2022 Summer National Meeting
Portland, Oregon

FINANCIAL CONDITION (E) COMMITTEE
Friday, August 12, 2022
1:30 – 2:00 p.m.
Oregon Convention Center—Oregon Ballroom 201-204—Level 2

ROLL CALL

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

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

AGENDA

1. Consider Adoption of its July 21, May 20, and Spring National Meeting Minutes —Commissioner Scott A. White (VA)  
   Attachment One

   Attachment Two

3. Consider Adoption of its Task Force and Working Group Reports — Commissioner Scott A. White (VA)  
   A. Accounting Practices and Procedures (E) Task Force  
      Attachment Three
   B. Capital Adequacy (E) Task Force  
      Attachment Four
   C. Examination Oversight (E) Task Force  
      Attachment Five
   D. Financial Stability (E) Task Force  
      Attachment Six
   E. Group Capital Calculation (E) Working Group  
      Attachment Seven
   F. Group Solvency Issues (E) Working Group  
      Attachment Eight
   G. Mutual Recognition of Jurisdictions (E) Working Group  
      Attachment Nine
   H. National Treatment and Coordination (E) Working Group  
      Attachment Ten
   I. Receivership & Insolvency (E) Task Force  
      Attachment Eleven
   J. Reinsurance (E) Task Force  
      Attachment Twelve
   K. Valuation of Securities (E) Task Force  
      Attachment Thirteen

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

6. Adjournment
1. **Heard Opening Comments**

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

2. **Adopted a Request for NAIC Model Law Development**

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

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

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

Commissioner White noted that this item received a great deal of attention, including from Senator Sherrod Brown (D-OH), and he asked for a summary of the work. Commissioner Caride summarized the work leading to...
consideration of adoption of the proposed document, which includes the “Regulatory Considerations Applicable to (But Not Exclusive to) Private Equity (PE) Insurers.” She reminded the Committee that the Financial Stability (E) Task Force previously charged the Macroprudential (E) Working Group with coordinating all NAIC efforts related to PE ownership of insurers. She noted that the Working Group quickly put together a list of 13 considerations state insurance regulators need to address after being charged with such work, noting that some NAIC committee groups were already working on issues related to some of the considerations. These considerations include activities frequently attributed to PE firms, but the Working Group members clearly specified that the list of 13 considerations is not limited to any specific ownership structure, PE or otherwise.

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

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

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

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

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

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

5. Received an Update on Related Party Disclosures

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

Mr. Bruggeman provided a summary of the revisions and key discussion elements with the intent of understanding the information in advance of being asked to consider action. He noted that the primary goal of the adopted changes is to incorporate new reporting requirements for investment transactions to provide more transparency into the involvement of related parties. The intent is to provide information to state insurance regulators on whether an investment involves: 1) actual credit exposure to related parties; or 2) whether an investment involves a related party in the origination, servicing, or some other involvement with the investment. He noted that the revisions will affect all insurance reporting entities and will be effective Dec. 31. He stated that they affect all investment schedules except for Schedule A: Real Estate and will require the identification of related party involvement, for every investment, including investments captured on the affiliate reporting line. Note that an affiliate is a related party relationship for which there is control, either direct or indirect. Mr. Bruggeman stated
that there are six different codes that insurers will use to identify the type of related party involvement, or there is no related party relationship. The code is required for all investments to prevent “null” answers in which there is ambiguity on whether a response indicates no related party relationship or an inadvertent omission in reporting. 

Mr. Bruggeman noted that it is his experience that databases work better when they do not have to account for null fields. He noted that in addition to those new reporting codes, the Statutory Accounting Principles (E) Working Group adopted clarifications to make it clear that the existing affiliate definition applies to all types of entities and investment structures, including securitizations. He also noted that the current definition of “control” from Model #440 is already explicit that control can exist through arrangements besides voting interests. He stated that the clarifications add specificity around the application of this existing guidance to other types of non-voting entities. For example, securitization entities are typically controlled through non-voting arrangements. In addition, to the extent that such control is held by the reporting entity or its affiliates, then the securitization entity and any investments in it would be deemed affiliated.

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

6. Received an Update on the Bond Proposal Project

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

Mr. Bruggeman summarized the progress on the project by noting that state insurance regulators and key industry representatives have been working on this project as a top priority to improve accounting and reporting and ensure that regulators have transparency to the investment risks held by insurers. At this time, the key state insurance regulator and industry individuals involved in the project believe that the main principles are set. Mr. Bruggeman noted that during a Statutory Accounting Principles (E) Working Group call on July 18, a representative from the main interested party group reiterated comments that state insurance regulators and industry are aligned with key concepts. As a result, NAIC staff were asked to prepare documents for changes to SSAP No. 26R—Bonds and SSAP No. 43R—Loan-Backed and Structured Securities so those can hopefully be exposed during the Summer National Meeting. He noted that this is a key next step, as the statutory guidance reflects the authoritative literature for investment classification and accounting concepts. Also from the July 18 call, the Working Group exposed documents until Oct. 7, proposing significant revisions to the reporting of bond investments to improve the granularity of investment reporting. This is a significant change from the current reporting approach, but it will provide valuable information to state insurance regulators on the actual investments held by insurers.
Mr. Bruggeman highlighted key aspects of this exposure. He noted that the bond detail list schedule, known as Schedule D Part 1, is proposed to be expanded from one to two separate schedules. He noted that Schedule D Part 1 Section 1 will include issuer obligations, and Schedule D Part 1 Section 2 will include ABS. The sum of the two schedules will still roll up to the Bonds line on the Assets page. He stated that rather than classifying all bonds into one of four generic reporting groups, new reporting groups have been proposed to separate investments based on underlying characteristics. To provide examples, instead of classifying all ABS as either residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), or other ABS, reporting lines are proposed to identify collateralized loan obligations (CLOs), equity-backed ABS, and lease-backed ABS. He noted that with the separation of the schedules, different data columns can be designed based on the broad investment classification. A review of the reporting instructions has been completed, and several revisions are proposed to streamline reporting, eliminate elements not applicable to certain securities, and propose new columns to capture desired information. Mr. Bruggeman stated that the revisions should result in an improvement to state insurance regulators on provided information and eliminate inconsistency or uncertainty for industry in compliance.

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

Having no further business, the Financial Condition (E) Committee adjourned.
The Financial Condition (E) Committee conducted an e-vote that concluded May 20, 2022. The following Committee members participated: Scott A. White, Chair (VA); Michael Conway (CO); Doug Ommen represented by Carrie Mears (IA); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Kathleen Orth (MN); Adrienne A. Harris represented by My Chi To (NY); Cassie Brown represented by Jamie Walker (TX); Nathan Houdek represented by Amy Malm (WI); and Jeff Rude (WY).

1. **Adopted a Draft Memorandum of Support**

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

Having no further business, the Financial Condition (E) Committee adjourned.
The Financial Condition (E) Committee met in Kansas City, MO, April 5, 2022. The following Committee members participated: Scott A. White, Chair (VA); Elizabeth Kelleher Dwyer, Vice Chair, represented by Jack Broccoli (RI); Michael Conway (CO); David Altmayer (FL); Doug Ommen represented by Carrie Mears (IA); Maine represented by Vanessa Sullivan and Robert Wake (ME); Grace Arnold represented by Kathleen Orth and Fred Andersen (MN); Chlora Lindley-Myers (MO); Mike Chaney represented by David Browning (MS); Marlene Caride (NJ); Adrienne A. Harris represented by My Chi To and Bob Kasinow (NY); Raymond G. Farmer (SC); Cassie Brown, Jamie Walker, and Mike Boerner (TX); Nathan Houdek and Amy Malm (WI); and Jeff Rude (WY). Also participating were: Phillip Barlow (DC); and Dale Bruggeman (OH).

1. **Adopted its Jan. 12 and 2021 Fall National Meeting Minutes**

The Committee met Jan. 12 to expose a request for comment suggesting a revised approach to risk-based capital (RBC) requirements for structured securities and other asset-backed securities (ABS) with comments due to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

Commissioner Caride made a motion, seconded by Ms. Malm, to adopt the Committee’s Jan. 12, 2022 (Attachment One) and Dec. 13, 2021 (see NAIC Proceedings – Fall 2021, Financial Condition (E) Committee) minutes. The motion passed unanimously.

