Draft date: 11/15/26

*2026 Fall National Meeting*
*Dallas, Texas*

**FINANCIAL CONDITION (E) COMMITTEE**
Tuesday, November 17, 2026
8:00 – 9:00 a.m.
Convention Center—Texas AB—Level 3

**ROLL CALL**

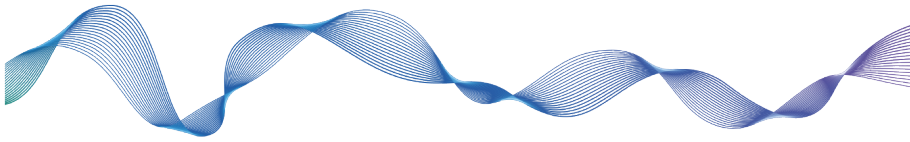
| | | | |
|---|---|---|---|
| Nathan Houdek, Chair | Wisconsin | Mike Causey | North Carolina |
| Michael T. Caljouw, Vice Chair | Massachusetts | Judith L. French | Ohio |
| Michael Yaworsky | Florida | Michael Wise | South Carolina |
| Doug Ommen | Iowa | Amanda Crawford | Texas |
| Vicki Schmidt | Kansas | Kaj Samsom | Vermont |
| Julia Dreier | Minnesota | Scott A. White | Virginia |
| Mike Chaney | Mississippi | Jeff Rude | Wyoming |
| Kaitlin Asrow | New York | | |

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

**AGENDA**

1. Consider Adoption of its Oct. 29 and Summer National Meeting Minutes — Attachment One / Attachment Two
   —*Commissioner Nathan Houdek (WI)*

2. Consider Adoption of the Reports of its Task Forces and Working Groups
   —*Commissioner Nathan Houdek (WI)*
   A. Accounting Practices and Procedures (E) Task Force — Attachment Three
   B. Capital Adequacy (E) Task Force — Attachment Four
   C. Financial Stability (E) Task Force — Attachment Five
   D. Examination Oversight (E) Task Force — Attachment Six
   E. Receivership and Insolvency (E) Task Force — Attachment Seven
   F. Invested Assets (E) Task Force — Attachment Eight
   G. Reinsurance (E) Task Force — Attachment Nine
   H. Risk-Focused Surveillance (E) Working Group — Attachment Ten
   I. Group Capital Calculation (E) Working Group — Attachment Eleven



3. Consider Adoption of the Request for NAIC Model Law Development on the *Insurance Holding Company System Regulatory Act & Regulation (#440 & #450)—Commissioner Nathan Houdek (WI)* — Attachment Twelve

4. Consider Adoption of Proposed Changes to *Statement of Statutory Accounting Principles (SSAP) No. 7—Asset Valuation Reserve and Interest Maintenance Reserve—Kevin Clark (IA)* — Attachment Thirteen

5. Consider Adoption of the Credit Rating Provider (E) Working Group Due Diligence Framework—*Laura Clements (CA)* — Attachment Fourteen

6. Receive Comments if Applicable and Discuss and Consider the Referral from the Natural Catastrophe Risk and Resilience (EX) Task Force on Catastrophe Scenario (RCAT) Analysis—*Commissioner Nathan Houdek (WI)* — Attachment Fifteen

7. Consider Adoption of the List of Qualified Jurisdictions and Reciprocal Jurisdictions—*John Rehagen* (MO) — Attachment Sixteen

8. Consider Adoption of the List of Jurisdictions that Recognize and Accept the Group Capital Calculation (GCC)—*John Rehagen* (MO) — Attachment Seventeen

9. Receive an Update from the Life Risk-Based Capital (E) Working Group —*Ben Slutsker (MN)*

10. Receive Comments if Applicable & Consider Adoption of an Additional Letter to the Life Risk-Based Capital (E) Working Group—*Commissioner Nathan Houdek (WI)* — Attachment Eighteen

11. Receive a Presentation from the Macroprudential (E) Working Group on the Macroprudential Risk Dashboard—*Anthony Quandt (NE)* — Attachment Nineteen

12. Receive an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*

13. Receive Background and an Update from the Statutory Accounting Principles (E) Working Group on Insurance Company-Owned Life Insurance (ICOLI)—*Kevin Clark (IA)* — Attachment Twenty

