 2025)
- First reports due April 2026

- **Review plan**

- State regulators on VAWG will prioritize AG 55 reviews during 2Q 2026
- Goal is for initial general findings to be presented at Summer 2026 national meeting

- **Actuarial Guideline 53**

- Requires disclosures and asset-related information for 250+ life insurers
- How their cash-flow testing models address those risks, ensure reserve adequacy
 - One scenario:
 - Reserve, premium, and investment return inflows >
 - Claim payment and expense outflows ...
 - Positive cash-flow testing results, adequate reserves
 - Another scenario: Negative results
 - Typically due to:
 - Investment returns being lower than expected and/or
 - Claim payments being higher than expected

- **Recent findings (from third round of annual submissions)**
 - Handling of non-traditional risks varies
 - With complex assets and complex products
 - Investment returns and claims payments may be difficult to predict
 - Potentially interaction between the two
 - Policyholder behavior may differ based on economic scenario
 - Options provided in AG 53: appropriate model rigor or added conservatism

- **Example 1: increased surrenders when assets are illiquid or distressed**
 - Perhaps not addressed by traditional cash-flow testing practices
 - Mainly focused on impacts of interest rate movements
 - Are factors leading to distressed assets appropriately modeled?
 - e.g., setback in residential mortgage market
- **Example 2: rich guarantee selection**
 - e.g., cash value of \$100 K versus guaranteed income with value of \$125 K
 - Best estimate + margin for conservatism is typically assumed
 - Uncertainty about the assumption may not be reflected in modeling
 - Tie in with economic scenario and asset performance may be appropriate

- Inquiries with companies planned re: handling of non-traditional risks
- Previous areas of focus:
 - Net yield assumptions - address outliers
 - Tranche ratings - more tailored focus on risky structured asset classes
 - Reporting of internally-determined fair values in cash-flow testing
 - Payment in Kind - ensuring actuaries interacting with investment staff

- New INVAWG group
 - Will monitor and analyze risks associated with complex assets
- Coordination between VAWG and INVAWG
 - Issues that are lightly asset-focused and heavily actuarially focused -> VAWG
 - Issues that are lightly actuarially-focused and heavily asset focused -> INVAWG
 - Several regulators will be on both groups