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

Commissioner White stated that the Committee usually takes one motion to adopt the Committee’s task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards; i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial. He reminded Committee members that subsequent to the Committee’s adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC members for review shortly after the conclusion of the Spring National Meeting as part of the Financial Condition (E) Committee Technical Changes report. Pursuant to the Technical Changes report process previously adopted by the NAIC Plenary, the members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately. With respect to the task force and working group reports, Commissioner White asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the members for consideration as part of the Financial Condition (E) Committee Technical Changes report; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or workings groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner White also noted that the Financial Analysis (E) Working Group met April 4, Feb. 23, and Jan. 26 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 23, Feb. 8, and Jan. 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.
Commissioner Caride made a motion, seconded by Director Lindley-Myers, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment Two); Restructuring Mechanisms (E) Working Group (Attachment Three); and National Treatment and Coordination (E) Working Group (Attachment Four). The motion passed.

3. **Adopted a Model Law Extension Request from the Mortgage Guaranty Insurance (E) Working Group**

Commissioner White described how the Committee and the Executive (EX) Committee approved a project in years prior to update the *Mortgage Guaranty Insurance Model Act* (#630). He described how the Working Group still had develop a new capital model, as well as finalized the changes to #630. He noted the Working Group was requesting an extension on the development of changes to (#630) as outlined in the request, but that based upon where things stood today and things being in the home stretch, he was not sure why the Committee would not approve the request.

Director Farmer made a motion, seconded by Commissioner Conway, to adopt the extension request (Attachment Five). The motion passed.

4. **Received an Update on Committee-Supported Initiatives**

Commissioner White stated the next item was to receive an update on what is described as Committee-supported initiatives. He said what he means by that are updates from several chairs on work that he would describe as a priority. He stated the organizing principle underlying the priorities of the Committee this year is tied to the low interest rates and the impact that has had on asset risk in the industry. He noted that the industry has been in this low interest rate environment more or less since the Great Recession of 2007. That environment has put pressure on the life insurance industry in particular, given its dependence on long-term investments. That has led some insurers to adopt a riskier asset strategy. Commissioner White provided an example where state insurance regulators have seen a shift away from more conservative senior debt holdings towards higher yielding investments such as structured securities and other ABS. He noted state insurance regulators have also seen the growing trend of many insurers selling their annuity business to private equity investors. All of this has led to increased complexity and heightened scrutiny on the part of the Committee to determine whether additional safeguards to the solvency framework are needed. He said as state insurance regulators, it is important to make sure that this trend toward higher yields is balanced with the security necessary to ensure that companies can meet their obligations.

a. **Investment RBC**

Commissioner White noted that there are some concerns that the RBC framework may be contributing to this behavior of companies searching for higher yield. He noted that for those who were at the 2021 Fall National Meeting, at that time he led a discussion about the fact that structured credit is treated the same as corporate bonds for the purposes of RBC. That is true even though structured credit has a more extreme risk profile. He indicated that in order to address this, the Committee supported creating a new working group to examine whether increased RBC charges for these types of investments should be considered. He introduced Mr. Barlow to provide an update on the work.

Mr. Barlow discussed how the Risk-Based Capital Investment Risk and Evaluation (E) Working Group met March 22 to discuss four comment letters received from the Financial Condition (E) Committee exposure. He noted that during the meeting, the Working Group also adopted its working agenda. Finally, the Working Group discussed...
the path forward to address the charges and working agenda. He noted that among the conclusions from that meeting were: 1) a series of meetings following this meeting will provide an opportunity to address the charges and working agenda; 2) assets will be addressed sequentially, starting with those having the biggest impact, which is likely the collateralized loan obligations (CLOs); 3) the Working Group is not ready to engage a consultant, but it may need consulting assistance as details emerge. Mr. Barlow noted that the Working Group also has a long list of investment-related issues that had been referred to Capital Adequacy (E) Task Force, but the goal is to address the priority items identified by the Committee first. As this is done, the Working Group will look at the process holistically from the financial statement reporting and assignment of designations through the RBC charges.

Mr. Barlow discussed his desire to have a process that relies on the annual statement reporting and rating designations to determine the RBC charge rather than “company records” or information in the notes, interrogatories, or otherwise determined by the filer. This should help with transparency and consistency. He stated he would also like a process that establishes a methodology for identifying and dealing with new assets or asset classes that can adjust in response to the volume in insurers portfolios. He noted that the Working Group has good representation from other impacted task forces and working groups, including the Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group, Property and Casualty Risk-Based Capital (E) Working Group, Capital Adequacy (E) Task Force, Valuation of Securities (E) Task Force, and Statutory Accounting Principles (E) Working Group. At this point, Mr. Barlow said there seems to be a general consensus on the path forward. Since all of the members bring different expertise to this, he said the Risk-Based Capital Investment Risk and Evaluation (E) Working Group is engaging in some educational sessions to increase its collective knowledge, gathering data to help prioritize projects, and making sure all information is equally shared so there is a collective understanding of the issues involved. Mr. Barlow closed by noting that while there are a lot of items on the Working Group’s agenda, it will address them as expeditiously as possible.

b. Statutory Accounting

Commissioner White discussed how the Statutory Accounting Principles (E) Working Group is currently focused on improving accounting for certain structured securities and cited an example where there has been an increase in debt instruments that have underlying collateral assets that are more equity-based. He said state insurance regulators want to make sure that equity risk is not masked and that the asset receives the proper RBC charge.

Mr. Bruggeman, Statutory Accounting Principles (E) Working Group chair, noted that the Working Group has been working on a long-term project to update the investment-related Statements of Statutory Accounting Principles (SSAPs), which are currently focused on the legal form or structure of investments rather than their substance. He noted how opportunity existed, and still exists, to report any item as a bond by acquiring it through a special purpose vehicle (SPV) in the form of a debt instrument, regardless of whether the insurer investor was in a different economic position; i.e., holding the underlying assets directly. For example, under the existing guidance, an SPV could hold equity items, the SPV could issue an instrument in the form of debt (various tranches, but not the residual tranche, which is now a Sch BA investment) with pass-through performance of the equity items, and the reporting entity would be permitted to report that debt issuance from the SPV as a bond, when in actuality they have equity risk. Mr. Bruggeman described that the Statutory Accounting Principles (E) Working Group knew it needed more principle-based bond accounting. Doing so would allow an increasingly innovative asset-backed bond market to be accounted for based upon its substance as opposed to its form.

Mr. Bruggeman said that in fall 2020, a small group of state insurance regulators and industry with detail investment knowledge produced principles and a flowchart of when an investment can be reported as a bond. The group also had initial discussion to increase transparency in reporting with improved classifications on the distinct types of bonds and ABS that qualify for reporting as a bond. In May 2021, the Statutory Accounting Principles (E) Working Group exposed and heard comments on the principles-based bond definition, which
included many examples of what would meet the definition. It also expanded the small group of state insurance regulators with industry to get more perspectives for staff direction. After much discussion and clarifying examples, the Statutory Accounting Principles (E) Working Group exposed a revised principles-based bond definition and an issue paper for a public comment period ending May 6, and it directed NAIC staff to begin amending language for state insurance regulators’ review. During the Spring National Meeting, the Statutory Accounting Principles (E) Working Group received comments and an update regarding potential reporting options to revise the bond schedule. After hearing comments, the state insurance regulators directed NAIC staff to develop a more robust illustration of the reporting proposal selected, with a choice for certain ABS bonds to be on a bond sub-schedule versus wedging in with sub-total lines, and with a goal to expose in May. The direction also noted that NAIC staff should continue to work with interested parties, especially category descriptions.

c. Reliance on Rating Agencies

Commissioner White noted that another area the Committee is looking at is the role of rating agencies. The key role that rating agencies play in the value of insurer investments again ties into this concern over how the industry is reacting to the low interest rate environment. He said the Committee has been asking if there is an overreliance on rating agencies, and if so, how can it address that.

Ms. Mears described how the Valuation of Securities (E) Task Force had initiated several steps to look at how the NAIC uses rating agency ratings in the assignment of NAIC designations. The first is a proposal from Securities Valuation Office (SVO) staff to add market-data analytical fields for bond investments to the annual statement instructions. She described how the proposed amendment, if adopted, would be a first step towards achieving a core recommendation from the former Rating Agency (E) Working Group to the Committee in 2010 to lessen the NAIC’s reliance on rating agency ratings by looking at other measures of risk. The proposed additional fields would include market yield, interest rate sensitivity measures like effective duration and convexity, and risk premium indications, among others. After this critical analytical information on bond risk is reported, the Task Force and the SVO will be able to review for inconsistencies that may appear between these risk measures and the reported rating and determine if additional changes are needed.