14. Discuss Any Other Matters Brought Before the Committee —*Commissioner Nathan Houdek (WI)*

15. Adjournment

Draft: 11/5/26

Financial Condition (E) Committee
Virtual Meeting
October 29, 2026

The Financial Condition (E) Committee met Oct. 29, 2026. The following Committee members participated: Nathan Houdek, Chair (WI); Michael T. Caljouw, Vice-Chair (MA); Michael Yaworsky represented by Carolyn Morgan (FL); Doug Ommen (IA); Vicki Schmidt represented by Tish Becker (KS); Julia Dreier and Fred Andersen (MN); Mike Chaney represented by Mark Cooley (MS); Mike Causey represented by Jessica Price (NC); Kaitlin Asrow represented by Bob Kasinow (NY); Judith L. French (OH); Michael Wise represented by Ryan Basnett (SC); Amanda Crawford represented by Jamie Walker (TX); Scott A. White represented by Doug Stolte and Dan Bumpus (VA); Kaj Samsom (VT); and Jeff Rude (WY). Also participating were: Mike Peterson (CA) and John Rehagan and Julie Lederer (MO).

1. Adopted its 2027 Proposed Changes

Commissioner Houdek said that the committee was responsible for adopting the charges of all of its working groups and task forces, and that consistent with past practice, only the charges for working groups reporting directly to the Committee were exposed, as each task force adopts its own charges. Commissioner Houdek said that the Committee received two comment letters (Attachment ?) on the proposed charges.

One comment letter asked about the basis for some of the changes. He explained that most of the Committee's, task force's, and working group's charges are the same as last year, with a few changes focused on consolidating some of the working groups. He said that in 2026, more than 40 task forces and working groups reported to the E Committee, and the Committee has been looking at ways to consolidate some of these groups. This is the reason for the proposed changes to the Risk-Focused Surveillance (E) Working Group, the NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group, and the Examination Oversight (E) Task Force. Commissioner Houdek said that revisions were included in the Committee's charge 1D to address a specific suggested change from Athene. He said that, while the proposed language from Athene was not fully incorporated, the Committee attempted to reflect the intent of the revision. He said that Athene's comment letter offered other changes to the Risk-Based Capital Model Governance (EX) Task Force, but he believes that determination is best left to the Executive (E) Committee.

Mike Consedine (Athene) thanked the committee for considering Athene's suggestions, which were intended to reinforce the need for the NAIC to continue focusing on the fundamentals of supervision, solvency and consumer protection. He said there is currently a lot of scrutiny on the state-based system, and that over the NAIC's more than 150-year history, it has run into issues where it lost sight of those fundamentals. He believes the Committee has done a good job over the last year or two of returning to those fundamentals. He said the suggested changes were intended to reinforce that point and to communicate the commitment of the NAIC and its members to consumer protection and market solvency externally. He said he agreed that comments regarding the Risk-Based Capital Model Governance (EX) Task Force are being considered in other forums and deferred discussion of those comments to those forums.

Commissioner Caljouw made a motion, seconded by Commissioner Ommen, to adopt the 2027 proposed charges (Attachment ?). The motion passed unanimously.

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2. Received and Discussed Comments on Changes to Model #285

Commissioner Houdek summarized the Committee's discussion at the Summer National Meeting on the topic of reinsurance and the *Disclosure of Material Transactions Model Act* (Model #285), noting that the exposed memorandum discussed how states currently have the authority to review affiliated reinsurance transactions in order to understand and get comfortable with them before approving them, but that states do not have authority over non-affiliated reinsurance transactions. He said the question comes down to whether states feel they need the same authority to review and approve or disapprove such nonaffiliated transactions given the increasing use of reinsurance in the life insurance space, or at a minimum, whether states should be notified of such transactions at a lower threshold than is currently required. Commissioner Houdek noted the Committee would give commenters on the exposed memorandum and opportunity to summarize their comment letters (Attachment ?).