Ms. Mears noted that the Valuation of Securities (E) Task Force sent informational referrals on this proposal to the Life Actuarial (A) Task Force and the Capital Adequacy (E) Task Force as this information could be useful in the achievement of their objectives and charges. She said the Valuation of Securities (E) Task Force anticipates continued coordination with the Statutory Accounting Principles (E) Working Group and its updates to the bond reporting schedules.

Ms. Mears explained that another key effort is the establishment of an ad hoc discussion group that includes state insurance regulators, insurance company staff, and NAIC staff. The ad hoc group is talking through the issue of the NAIC’s reliance on rating agency ratings and the rating inconsistencies across rating organizations observed by the SVO and reported to the Task Force in their memorandum from November of 2021. Some key objectives of this ad hoc group include: 1) establishing a framework of qualitative and quantitative criteria for being a credit rating provider (CRP) to the NAIC; 2) eliminating or minimizing RBC arbitrage opportunities between CRP ratings and asset classes; 3) defining a repeatable quantitative process to evaluate rating performance for all rating agencies consistent with RBC factors; and 4) considering how the incorporation of market data noted earlier can be used to identify potential misalignments of risk. Finally, the SVO continues to make targeted recommendations to the Task Force to address specific issues with ratings. The most recent include proposed changes to the definition of principal protected securities to include synthetic variants of these securities not previously contemplated, and an updated definition of securities with non-payment risks other than traditional credit risk that will need to be reviewed by the SVO.
Ms. Mears explained that a key to many of these efforts is the SVO need for additional technology resources. This will become more of an issue as the group takes on some of these additional responsibilities that are more analytically intensive. Finally, the NAIC’s Structured Securities Group (SSG), which currently models residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) for designation and capital purposes, is looking at the possibility of modeling additional asset classes to lessen the NAIC’s reliance on rating agency ratings for these complex investment structures.

d. Asset Adequacy Testing for Complex Assets

Commissioner White said that not all of the work in this area is being done in the Committee. He noted several ongoing projects in the Life Actuarial (A) Task Force, adding that the Committee and in particular Director Judith L. French (OH) are engaged with those. He asked Mr. Anderson to provide an update on a proposed actuarial guideline to address certain high risk or “high yield” assets in an insurer’s asset adequacy testing.

Mr. Andersen discussed the development of a new actuarial guideline related to asset holdings and their related risks. He noted that the work was part of the coordinated efforts of the NAIC, overseen by the Macroprudential (E) Working Group, to ensure appropriate regulation of the developments seen regarding an increase in private equity and complex assets in the life insurance industry. He explained that the Life Actuarial (A) Task Force is focused on aspects related to reserve adequacy and, as a result, working to help ensure life insurers involved in complex assets will be able to pay claims even if those assets do not perform as expected. Mr. Andersen noted during its most recent meeting, the Life Actuarial (A) Task Force met to discuss comments on a first draft of an actuarial guideline that would provide documentation and sensitivity testing requirements on life insurers engaged in such activity. Mr. Anderson noted that the guideline was expected to be adopted by the NAIC at the Summer National meeting in early August. He said, however, that partly due to the aggressive time frame, some of the more controversial aspects that were in the first draft, including application of guardrails that could directly affect the financials of some insurers, will be deferred to later discussions that are not part of the aggressive 2022 time frame. He said that the resulting documentation and sensitivity tests that will likely be included in the 2022 guideline adoption will provide information to state insurance regulators, including: analysis of the risks of the complex assets, details underlying the assumptions on how those assets will perform, expectations on the sophistication of the company models matching the complexity of the assets, identification of practices in determining fair values for assets that do not have deep markets, information on privately-originated assets and fees, and assurance that any counterparty risk related to reinsurance deals are considered and documented. He concluded by noting that over the next several weeks, there will be movement to turn the first draft into a final draft that is ready for adoption.

e. ESG

Commissioner White introduced Mr. Boerner, Life Actuarial (A) Task Force chair, who updated the Committee on a new economic scenario generator (ESG) that is intended to better capture the potential for lower interest rates for extended periods, which is lacking in the current ESG.

Mr. Boerner provided background on the work, noting that in 2017, the American Academy of Actuaries (Academy) notified the Life Actuarial (A) Task Force that it did not have the resources to maintain the prescribed ESGs, except in their current form until a suitable replacement could be found. In June 2019, the Financial Stability (E) Task Force noted a potential deficiency in the prescribed ESGs related to a limited reflection of extended periods of low and even negative interest rates and requested the Valuation Analysis (E) Working Group assess the macro prudential risk to insurance organizations in the U.S. with a focus on variable annuity writers. He noted
that in July 2019, the Life Actuarial (A) Task Force and Life Risk-Based Capital (E) Working Group requested that NAIC staff consider issuing a request for proposal (RFP) for a vendor to build and maintain a new ESG to be used in the determination of statutory reserves and capital. After extensive work with state insurance regulators and ESG subject matter experts (SMEs) from the life insurance industry, the NAIC issued the RFP for a new ESG in March 2020.

Mr. Boerner stated that upon reviewing proposals from six companies, Conning was selected as the ESG vendor and approved by the Executive (EX) Committee in September 2020. After the contract was in place with Conning, an ESG Drafting Group comprised of state insurance regulators, Conning staff, and NAIC staff was formed to develop ESG recommendations to the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group. To incorporate more industry feedback into the process, industry SMEs were added to the ESG Drafting Group in June 2021, which met weekly until recently to focus more attention on planning a June field test. He noted that any ESG for field testing or a final ESG is composed of three sets of scenarios: 1) those from a Treasury model; 2) those from an Equity model; and 3) those from a Corporate Bond model. With such models in mind, a few collaborative examples over the course of the ESG Drafting Group discussions, where state insurance regulators incorporated feedback from the industry SMEs, included 1) using statistics and input from the SMEs to develop the acceptance criteria for the Treasury model; 2) directing Conning to produce scenarios according to alternative calibration suggested by SMEs and including the alternative calibration as one of the proposed Treasury models to field test; and 3) directing Conning to alter the international equity indices to align the fund’s expected returns on a risk/reward basis relative to the U.S. large cap fund for the Equity model.

Mr. Boerner said that it was also planned for Conning to work on development of an SME-proposed “simplified corporate bond model” after the field test begins. Conning’s corporate bond model is able to reproduce the key dynamics of bond returns. However, some of the information in this model is proprietary. The SMEs’ simplified corporate bond model is intended to be fully transparent and nonproprietary. The development of such a simplified corporate bond model involves a significant effort, which would not make it in time for a June field test. However, such a simplified corporate bond model would focus on having similar scenarios as the Conning corporate bond model so that use of the Conning corporate bond model will be relevant for the June field test.

Mr. Boerner noted that achieving the June field test is especially important to help determine the ESG’s impact on industry reserves and capital and to help state insurance regulators understand the materiality of technical issues brought up by the industry SMEs. In place of the ESG Drafting Group meetings, the state insurance regulators have transitioned to conducting weekly meetings with state insurance regulators, industry SMEs, Conning staff, and NAIC staff to plan for the June field test. This is in addition to weekly planning meetings, which also include American Council of Life Insurers (ACLI) and Academy representation to plan for future efforts and meetings of the ESG initiative. Mr. Boerner noted next steps that would take place prior to the ESG June field test include: 1) refining the recommended ESG models for field testing; 2) building out field test specifications, instructions for participants, and a results template; 3) determining the final set of field test participants and field test product coverage; and 4) preparing the necessary scenario sets for delivery to field test participants.

Mr. Boerner said the steps that would occur after the June field test include: 1) analyzing results of the field test; 2) adjusting ESG models as appropriate where model office programs may help inform appropriate adjustments; 3) planning for a follow-up field test early next year to test adjusted models; and 4) discussing results of that field test. He also noted that if the ESG models were ready for implementation, then work on implementation for 2024 would begin if timing permits. He explained that the steps will involve: 1) joint open meetings of the Task Force and the Life Risk-Based Capital (E) Working Group; 2) continued planning meetings, including early next year field test planning calls; and 3) ESG Drafting Group meetings as needed.

Commissioner White stated his appreciation for all of the chairs who provided updates on these important initiatives, as well as all the state insurance regulators involved in developing the work. He stated it should be
clear to the Committee that a lot of great work is occurring, with a great deal of coordination also occurring on these projects—all intended to address the low yield environment. He said that it is not the intent of the Committee to overrule the details of work of these groups and noted that each of these projects are important and are supported by the Committee given their objectives. Ms. To agreed with Commissioner White and noted her support for all of the projects given each is intended to address the asset and spread risk faced by the industry. She stressed that they were also important to level the playing field and described how she expects the industry to fully participate and collaborate in helping to develop these solutions to these issues.

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

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

FROM: Statutory Accounting Principles (E) Working Group

DATE: August 2, 2022

RE: Related Party Reporting

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

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

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

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

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

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

Both the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group unanimously adopted the revisions, with a Dec. 31, 2022, effective date. The Statutory Accounting Principles (E) Working Group reviewed industry comments and incorporated limited revisions to the initially exposed statutory accounting changes and stated support for the exposed blanks reporting revisions with their adoption. No industry comments were presented at the Blanks (E) Working Group. Therefore, the Working Group recommends adoption of these revisions by the Task Force and the Committee.
Adopted revisions to SSAP No. 25: (New paragraph 9. Remaining paragraphs would be renumbered.)

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

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

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

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

   a. Any limited partner investment in a limited partnership, unless the limited partner is affiliated with the general partner.

   b. An entity where the insurer owns less than 50% of an entity and there is an unaffiliated individual or group of investors who own a controlling interest.

   c. An entity where the insurer has given up participation rights as a shareholder to the investee.

8. Any direct or indirect ownership interest of the reporting entity greater than 10% results in a related party classification regardless of any disclaimer of control or disclaimer of affiliation. The Insurance Holding Company System Regulatory Act (#440) and the Insurance Holding Company System Model Regulation (#450) include a provision that allows for the disclaimer of affiliation and/or the disclaimer of control for members of an insurance holding company system. The disclaimer must be filed with the state insurance

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

4. Loan-backed securities are issued by special-purpose corporations or trusts (issuer) established by a sponsoring organization. The assets securing the loan-backed obligation are acquired by the issuer and pledged to an independent trustee until the issuer’s obligation has been fully satisfied. The investor only has direct recourse to the issuer’s assets, but may have secondary recourse to third parties through insurance or guarantee for repayment of the obligation. As a result, the sponsor and its other affiliates may have no financial obligation under the instrument, although one of those entities may retain the responsibility for servicing the underlying assets. Some sponsors do guarantee the performance of the underlying assets.

5. Mortgage-referenced securities do not meet the definition of a loan-backed or structured security but are explicitly captured in scope of this statement. In order to qualify as a mortgage-referenced security, the security must be issued by a government sponsored enterprise or by a special purpose trust in a transaction sponsored by a government sponsored enterprise in the form of a “credit risk transfer” in which the issued security is tied to a referenced pool of mortgages and the payments received are linked to the credit and principal payment risk of the underlying mortgage loan borrowers captured in the referenced pool of mortgages. For these instruments, reporting entity holders may not receive a return of their full principal as principal repayment is contingent on repayment by the mortgage loan borrowers in the referenced pool of mortgages. Unless specifically noted, the provisions for loan-backed securities within this standard apply to mortgage-referenced securities.

6. Investments within the scope of this statement issued by a related party or acquired through a related party transaction or arrangement are also subject to the provisions, admittance assessments and disclosure requirements of SSAP No. 25. In determining whether a security is a related party investment, consideration should be given to the substance of the transaction, and the parties whose action or

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

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

performance materially impacts the insurance reporting entity holding the security. Loan-backed and structured securities meet the definition of assets as defined in SSAP No. 4—Assets and Nonadmitted Assets and are admitted assets to the extent they conform to the requirements of this statement and SSAP No. 25.

a. Although a loan-backed or structured security may be acquired from a non-related issuer, if the assets held in trust predominantly reflect assets issued by affiliates of the insurance reporting entity, and the insurance reporting entity only has direct recourse to the assets held in trust, the transaction shall be considered an affiliated investment. In such situations where the underlying collateral assets are issued by related parties that do not qualify as affiliates, these securities shall be identified as related party investments in the investment schedules.

b. A loan-backed or structured security may involve a relationship with a related party but not be considered an affiliated investment. This may be because the relationship does not result in direct or indirect control of the issuer or because there is an approved disclaimer of control or affiliation. Regardless of whether investments involving a related party relationship are captured in the affiliated investment reporting lines, these securities shall be identified as related party investments in the investment schedules. Examples of related party relationships would include involvement of a related party in sponsoring or originating the loan-backed or structured security or any type of underlying servicing arrangement. For the avoidance of doubt, investments from any arrangement that results in direct or indirect control, which include but are not limited to control through a servicer or other controlling arrangement, shall be reported as affiliated in accordance with SSAP No. 25—Affiliates and Other Related Parties.

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4 In applying this guidance, a reporting entity is not required to complete a detailed review of the assets held in trust to determine the extent, if any, the assets were issued by related parties. Rather, this guidance is a principle concept intended to prevent situations in which related party transactions (particularly those involving affiliates) is knowingly captured in a SSAP No. 43R structure and not identified as a related party transaction (or not reported as an affiliated investment on the investment schedule) because of the involvement of a non-related trustee or SSAP No. 43R security issuer. As identified in SSAP No. 25—Affiliates and Other Related Parties, it is erroneous to conclude that the inclusion of a non-related intermediary, or the presence of non-related assets in a structure predominantly comprised of related party investments, eliminates the requirement to identify and assess the investment transaction as a related party arrangement.
**Blanks Reporting Changes Agenda Item 2021-22BWG**

**Investments Involving Related Parties:**

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

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

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

2. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role and **for which 50% or more of the underlying collateral represents investments in or direct credit exposure to related parties**.

3. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies **involving a relationship with a related party** as sponsor, originator, manager, servicer, or other similar influential role and **for which less than 50% (including 0%) of the underlying collateral represents investments in or direct credit exposure to related parties**.

4. Securitization or similar investment vehicles such as mutual funds, limited partnerships and limited liability companies in which the structure reflects an in-substance related party transaction but does **not involve a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role**.

5. The investment is identified as related party, but the role of the related party represents a different arrangement than the options provided in choices 1-4.

6. The investment does not involve a related party.

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

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

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

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met Aug. 11, 2022. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted its 2023 proposed charges, which are unchanged from the prior year.

3. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Aug. 10 and took the following action:

   A. Adopted its July 18, May 24, and Spring National Meeting minutes.

   B. Adopted the following new statutory accounting principle (SAP) concepts for statutory accounting guidance:
      i. **Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives**: Revisions adopt elements from Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* for determining hedge effectiveness. The revisions also incorporate statutory-specific measurement methods for excluded components in hedging instruments with a Jan. 1, 2023, effective date and early adoption permitted. A blanks proposal will incorporate new electronic-only reporting fields for Schedule DB and note disclosures. (Ref #2021-20)

   C. Adopted the following clarifications to statutory accounting guidance:
      ii. Revisions rejecting:
         a. **ASU 2021-09, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities** for statutory accounting. (Ref #2022-05)
         b. **ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers** for statutory accounting. (Ref #2022-07)
iii. Revisions incorporate disclosures from ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance into SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items. (Ref #2022-04)

iv. Revisions clarify that the U.S. tax basis equity audit permitted in SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies shall occur at the investee level. (Ref #2022-02)

v. Revisions add a practical expedient in SSAP No. 104R—Share-Based Payments for the current price from ASU 2021-07, Compensation – Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards. (Ref #2022-06)

D. Exposed the following new SAP concepts to statutory accounting guidance:
   i. Revisions incorporate concepts to principally define what is eligible for reporting as a bond on Schedule D-1: Long-Term Bonds. Proposed revisions to SSAP No. 26R—Bonds and SSAP No. 43R—Loan-Backed and Structured Securities, with an updated bond definition and issue paper. (Ref #2019-21)