Matthew Vece (American Property and Casualty Insurance Association—APCIA), speaking on behalf of its joint letter with the National Association of Mutual Insurance Companies (NAMIC), summarized that the current thresholds in Model #285 were appropriate for property/casualty (P/C) reinsurance and that no changes are needed at this time. He said they were not sure whether the committee was considering changes to the P/C threshold, since the first sentence of the exposed memo mentions life reinsurance, but that, for the avoidance of doubt, they wanted to state that the current requirements in Model #285, along with the many other pieces of the regulatory framework governing P/C reinsurance, are sufficient. Jonathan Rodgers (NAMIC) said he wished to echo Vece's comments. He said the two organizations submitted a joint letter and stood by those comments.

Hans Avery (American Council of Life Insurers—ACLI) said the ACLI supported the committee's goal of creating more transparency around these issues. He said the ACLI's comment letter mentioned consistency with *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55) and that, in discussing the exposure with members, consistency and avoiding gaps were the strongest themes that emerged. He noted that the definition under discussion is relevant to other work currently underway, citing the proposed updates to the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*, both of which will guide regulators in reviewing material or significant reinsurance transactions. He said that, if a new standard for materiality is set, the ACLI suggested, in the interest of consistency and clarity, that the committee direct its working groups to reflect that standard in their work.

Jeremy Starr (American Academy of Actuaries—Academy) said that the Academy agrees this is an important issue that needs to be examined. He said he wished to make three points. First, he said, is what the threshold measures: today's 50% test compares the transaction to the reserve credit a company already takes, so it scales with past reinsurance rather than with the size of the deal. He gave the example of a company with $60 billion of existing reinsurance credit that cedes another $25 billion, which is 42%, and would not be reported. He said the Academy recommends replacing the current thresholds with the graduated approach in AG 55 and was glad to see the ACLI concur. He said AG 55 pairs dollar amounts with percentages of a company's reserves so that smaller and larger companies are each measured appropriately. He said he understood the appeal of a single flat percentage such as 10%, but that, depending on what it is measured against, a flat percentage can retain the same problem as the current wording.

Starr said that his second point concerns modified coinsurance (modco). He said that under modco the company keeps the reserves and the assets behind them, so a very large modco cession can show little or no reserve credit and fall outside today's test even though the same risks are being transferred. He said AG 55 counts reserve credit and modco reserves together and measures them by counterparty, a feature that matters because it stops a block from being split across several treaties to stay under a threshold. He said Model #285 should do both.

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He said his third point is keeping the model current and verifiable. Since Model #285 was last updated, the credit for reinsurance models has been expanded to include certified and reciprocal reinsurers, and it should reflect that. He said that, once the threshold is refined, companies should show regulators how they calculated it, including their ceded coinsurance, so that regulators can confirm the test was applied correctly. He said the Academy agrees with the ACLI that the definition of material reinsurance transactions should be settled before related work builds on it, and that the Academy is happy to help in any way the NAIC finds appropriate.

Rachel Funk (Cayman International Reinsurance Insurance Companies—CIRCA) said CIRCA had three points to keep in mind as this moves forward. First, she said that this was not happening in a vacuum. CIRCA also commented to the Life Risk-Based Capital (E) Working Group and the Risk-Based Capital Model Governance (EX) Task Force on the same trend. She said CIRCA's view is that visibility into unaffiliated reinsurance should be handled through disclosure tools like Model #285 before, or at least alongside, any capital charge aimed at the same concern, and that CIRCA would like to see this coordinated across those tracks rather than three different groups landing on three different answers to the same underlying issues. Second, she said, before any threshold changes are made, the Committee should name the specific gap in visibility and calibrate to that gap rather than to the general growth of offshore reinsurance. Third, she said, materiality should come down to risk, not geography, including authorization status, collateral adequacy and reciprocal jurisdiction status, which is how Model #285 already treats the matter in Section 3A(1)(c), and it should not depend on where the reinsurer happens to sit. She said that if the Committee determines there is a real gap, CIRCA supports fixing it but wants the fix to be precise and evidence-based.

Rehagen said that Missouri took a simplified approach. He said that internally, Missouri considers 10% immaterial, so a transaction below that level is not required to be pre-filed; he used that number as a starting point and as a place to begin the discussion. He also suggested, as mentioned in some of the comment letters, that the reinsurance model already contains a concentration of risks section. He said the threshold there is pretty high at 50% and the definition of what must be provided is not well-defined, so tweaks in that area, focused solely on reinsurance, might be another alternative.