E. Exposed the following SAP clarifications to statutory accounting guidance until Oct. 7:
   i. Revisions incorporate FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements to revise the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and expose a related draft issue paper to detail these SAP clarifications. (Ref #2022-01)
   ii. Revisions clarify that leasehold improvements shall be immediately expensed upon lease termination unless limited exclusions in SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities are met. (Ref #2021-25)
   iii. Revisions clarify that an asset pledged as collateral must qualify as an admitted invested asset before the collateral loan is admitted. (Ref #2022-11)
   iv. Revisions identify foreign open-end investment funds as a fund in which ownership percentage is not deemed to reflect control unless the entity actually controls with the power to direct the underlying company. (Ref #2022-13)
   v. Revisions propose to reject ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures for statutory accounting. (Ref #2022-10)
   vi. Revisions incorporate derivative guidance from ASU 2017-12 and ASU 2022-01, Fair Value Hedging – Portfolio Layer to include guidance for the portfolio layer method and partial-term hedges. (Ref #2022-09)
   vii. Exposure proposes to nullify Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement, as it is inconsistent with SSAP No. 25—Affiliates and Other Related Parties. (Ref #2022-12)

F. Received an update on the following items:
   i. Received an update on U.S. generally accepted accounted principles (GAAP) exposures, noting that pending items will be addressed during the normal maintenance process. In addition, NAIC staff are monitoring developments regarding the Inflation Reduction Act of 2022 for any items that may impact insurers.
   ii. Received an update regarding amendments made to the Valuation Manual by the Life Actuarial (A) Task Force since the 2021 Summer National Meeting.
   iii. Received a referral from the Macroprudential (E) Working Group.
G. During its July 18 meeting, the Working Group exposed agenda item 2019-21: Bond Proposal Reporting Revisions, which included proposed reporting changes to Schedule D-1, a proposal for a new schedule to separate issuer obligations and asset-backed securities (ABS) and revised reporting lines and instructions for investment classification for a public comment period ending Oct. 7.

H. During its May 24 meeting, the Working Group adopted the following SAP clarifications to statutory accounting guidance:
   i. Blanks Proposal: Adoption expressed support for a blanks proposal (2022-10BWG) that included instructional changes to Schedule T, the State Page, and the Accident and Health Policy Experience Exhibit (AHPEE) to clarify guidance for premium adjustments. The instructions clarify that all premium adjustments shall be allocated as premium in the respective jurisdiction. This agenda item did not result in statutory revisions. (Ref #2022-03)
   ii. INT 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates: The interpretation clarified that an investment in a Freddie Mac “When Issued K-Deal” (WI) Program is in scope of SSAP No. 43R from acquisition. (Ref #2022-08)

4. Adopted the report of the Blanks (E) Working Group, including an e-vote that concluded June 8 to adopt proposal 2022-13BWG, which modifies life blank five-year historical data questions 68 and 69 to reference group comprehensive and questions 70 and 71 to reflect the inclusion of all health lines of business other than group comprehensive. The crosschecks for these questions are being modified accordingly. Interested parties requested an annual 2022 effective date. The Working Group also met May 25. During this meeting, the Working Group took the following action:

A. Adopted its Spring National Meeting minutes.

B. Adopted its editorial listing and the following proposals:
   i. 2022-01BWG – Add new questions to General Interrogatories Part 1 asking if the reporting entity accepts cryptocurrency for payment of premiums, which cryptocurrencies are accepted, and whether they are held for investment or immediately converted to U.S. dollars (2021-24 SAPWG).
   ii. 2022-02BWG – Add four new electronic-only columns to Schedule D, Part 6, Section 1, for Prior Year Book/Adjusted Carrying Value (BACV) (Column 16), Prior Year Nonadmitted Amount (Column 17), Prior Year Sub-2 Verified Value (Column 18), and Prior Year VISION Filing Number (Column 19) (2021-22 SAPWG).
   iii. 2022-03BWG – Split Line 5 of the Quarterly Part 1 – Loss Experience and Part 2 – Direct Premiums Written into Line 5.1 – Commercial multiple peril (non-liability portion) and Line 5.2 – Commercial multiple peril (liability portion).
   iv. 2022-04BWG – Add a new supplement to capture premium and loss data for Annual Statement Line 17.1, 17.2, and 17.3 of the Exhibit of Premiums and Losses (State Page) – Other Liability by more granular lines of business.
   v. 2022-05BWG – Add line numbers to the status data points in the Life/Fraternal, Health, and Property/Casualty Schedule T footnote.
   vi. 2022-06BWG – Revise the Health Annual Statement Test language in the annual statement instructions.
vii. 2022-07BWG – Modify the Health Actuarial Opinion Instructions. Add definitions of “actuarial asset” and “actuarial liability.” Modify Section 4–Identification, Section 5–Scope, and Section 7–Opinion to clarify that the actuary’s opinion covers actuarial assets, as well as actuarial liabilities. Modify Section 9 to clarify that the guidance related to the type of opinion rendered by an appointed actuary covers both actuarial assets and actuarial liabilities.

viii. 2022-08BWG – Modify the instructions in Section 1, Section 3, and Section 8 of the Property/Casualty Actuarial Opinion Instructions to reflect the changes adopted by the Actuarial Opinion (C) Working Group.

ix. 2022-09BWG – Changes to the Life/Fraternal VM-20, Requirements for Principle-Based Reserves for Life Products, Reserves Supplement blank.

x. 2022-10BWG – Add instructions to Schedule T, the State pages, and the AHPEE to clarify guidance for reporting premium adjustments by jurisdiction.

xi. 2022-11BWG Modified – Update the life/fraternal blank asset valuation reserve (AVR) factors to correspond with the adopted risk-based capital (RBC) factors for the expanded bond designation categories.

C. Deferred proposal 2021-18BWG – Modify the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages.

D. Exposed two new proposals for a public comment period ending Oct. 25.

E. Received a Property and Casualty Risk-Based Capital (E) Working Group memorandum.

5. The Task Force adopted the following accounting and reporting revisions from the working group reports regarding related parties by separate votes:

A. SSAP No. 25—Affiliates and Other Related Parties and SSAP No. 43R: Revisions clarify application guidance for the existing affiliate definition and incorporate reporting codes within the investment schedules to identify investments that involve related parties. (Ref #2021-21) This item was adopted by the Statutory Accounting Principles (E) Working Group during its May 24 meeting.

B. 2021-22BWG – Add a new reporting requirement in the investment schedules for investment transactions with related parties. In addition to capturing direct loans in related parties, it will also capture information involving securitizations, or other similar investments, where the related party is a sponsor/originator, along with whether the underlying investment is in a related party. This item was adopted by the Blanks (E) Working Group during its May 25 meeting.
The Capital Adequacy (E) Task Force met Aug. 11, 2022. During this meeting, the Task Force:

1. Adopted its June 30, April 28, and Spring National Meeting minutes, which included the following action:
   A. Adopted the following proposals: 1) 2022-02-P; 2) 2022-05-L; 3) 2022-06-L; 4) 2021-17-CR MOD; 5) 2022-01-P; 6) 2022-03-L; 7) 2021-18-H-MOD; 8) 2021-15-CR; and 9) 2021-14-P.
   B. Discussed affiliated investments blanks and instructions.

2. Adopted the report of the Health Risk-Based Capital (E) Working Group, including its July 21 minutes. During this meeting, the Working Group took the following action:
   A. Adopted its May 11, May 4, and April 20 minutes, which included the following action:
      i. Heard presentations from the American Academy of Actuaries (Academy) on the methodologies considered in the H2 – Underwriting Risk component and AM Best on Best’s Capital Adequacy Ratio (BCAR).
      ii. Adopted its Spring National Meeting minutes.
      iii. Exposed the health affiliated investment instructions and blank for a 61-day public comment period ending July 5.
      iv. Received an update on the Health Test Ad Hoc Group and the Excessive Growth Charge Ad Hoc Group.
   B. Adopted its working agenda.
   C. Adopted its 2022 newsletter.
   D. Adopted its 2021 risk-based capital (RBC) statistics.
   E. Referred the health affiliated investment instructions and blanks to the Task Force for discussion.
   F. Expose the Academy’s response letter on its recommendation and timeline for the H2 – Underwriting Risk review for a 31-day public comment period ending Aug. 22.

3. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met July 27 and took the following action:
   A. Adopted its June 17, June 3, April 22, April 7, and Spring National Meeting minutes, which included the following action:
      i. Adopted the structure and instructions for the Academy C2 Work Group recommendation on mortality.
      ii. Adopted the instructional change for residual tranches.
   B. Adopted its 2022 newsletter.
   C. Discussed the life affiliated investments.
D. Adopted its working agenda.

4. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group, which met Aug. 9 and took the following action:

   A. Adopted the Catastrophe Risk (E) Subgroup’s June 14 and April 19 minutes, which included the following action:
      i. Adopted its Spring National Meeting minutes.
      iii. Adopted proposal 2021-17-CR MOD.
      iv. Discussed the independent model review instructions in the Rcat component.
      v. Evaluated other catastrophe risk for possible inclusion in the Rcat component.
      vi. Heard a presentation from the International Society of Catastrophe Managers (ISCM) regarding different programs to elevate the catastrophe risk profession that the ISCM offers.

   B. Adopted its June 24, June 7, and April 26 minutes, which included the following action:
      i. Adopted its Spring National Meeting minutes.
      ii. Adopted the following proposals: 1) 2021-17-CR MOD; 2) 2022-01-P; and 3) 2022-02-P.
      iii. Exposed the property/casualty (P/C) affiliated investment instructions and blank for a 60-day public comment period ending June 25.
      iv. Forwarded the referral regarding the reinsurer designation equivalent rating factors to the Blanks (E) Working Group.
      v. Heard updates on current P/C RBC projects from the Academy.

   C. Referred the P/C affiliated investment instructions and blanks to the Task Force for discussion.

   D. Adopted proposal 2022-04-CR, which includes the U.S. and non-U.S. lists of wildfire events between 2013 and 2021.

   E. Adopted its 2022 newsletter for adopted proposals and editorial changes to the 2022 P/C RBC formula.

   F. Exposed proposal 2022-07-P, which modified the PR035 lines of business categories to be consistent with the Annual Statement, Underwriting and Investment Exhibit, Part 1B categories for a 30-day public comment period ending Sept. 8.

   G. Exposed proposal 2022-08-CR, which provided further clarification on the independent model review instructions for a 30-day public comment period ending Sept. 8.

   H. Heard updates from the Academy regarding current P/C RBC projects.

   I. Adopted the 2021 P/C RBC statistics.

   J. Adopted its working agenda.

   K. Discussed other catastrophe risks for possible inclusion in the Rcat component.

   L. Heard a presentation from the National Oceanic and Atmospheric Administration (NOAA) on the forecasting and resilience of severe thunderstorms.

5. Adopted the report of the RBC Investment Risk and Evaluation (E) Working Group, which met Aug. 11 and took the following action:

   A. Adopted its Spring National Meeting minutes, which included the following action:
      i. Adopted its Feb. 28 minutes.
      ii. Discussed comments received on its request for comment.

   B. Adopted its working agenda.
C. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
D. Discussed its next steps.
E. Received a referral from the Macroprudential (E) Working Group.

6. Adopted proposal 2022-04-CR.

7. Discussed the affiliated investment instructions and blanks.

8. Adopted its working agenda.
EXAMINATION OVERSIGHT (E) TASK FORCE
Wednesday, August 11, 2022
11:00 a.m. – 12:00 p.m.

Meeting Summary Report

The Examination Oversight (E) Task Force met Aug. 11, 2022. During this meeting, the Task Force:

1. Adopted its 2021 Fall National Meeting minutes.

2. Adopted the report of the Financial Examiners Coordination (E) Working Group, which met April 14 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings.

3. Adopted the report of the Financial Analysis Solvency Tools (E) Working Group, which met Aug. 1 and June 13, in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings.

4. Adopted the report of the Electronic Workpaper (E) Working Group, which met July 20, May 23, April 18, Feb. 24, and Jan. 24 in regulator-to-regulator session, pursuant to paragraph 4 (internal or administrative matters of the NAIC or any NAIC member) of the NAIC Policy Statement on Open Meetings.

5. Received an update on the status of the Solvency Workpaper Software Modernization project led by the Electronic Workpaper (E) Working Group.

6. Adopted the report of the Financial Examiners Handbook (E) Technical Group, including its April 18 minutes. During this meeting, the Working Group took the following action:
   A. Reviewed its 2022 project listing.
   B. Received an update on related NAIC working group activities that will affect examination guidance.

7. Adopted the report of the Information Technology (IT) Examination (E) Working Group, which met May 2 and took the following action:
   A. Reviewed its 2022 project listing.
Meeting Summary Report

The Financial Stability (E) Task Force met Aug. 12, 2022, in joint session with the Macroprudential (E) Working Group. During this meeting, the Task Force:

1. Adopted its April 5 minutes, which included the following action:
   A. Received a Working Group update.
   B. Adopted the Macroprudential Risk Assessment Process.
   C. Heard an international update.

2. Adopted its June 27 minutes, which included the following action:
   A. Received comments on the proposed state insurance regulator responses to the list of the Working Group’s considerations.
   B. Adopted the proposed state insurance regulator responses to the list of the Working Group’s considerations.
   C. Received an update on key initiatives.

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

4. Received a Working Group update.

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

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

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

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

Mr. Rehagen noted with respect to the ACLIs second comment, they suggest a change in how to calculate gross revenues for entities without regulatory capital requirements such as asset managers. He noted with respect to this comment, which is the difference in calculations between the aggregation method and the GCC. He noted that he personally would prefer not to veer away from the aggregation method. Ms. Belfi stated she thought it was important to stay as close to the aggregation method as possible. She stated how the Working Group had already deviated from the aggregation method where they felt it made sense and noted how NAIC staff could likely comment on that, but she feared too much more deviation. Mr. Spudeck and Mr. Hudson both Mr. agreed with Ms. Belfi. Mr. Rehagen asked for clarification from NAIC staff on what that means for the proposal changes from the ACLI. Dan Daveline (NAIC) stated they had drafted language to address the ACLI comments and it’s up to the Working Group to decide whether they support those changes, but that it appears both changes proposed by the ACLI are being rejected by the Working Group. Martin Mair (Met Life) reminded the Working Group that the reason they were proposing to modify the GCC debt limit was to address a concern regarding procyclicality and so the debit limit becomes more binding during those times of stress and the GCC would automatically decrease...
during those periods of stress without a change. He said the ACLI proposal was to get back to the core issue and put back that needed flexibility. Mr. Rehagen stated he thought what was being suggested by the ACLI on the debt issue could be further studied, but that there is currently a need to finalize the 2022 instructions and template for use but could be addressed in the future. Ms. Belfi agreed with Mr. Rehagen and suggested keeping the instructions as is without the change and see how things develop. Hearing no other comments in favor of making the changes, Mr. Rehagen stated he would accept a motion to adopt the 2022 GCC Instructions and template with the editorial change previously noted during the call related to operational risk, but without the changes proposed by the ACLI. Ms. Belfi made a motion to adopt the 2022 GCC Instructions and template as described by Mr. Rehagen. The motion was seconded by Mr. Hudson and unanimously adopted.

2. Any Other Matters

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

Having no further business, the Group Capital Calculation (E) Working Group adjourned.
The Group Solvency Issues (E) Working Group met Aug. 11, 2022. During this meeting, the Working Group:

1. Adopted its June 6 minutes, which included the following action:

2. Discussed comments received on the exposure of proposed revisions to the ORSA Guidance Manual. After reviewing the comment letters received, a drafting group consisting of state insurance regulators from Connecticut, Illinois, Iowa, Missouri, Ohio, and New York incorporated recommendations into an updated draft of the ORSA Guidance Manual and provided an overview of the updated draft at the meeting. After discussing the updated draft, Connecticut proposed a friendly amendment to modify guidance related to the reference to Insurance Core Principle (ICP) 16 in the ORSA Guidance Manual. Members of the Working Group expressed their agreement with the friendly amendment.

3. Discussed comments received on the exposure of proposed revisions to the Financial Condition Examiners Handbook. After reviewing the comment letters received, a drafting group consisting of state insurance regulators from California, Connecticut, Missouri, and Nebraska incorporated recommendations into an updated draft of the Financial Condition Examiners Handbook and provided an overview of the updated draft at the meeting. A concern was raised regarding the language around a reference to international standards in the updated draft, and Ohio proposed a friendly amendment to clarify that state insurance regulators “may” reference the international standards when conducting examination procedures but would not be expected to. Members of the Working Group expressed their agreement with the friendly amendment.

4. Discussed comments received on the proposed revisions to the Financial Analysis Handbook. After reviewing the comment letters received, a drafting group consisting of state insurance regulators from California, Connecticut, Missouri, and Nebraska incorporated recommendations into an updated draft of the Financial Condition Examiners Handbook and provided an overview of the updated draft.
5. Adopted the proposed revisions to the ORSA Guidance Manual, including the friendly amendment proposed by Connecticut.