Commissioner Houdek said that as the committee discusses fostering more commissioner-level engagement on solvency issues, this topic would benefit from more input from senior regulators and commissioners. He said that, to that end, the Committee intends to re-expose the memo on Model #285 for an additional 60-day comment period to encourage more comments from regulators. In response to a question from Commissioner Ommen, it was noted that the Committee is trying to understand from states and regulators what changes might be needed, what additional ability is needed to review these reinsurance transactions, and what changes would need to be made to the model to give regulators more oversight and more ability to review them. More specifically, the first question is whether a state believes additional authority is needed to approve these transactions or not, and second whether the threshold for what determines if a transaction is material should be changed, if not for approval, for disclosure to the regulator.

He said that after those determinations are made, the next step would be for the committee to decide, based on all those comments, whether to request that the Executive (EX) Committee open the model to make such changes. Commissioner Caljouw expressed strong support for the additional 60-day period. He said all would benefit from additional education and from refining ideas and thoughts, not only on the process but also on the details and the content itself. Commissioner Houdek said that part of the reason for the extended period is recognizing that any time a model is opened for changes, a great deal of work and commitment is required from the states involved, which must update laws and regulations based on any revisions made to the model. He said that, before going down that path, obtaining as much input as possible from regulators and commissioners would be helpful as the

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committee tees up that broader discussion. Hearing no opposition, Commissioner Houdek noted the memorandum would be exposed for an additional 60 days.

3. Received Comments and Discussed the Referral from the Natural Catastrophe Risk and Resilience (EX) Task Force

Commissioner Houdek said that the Committee had exposed a memo from the Natural Catastrophe Risk and Resilience (EX) Task Force at the Summer National Meeting recommending that the existing risk-based capital (RBC) climate scenario analysis data reporting be extended until year-end 2030. He said the standard reporting is currently set to expire next year and that the committee would seek a vote on the question after hearing a summary of each of the comment letters (Attachment ?) from each commenter. Lederer said that her comment was that she questions the value of the information for regulators. Peterson said he would first answer the question, noting that he represents California and chairs the Natural Catastrophe Risk and Resilience (EX) Task Force. He said the value for regulators has been demonstrated through two fundamentals of what regulators do: financial analysis and financial examinations.

He said that, when the scenarios in the scenario analysis are paired with what is in the reinsurance interrogatory, NAIC committee support have been performing analysis with that information, and individual departments have used it for both financial analysis and financial exams. He said he therefore believes it is valuable to analysts, actuaries, and examiners. He said that, moving forward, the NAIC's reinsurance training, which began this year, will help pair the value already occurring with the necessary skills, so that the value grows across all of the departments. Peterson said that staff across all departments will receive training on what the scenarios can be used for and how they can be valuable going forward. He said he believes the scenarios are valuable today and will be more valuable as the data improves and more training occurs. He said these are risk assessment tools that insurers and reinsurers already use, and that analysis and examination are fundamental to regulators.

Lederer said that much of the value described for regulators seems high-level, such as the NAIC using the information for research and training development. She said that, as an individual state regulator trying to use this information to regulate domestic entities, she is still coming up short on how to use it. She said that perhaps more help from the NAIC on what questions to ask and what to look for will come in the future, but at that moment the value seems high-level. She said that, in the meantime, she has 50 domestic entities and spends a lot of time reviewing these documents, and that she does not feel her regulation of those entities is improving as a result of this quantitative information. She said regulators can and do ask about companies' approaches to addressing climate change and their thoughts on reinsurance, but that she does not know whether forecasted probable maximum losses (PMLs) for 2040 and 2050, which assume no change in business or reinsurance, have improved the quality of regulation. She said that, as of right now, she is struggling to see the value to the regulator in collecting this information.

Peterson said that is one of the reasons for the training, which is meant to match the information to its use. He said that, thus far, several states, including their own, use the information in examinations and find value in it. He gave a personal example from California, saying that one of the challenges in assessing PMLs is understanding tail risk and the compounding risk of multiple events. He said California had significant wildfires in 2025, which were one-in-200-year events that occurred at an unexpected time of year, and that, in looking at the following summer and fall wildfire seasons, these types of PMLs are valuable in analyzing future events.

Vece said he was speaking again on behalf of APCIA for the joint letter with NAMIC and Reinsurance Association of America (RAA). He said the joint P/C trades believe the scenario requirements should be allowed to sunset after 2026 reporting, as previously planned, because the requirements are inconsistent with the purpose of RBC and

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the P/C business model, and remain costly for companies without a corresponding benefit. He said the RBC preamble makes clear that the purpose of RBC is to identify potentially weakly capitalized companies, and that the referral memo mentioned several uses for the scenario data, such as creating training materials for regulators, but does not say or allude to the data being needed to advance the actual purpose of the RBC requirements. He said the main reason is that the scenarios have companies project losses 20 years into the future, as if their underwriting and reinsuring were frozen in time, which ignores how P/C insurers write short-duration contracts, underwrite policies annually, and manage catastrophe exposures over time. He said this is, in part, why members, similar to the concern Missouri raised, cannot use the end product of the scenarios and see no value in the data.

Vece said the requirement also appears to be an RBC outlier, as he was not aware of any other RBC requirement used purely to gather information, such as collecting training data for regulators, and that it resembles a data call more than an RBC filing. He said the scenario requirements are quite costly for companies to complete, even for those using the frequency-based option, and that the costs are not justified given the disconnect between 20-year projections and how P/C insurers manage long-term risk, noting that regulators and companies already have proven tools such as the Own Risk and Solvency Assessment (ORSA). He said that, if the Committee is not convinced the requirements should sunset after 2026 reporting, the trades suggest deferring consideration until after 2026 reporting concludes, at which point the NAIC will have three years of data for the 2040 and 2050 scenarios, and asked that the committee reevaluate then whether four more years of those scenarios are needed.

Speaking on behalf of NAMIC, Rogers said that he agreed with Vece's comments, particularly his last point. He said that as 2026 arrives and there are three years of data, NAMIC encourages regulators to evaluate the data they already have and, if justified, revisit the issue. He said he was open to any questions regulators may have.

Peterson shared slides (Attachment ?) and said he appreciated the letter and the desire to see value demonstrated through the scenario analysis. He said that he and the Task Force want it to be valuable. He said the collection is in its second year, that the information has already proven valuable, and that the work is entering the phase in which the training and the value will grow. He said the data is not collected for the training itself. The training empowers examiners, actuaries, and analysts to use the information more effectively. He said the value for supervision today is that these analytics are accessible to state regulators, procedures have been added to the risk repository so they can be used, and there is training to empower staff to use them. He said the combination of skills and improving data will show growing value, and that, as with any new process, the first two years produced lessons that improved efficiency, including correcting inconsistencies and confusion.

He said that is why the Task Force is suggesting not an indefinite extension but a four-year extension, so that state regulators can reap the benefits in their exams and analysis. He said that, in just two years, more companies are submitting data, and it is more accurate the first time, with fewer issues in the back-and-forth, and that regulators are getting a better look at what PMLs look like in extreme situations. He said the next four years would set up a well-informed decision in 2030 on whether to move forward or pivot, and that the evaluation is still early. He concluded that the training courses will provide the framework for more staff to understand this and for the community to make a more informed judgment on what to do in four years rather than today, which he said would be somewhat premature.

Eli Russo (NAIC) said that she is the Director of the NAIC Catastrophe Risk Management Center of Excellence, which performed the analysis Peterson showed. She said the analysis was shared with the chief financial regulators at the Summer National Meeting. She reminded regulators that the numbers in the climate condition PMLs are available to regulators, companies, and reinsurers, and are calculated by catastrophe model vendors that can project out to 2100, so a great deal of data is available. She said the analysis shows companies are increasingly shifting toward an approach that allows them to articulate their own view of risk. She said the ORSA

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does not provide this data and, having reviewed ORSAs for the last 12 years, she could attest that it does not address climate risk for the vast majority of filers because of its short time horizon and, where information is provided, its qualitative only. She said regulators will now get data, especially for smaller filers that do not meet the ORSA threshold. She said the questions raised in Lederer's letter are the same ones regulators raise when examining P/C companies with catastrophe exposure, that the exam includes a use test, and that the center has been working alongside a number of examiners to use these numbers. She said regulators simply need a little more time and that companies are getting their processes in order.