7. Discussed that the Working Group received a referral from the Macroprudential (E) Working Group related to private equity (PE) issues that it plans to address in the coming months.
The Mutual Recognition of Jurisdictions (E) Working Group of the Financial Condition (E) Committee met June 29, 2022. The following members participated: Robert Wake, Chair (ME); Monica Macaluso, Vice Chair (CA); Jack Broccoli and Kathy Belfi (CT); Anoush Brangaccio (FL); Scott Sanders (GA); Tom Travis (LA); Shelley Woods (MO); Lindsay Crawford (NE); John Tirado (NJ); Bob Kasinow (NY); Melisa Greiner (PA); and Mike Arendall (TX). Also participating was: Vincent Tsang (IL).

1. Adopted the GCC Recognize and Accept List

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

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

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

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

Mr. Wake stated that on May 19, the Working Group met in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members) and paragraph 8 (considerations of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss the draft GCC Recognize and Accept List. He stated that the Working Group directed NAIC staff to expose the draft document for a 30-day public comment period and that no comments were received from this exposure.
Mr. Wake stated that Model #440, Section 4L(2)(e) directs a lead state insurance commissioner to require the GCC for U.S. operations of any non-U.S. based insurance holding company system based in a GCC Recognize and Accept List jurisdiction if, after any necessary consultation with other supervisors or officials, the insurance commissioner deems such a subgroup calculation to be appropriate for prudential oversight and solvency monitoring purposes or for ensuring the competitiveness of the insurance marketplace. He noted that Model #450, Section 21E(1) provides that to assist with such a determination, the GCC Recognize and Accept List will also identify whether a listed jurisdiction requires a group capital filing for any U.S.-based insurance group’s operations in that jurisdiction. He stated that the best source of this information will be from industry since they will have direct exposure to the practices in the GCC Recognize and Accept List jurisdictions. Mr. Wake asked that industry provide any information related to this topic to Jake Stultz (NAIC) and Dan Schelp (NAIC), who will bring this information to the Working Group to assess. Ms. Woods added that industry should also provide this information directly to their lead state insurance regulator in the U.S.

Mr. Tirado made a motion, seconded by Ms. Woods, to adopt the GCC Recognize and Accept List (Attachment 1). The motion passed unanimously.

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

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/ECMTE/2022-2-Summer/MRJWG/June 29 Open Meeting/Minutes/MRJWG 6-29 Minutes.docx
National Treatment and Coordination (E) Working Group
Virtual Meeting
June 13, 2022

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

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

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

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

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

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

2. Received Referrals

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

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

Mr. Buschmann explained that the purpose of the second referral from the Financial Analysis (E) Working Group is to: 1) request that the National Treatment and Coordination (E) Working Group consider developing enhanced
regulatory guidance in the Handbook involving communication to other licensed states regarding troubled insurers that are seeking to redomesticate; and 2) consider tools or functionality for communication between states during the development of the electronic redomestication application.

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

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

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

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

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

4. **Discussed Letters of Good Standing**

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

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

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

FRS-UCAA_Conf.Calls_NTCWG_2022_June 13
The Receivership and Insolvency (E) Task Force met Aug. 11, 2022. During this meeting, the Task Force:

1. Adopted its June 2 minutes, which included the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted a Request for NAIC Model Law Development to amend the Property and Casualty Insurance Guaranty Association Model Act (#540).

2. Adopted the report of the Receiver’s Handbook (E) Subgroup, which met July 19 and took the following action:
   A. Adopted it Nov. 18, 2021, minutes.
   C. Released Chapters Three, Four, and Five of the Handbook for a 30-day public comment period ending Aug. 19. The Subgroup’s drafting groups continue to make progress on the remaining chapters of the Handbook.

3. Adopted the report of the Receivership Law (E) Working Group, including its July 18, June 10, and May 12 minutes. During these meetings, the Working Group took the following action:
   A. Adopted its interim minutes.
   B. Discussed options for improving pre-receivership communication and information sharing between receivers and guaranty funds, including possible amendments to NAIC model laws, a draft memorandum of understanding (MoU), and improved guidance for receivers. The Working Group agreed to pursue the MoU and improved guidance. The Working Group discussed and released a draft MoU for a 45-day public comment period ending Sept. 1.

4. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met Aug. 11 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.

5. Adopted 2023 proposed charges for the Task Force and its working groups and subgroup.

6. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) is developing an application paper on policyholder protection schemes. The U.S.
recently completed its IAIS-targeted jurisdictional assessments regarding the holistic framework, which included an assessment of insurance resolution.
The Reinsurance (E) Task Force met July 25, 2022. The following Task Force members participated: Chlora Lindley-Myers, Chair, and John Rehagen (MO); Chris Nicolopoulos, Vice Chair, represented by Doug Bartlett and Pat Gosselin (NH); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Linda Wilson (AL); Alan McClain represented by Mel Anderson and Leo Liu (AR); Ricardo Lara represented by Monica Macaluso (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Ryllynn Brown (DE); David Altmaier represented by Robert Ridenour (FL); John F. King (GA); Doug Ommen represented by Daniel Mathis (IA); Vicki Schmidt represented by Tish Becker (KS); James J. Donelon represented by Tom Travis (LA); Gary D. Anderson represented by Christopher Joyce (MA); Timothy N. Schott and Robert Wake (ME); Troy Downing represented by Steve Matthews (MT); Mike Causey represented by Lori Gorman (NC); Jon Godfread represented by Patrick Hendrickson (ND); Eric Dunning represented by Jill Gleason (NE); Marlene Caride represented by Diana Sherman (NJ); Russell Toal (NM); Adrienne A. Harris represented by Ahmed Saleh (NY); Judith L. French represented by Dale Bruggeman (OH); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Michael Wise represented by Daniel Morris (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by David Smith and Doug Stolte (VA); Kevin Gaffney represented by Karen Ducharme (VT); and Nathan Houdek represented by Mark McNabb (WI).

1. **Adopted its May 16 and Spring National Meeting Minutes**

   The Task Force met May 16 to adopt revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*. Superintendent Toal made a motion, seconded by Ms. Sherman, to adopt the Task Force’s May 16 (Attachment One) and March 22 minutes (see *NAIC Proceedings – Spring 2022, Reinsurance (E) Task Force*). The motion passed unanimously.

2. **Adopted its 2023 Proposed Charges**

   Ms. Macaluso made a motion, seconded by Mr. Phifer, to adopt the 2023 proposed charges of the Task Force and the Reinsurance Financial Analysis (E) Working Group (Attachment Two). The motion passed unanimously.


   Mr. Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met May 18 to approve one certified reinsurer and eight reciprocal jurisdiction reinsurers for passporting.

   Mr. Kaumann stated that the Working Group has now approved 22 reciprocal jurisdiction reinsurers for passporting and plans to meet several more times in 2022 as more applications are received. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page. He stated that NAIC staff have revised the web page to better meet the needs of state insurance regulators, industry, and other interested parties. He stated that NAIC staff have created a point-of-contact list to be included on that web page, which includes the single best contact for each state for any issues regarding reciprocal jurisdiction reinsurers and certified reinsurers. He requested that each state provide its point of contact person to NAIC staff.
4. **Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group**

Mr. Wake stated that the Working Group has met twice since the Spring National Meeting to work on group capital calculation (GCC) issues that are unrelated to the Task Force. He stated that the Working Group plans to meet later this year to reapprove the status of the seven existing qualified jurisdictions and the three reciprocal jurisdictions that are not subject to either the *Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance* (EU Covered Agreement) or *Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance* (UK Covered Agreement), collectively referred to as the Covered Agreements. He stated that NAIC staff established a due diligence review process in 2021 and provided a recommendation to the Working Group that the existing qualified jurisdictions and reciprocal jurisdictions not subject to a Covered Agreement should retain their status, and this recommendation was then adopted by the Working Group. He stated that the Working Group will perform this same review toward the end of 2022 and will report this to the Task Force at the Fall National Meeting. Mr. Wake stated that the Working Group would meet if there were any updates with the qualified jurisdiction review of the Republic of Korea.