Bumpus said that he wished to share his view as a state that has found value in the exercise. He said Virginia has been collecting the data for two years and is using it. The state has also leveraged NAIC resources from the Catastrophe Risk Management Center of Excellence, which came to Richmond to conduct training, and a few neighboring states were invited as well. He said the training was very helpful for analysis and examination staff in understanding the data and how to leverage it, and that Virginia is still building it into its workflows and its engagement with companies. He highlighted several areas of value. First, for companies using the simplified approach of the 10% and 50% stress scenarios, he said, as Peterson noted, it provides a glimpse of tail risk if exposures jump, is meant to mimic the 2040 and 2050 numbers, and can be used to assess the adequacy of the reinsurance program even in its current iteration. Second, for companies filing the climate scenario analysis through their vendors, he said it helps deepen the conversation financial regulators have with companies and grounds it in data. He said P/C companies, even though they write short-term liabilities, are like piloting a massive tanker, and changes at any scale could affect markets outside the RBC context, so it is good to have a conversation with data about what 2040 or 2050 might look like, and the changes companies may be considering. He said that, in response to comments that this is outside the RBC principles, he would argue that it is very much within them, because the data can be used to identify potentially weakly capitalized companies or companies without an adequate reinsurance program. On cost, he said three years ago the Committee recognized that using the climate catalogs could be costly, so it created the 10% and 50% stress scenarios, and the trades then said that was an Excel exercise that would not be costly. He said they have changed their tune; he was surprised to hear it because the companies he has spoken with said it is not a heavy lift, and that, if it were a heavy lift, he would like to hear specifics from the trades and companies, since that was not what they were saying three years ago.

Vece said that he wished to respond on that point because he was involved in the conversations three years ago. He said he did not think the trades said it would be just a simple Excel exercise, and that it still costs companies and is still expensive, even for the frequency-based option, based on what the trades heard from their companies. He said the trades are not doing this work themselves and are not privy to companies' contracts with the modelers, but that, from what members have said, the frequency-based option is not free.

Chad Wilson (Travelers) said that he works in the catastrophe management group at Travelers Insurance and that the Connecticut Insurance Department had mentioned that the Committee might benefit from hearing about the costs of the frequency-based approach. He said Travelers appreciates the options, that the frequency-based approach eliminates climate vendor licensing costs, and that it simplifies the effort, but he wanted to give a good understanding of what it means for his company. He noted that different carriers have different technologies, vendors, and catastrophe modeling assumptions, and that he was speaking only for his company. He said Travelers has about two to four full-time employees who work on this initiative for about four weeks to complete the climate scenario for RBC. He said the catastrophe platform used to model its portfolio is a highly automated, technology-controlled and audit-controlled system, and that a team at Travelers executes this work. He said that when the models are run, the output must be modified for the frequency assumptions, which is not as easy as loading it into a spreadsheet, and that it takes a couple of scientists skilled in catastrophe modeling to implement the change correctly.

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He said two people take about one to two weeks to make sure that is done correctly and then give specifications to a business production support team and a technology team, in which one to three people take about two to four days to implement it on a gross basis so the gross impact of the frequency assumptions can be understood. He said the results are then loaded into another environment to calculate the net impact of reinsurance, and that, because Travelers is a complex organization with multiple reinsurance structures, this takes multiple teams multiple days. He said a management team of about three to four people then spends about one to two weeks reviewing the results to make sure they are reasonable and consistent with expectations, after which they are ready to be delivered to the NAIC. He said the benefits to Travelers are limited and not commensurate with those costs, because the exercise confirms what the company already knew: that climate change is a manageable risk with a responsible approach over time. He said the result is a high cost with limited benefit to the insurance company.

Commissioner Houdek said that, in the interest of time and because there appear to be outstanding questions and discussion on this topic, the Committee will re-expose the memo on this issue for a two-week comment period ending Nov. 12 to give regulators and interested parties an opportunity to provide additional comments. He asked Peterson to send his slides around and to provide the comments he gave verbally and in writing to all committee members and others. He said the Committee would then take that additional input and feedback, plan a discussion, and likely take action at the Fall National Meeting.

4. Discussed the Draft Letter to the Life Risk-Based Capital (E) Working Group

Commissioner Houdek indicated the committee had received a few unsolicited comment letters (Attachment ?) regarding its action at the Summer National Meeting to send a referral to the Life Risk-Based Capital (E) Working Group to develop a new recapture risk charge on non-reciprocal jurisdictions. He said the meeting materials included a response memo explaining why the Committee believes the action is necessary, and that he would open the floor to those who submitted comment letters. He first noted that, in response to what he believed was a request at the outset of the meeting to expose that memo for a comment period, the Committee would do so. He said that, given the timing of the upcoming Fall National Meeting, it would not be a 30-day exposure but a two-week exposure, so, as with the previous item, the memo would be exposed to the Life Risk-Based Capital (E) Working Group for two weeks, through Nov. 12, with discussion of the comments and action to follow at the Fall National Meeting.

Avery said that the ACLI appreciates the additional exposure and that, as life RBC moves forward, it believes important technical questions still need to be worked through. He said these include the appropriate level of capital following a recapture and how elements of the P/C counterparty framework would translate to life RBC. He said those issues could have a meaningful impact on the design and calibration of the resulting charges and that the ACLI looks forward to continuing to work through them as the technical work proceeds at life RBC.

Funk said CIRCA would like the Committee to keep in mind the actual probability of a recapture. She said that, with the memorandum released only on Monday, and the previous memorandum, interested parties have not had time to meaningfully comment or to provide relevant information for the committee to review. She said CIRCA remains concerned that the underlying referral prescribed additional capital before a transparent technical process established whether there was a material residual capital deficiency or whether existing supervisory safeguards are inadequate. She said exposing the implementation of a predetermined policy decision is not the same as exposing the decision itself. She said CIRCA asks that the analysis remain capable of determining whether the charge is warranted, and that interested parties have an opportunity to be heard before substantive policy decisions are finalized.

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Alton said RAA's primary concern is a broad regulatory charge on an individual jurisdiction that ignores the underlying credit quality of the reinsurer. He acknowledged that there is an issue, as evidenced by the memo's finding that about 70% of life reinsurance transactions or reinsurers were of concern, and that this is material and needs to be addressed, and said he is supportive of that. He said, however, drawing on his own work in NAIC activities a decade ago on addressing Solvency II and equivalency, he is concerned about targeting individual jurisdictions and determining their creditworthiness without considering the underlying reinsurer's credit quality and the structure of its transactions. He said that, as noted in his comment letter and with more comment letters to come, he supports the direction of taking up Model #285 with a very targeted approach to individual reinsurance transactions that are reviewed. He said he requested to go even further by putting together a regulatory checklist for these transactions, informed by the work of AG 55 and the principles-based approach, to understand the exact risk qualities of concern. He said some were highlighted briefly in the memo, but more detail is needed to make the checklist robust and give regulators the tools to address the identified risk rather than broadly impacting the overall market. He said that while 70% is material, a broad charge against an entire jurisdiction would also subject the other 30% of those reinsurance transactions to the penalty, and that the approach needs to be targeted and focused. He said this will set a precedent that other jurisdictions will hold the U.S. accountable for its actions, and that it could affect U.S. insurers and reinsurers doing business internationally if other jurisdictions seek to address an issue against reinsurers or insurers that happen to be in the U.S. using a boilerplate approach. He said he would take any questions and submit an additional comment letter.