5. **Received a Status Report on the States’ Implementation of the 2019 Revisions to Model #785 and Model #786**

Dan Schelp (NAIC) stated that as of July 21, 54 NAIC jurisdictions have adopted the 2019 revisions to the *Credit for Reinsurance Model Law* (#785), while one jurisdiction has action under consideration. He noted that since the maps were last published, the U.S. Virgin Islands were able to adopt their legislation and that American Samoa is considering issuing an order that would bring it into compliance with the Covered Agreements. He stated that 49 jurisdictions have adopted the revisions to the *Credit for Reinsurance Model Regulation* (#786) and that three jurisdictions currently have action pending. He noted that the remaining three jurisdictions will issue their regulations soon. He stated that he is optimistic that all NAIC jurisdictions will have their laws, regulations, or orders in place by Sept. 1. He stated that the maps showing the adoption of the 2019 revisions to Model #785 and Model #786 were included in the meeting materials (Attachment Three).

Mr. Schelp stated that he has held discussions with the Federal Insurance Office (FIO) to talk about the status of the federal preemption reviews that were being conducted. He stated that the federal Dodd-Frank Wall Street Reform and Consumer Protection Act lays out a process that the FIO must go through before it can make any federal preemption determinations. He noted that the FIO has publicly praised the NAIC’s efforts, stating that the NAIC has made tremendous progress, and that each state has made a sincere effort to adopt the spirit of the models. He stated that the FIO is focusing its review on technical details in the law and regulation, and that there might need to be some clean-up made by the states after the reviews are completed. He noted that these have been constructive conversations with the FIO, and that the NAIC does not have reason for concern that this will lead to any federal preemption determinations. Mr. Schelp asked that if any state is contacted directly by the FIO, it should reach out to NAIC staff.

Mr. Schelp stated that after the law and regulation have been passed by the legislatures, there are several additional steps that must be completed. He noted that each state needs to establish a web page that contains the list of reciprocal jurisdictions and list of reciprocal jurisdiction reinsurers operating in its state. He noted that the *NAIC List of Reciprocal Jurisdictions* and *NAIC List of Reciprocal Jurisdiction Reinsurers* are posted on the Certified and Reciprocal Jurisdiction web page and on the Task Force’s web page. He added that NAIC staff have created a point of contact list of individual contacts in each state that reinsurers and consumers may contact if they have any questions on reciprocal jurisdiction reinsurers. He noted that NAIC staff will contact states that have
Draft Pending Adoption

not created their web page to assist in the process. Mr. Schelp recommended that if a state approves a reciprocal jurisdiction reinsurer that is not intended to be passported, the information should still be sent to the Reinsurance Financial Analysis (E) Working Group, which will collect this information to maintain uniformity in the reviews of the reinsurers and to ensure compliance with the Covered Agreements.

6. Received a Status Report on the States’ Implementation of Model #787

Jake Stultz (NAIC) stated that the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* becomes an accreditation standard on Sept. 1, with enforcement beginning on Jan. 1, 2023. He noted that as of July 8, 20 jurisdictions have adopted Model #787, with another four jurisdictions with action under consideration. He stated that the map showing the current adoption status for Model #787 was included in the meeting materials (Attachment Four) and added that the adoption of Model #787 is unrelated to the Covered Agreements and is not potentially subject to federal preemption. Mr. Stultz noted that Model #787 mirrors *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (AG 48)*, and that under the accreditation standards, a state may meet the requirements through an administrative practice, such as an actuarial guideline. He added that if a state adopts Model #787, it also will need to adopt Section 5B(4) of Model #785.

Mr. Schelp stated that some states are using AG 48 and will issue an insurance bulletin to announce this practice. He added that the map will later be updated to reflect states that are adopting in this manner.

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

https://naiconline.sharepoint.com/sites/NAICSsupportStaffHub/Member Meetings/E CMTE/RTF/2022SummerNM/Minutes/ReinsuranceTFmin 07.25.2022.docx
The Valuation of Securities (E) Task Force met Aug. 11, 2022. During this meeting, the Task Force:

1. Adopted its June 9 and Spring National Meeting minutes, which included the following action:
   A. Received and discussed a memorandum of support from the Financial Condition (E) Committee for several interrelated initiatives focused on asset risk that are underway by the Task Force, as well as other NAIC groups.
   B. Received and discussed comments on a proposed referral to the Blanks (E) Working Group to add fixed income analytical risk measures to investments reported on Schedule D, Part One. The proposal referral was exposed for a 45-day public comment period ending May 20.
   C. Received a proposed amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) to update the role of the Securities Valuation Office (SVO) regarding interpreting accounting and reporting. The proposed amendment was exposed for 30-day public comment period ending July 9.
   D. Received a proposed amendment to the P&P Manual to update Part Four for NAIC designation category and additional price points. The proposed amendment was exposed for 30-day public comment period ending July 9.
   E. Exposed an Investment Analysis Office (IAO) issue paper on the risk assessment of structured securities – collateralized loan obligations (CLOs) for a 36-day public comment period ending July 15.
   F. Received a report from the Structured Securities Group (SSG) on modeling and scenarios for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).
   G. Received an update on the ad hoc credit rating provider (CRP) group’s discussion.

2. Adopted an amendment to the P&P Manual clarifying the role of the SVO regarding interpreting accounting and reporting. The amendment was exposed for a 30-day public comment period ending July 9.

3. Adopted an amendment to the P&P Manual updating Part Four for NAIC designation categories and additional price points. The amendment was exposed for a 30-day public comment period ending July 9.

4. Adopted an amendment to the P&P Manual to update the definition of principal protected securities (PPS). The amendment was exposed for a 30-day public comment period ending July 28.
5. Received and discussed a referral from the Statutory Accounting Principles (E) Working Group on the adoption of its related party reporting agenda item.

6. Received and discussed a referral from the Macroprudential (E) Working Group on its plan for the list of Macroprudential (E) Working Group considerations affecting the Task Force and supported by the Financial Condition (E) Committee.

7. Exposed its 2023 proposed charges for a 30-day public comment period ending Sept. 12.

8. Exposed an SVO memorandum on alternatives to add fixed income analytical risk measures to investments reported on Schedule D, Part One, for a 30-day public comment period ending Sept. 12.

9. Exposed a revised proposed amendment to the P&P Manual to update the definition of other non-payment risk assigned a subscript “S” for a 30-day public comment period ending Sept. 12.

10. Received comments and heard an SSG report on the IAO issue paper on the risk assessment of structured securities – CLOs, which was exposed for a 36-day public comment period ending July 15. Exposed a staff presentation answering questions received in comments for a 30-day public comments period ending Sept. 12.

11. Received staff reports on projects of the Statutory Accounting Principles (E) Working Group, an update on the ad hoc CRP study group and update from SSG on modeling scenarios.
Insurance Supervisory Framework

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

August 12, 2022
The Federal Reserve released a draft insurance supervisory framework on January 28 for public comment. The comment period closed on May 5.

The proposed framework describes the Federal Reserve’s proposed approach to supervising depository institution holding companies significantly engaged in insurance activities (supervised insurance organizations or SIOs).

The Board recognizes and has developed the framework to reflect the role of state insurance regulators and that the risks arising from the insurance activities of SIOs are materially different from traditional banking risks.
Structure of Proposed Framework

- Proportional application of supervisory guidance and activities
  - Risk-based classified of SIOs to guide the application of supervisory guidance, the allocation of supervisory resources, and the assignment of supervisory activities

- Supervisory ratings
  - Ratings definitions tailored to SIOs emphasize the ability of the holding company to serve as a source of strength for the depository
  - Ratings assigned for Governance and Controls, Capital Management, and Liquidity Management

- Incorporating the work of other supervisors
  - Emphasizes the importance of collaborating with state insurance regulators and describes how supervisory teams do this
SIOs would be classified as either complex or noncomplex based on their risk profiles. Their classification affects the frequency and intensity of supervisory activities.

- **Complex SIOs:**
  - More challenging to assess and typically larger
  - Assigned a dedicated supervisory team (DST), whose composition and activities would be based on the SIO’s risk profile

- **Noncomplex SIOs:**
  - Simpler risk profiles and typically smaller
  - No dedicated supervisory team
  - Supervisory activities outside of an annual full scope exam would be atypical and based on the firm’s risk profile

The framework describes how the application of existing supervisory guidance is tailored for SIOs and emphasizes that supervisory activities focus on material risks that could threaten the holding company’s ability to support the depository institution.
SIO Ratings

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

- In addition to working with other financial supervisors, supervisory teams must rely as much as possible on the work of state insurance regulators.

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