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

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**Draft Pending Adoption**

Draft: 8/24/26

Financial Condition (E) Committee
Columbus, Ohio
August 14 2026

The Financial Condition (E) Committee met in Columbus, OH, Aug. 14, 2026. The following Committee members participated: Nathan Houdek, Chair (WI); Michael T. Caljouw, Vice Chair (MA); Michael Yaworsky represented by Nicole Crockett (FL); Doug Ommen, Kevin Clark, and Carrie Mears (IA); Mike Chaney represented by Mark Cooley (MS); Mike Causey represented by Jackie Obusek (NC); Kaitlin Asrow represented by Bob Kasinow (NY); Judith L. French and Tom Botsko (OH); Michael Wise (SC); Amanda Crawford represented by Jamie Walker (TX); Scott A. White, Dan Bumpus, and Doug Stolte (VA); and Kaj Samsom (VT). Also participating were: Mike Peterson (CA); Philip Barlow (DC); Kathleen Orth and Fred Andersen (MN); and John F. Rehagan (MO).

1. Adopted its July 8 and Spring National Meeting Minutes

The Committee met July 8. During this meeting, it took the following action: 1) adopted proposed changes to the risk-based capital (RBC) preamble, RBC proposal 2026-12-IRE-MOD, and RBC proposal 2025-16-L-MOD; and 2) received an update on NAIC designations.

Director French made a motion, seconded by Commissioner Caljouw, to adopt the Committee's July 8 (Attachment One) and Spring National Meeting minutes (*see NAIC Proceedings – Spring 2026, Financial Condition (E) Committee*). The motion passed unanimously.

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

Commissioner Houdek stated that the Committee typically adopts one motion to approve its task force and working group reports, which are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items deemed to be controversial). He reminded Committee members that after the adoption of its votes, all technical items in the reports adopted reports will be sent to the NAIC Members for review shortly after the conclusion of the 2025 Summer National Meeting as part of the Committee's technical changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and 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 Houdek asked the Committee: 1) whether there are any items that should be discussed further; and 2) whether there are other issues not up for adoption that are currently being considered by task forces or working groups reporting to the Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek reported that the Group Capital Calculation (E) Working Group did not meet, but it is expected to receive referrals from the International Insurance Relations (G) Committee related to whether further changes are needed to the group capital calculation (GCC) based on referrals from the Aggregation Method Implementation (G) Working Group. If there ends up being any changes proposed by the Group Capital Calculation (E) Working Group, those items will come back to this Committee following discussion by the Working Group.

Commissioner Houdek also noted that the Financial Analysis (E) Working Group met Aug. 11, July 16, June 18, May 27–28 and April 27–28 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.

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Additionally, the Valuation Analysis (E) Working Group met Aug. 11, and the Risk Retention (E) Working Group also met July 20, May 28 and April 23, both groups 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 Ommen made a motion, seconded by Commissioner Caljouw, to adopt the reports of its task forces and working groups, including: the Accounting Practices and Procedures (E) Task Force; the Capital Adequacy (E) Task Force; the Financial Stability (E) Task Force; the Examination Oversight (E) Task Force; the Invested Assets (E) Task Force; the Receivership and Insolvency (E) Task Force; the Reinsurance (E) Task Force; the Group Solvency Issues (E) Working Group (Attachment Two); the NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group (Attachment Three); the National Treatment and Coordination (E) Working Group (Attachment Four), and the Reciprocal Exchanges (E) Working Group (Attachment Five). The motion passed unanimously.

3. Received an Update from the Mutual Recognition of Jurisdictions (E) Working Group

Rehagan provided an update on the activity of the Mutual Recognition of Jurisdictions (E) Working Group. The update included background information on how the Working Group meets annually to perform reviews of the qualified jurisdictions and reciprocal jurisdictions that are not subject to inforce covered agreements, as well as how they also meet to perform reviews of any applications by jurisdictions wishing to be granted qualified jurisdiction status. Rehagen noted that he wanted to make the Committee aware that the NAIC had received three formal applications from jurisdictions seeking to obtain qualified jurisdiction status. This includes Guernsey, a self-governing British crown dependency in the Channel Islands located off the coast of Normandy near France. It has its own government legal system and financial regulator. It is an established international finance and insurance center known for its political stability, significant experience in banking, investment funds, insurance, and reinsurance.

Rehagan stated that in addition, the NAIC has been in contact with the representatives from the Republic of Korea Financial Services Commission (FSC) supervisor, requesting that the NAIC restart its qualified jurisdiction review process, which was initially performed and then put on hold back in 2021. At that time, the NAIC was notified of data localization issues that needed to be addressed before this could move forward. He also noted that the Cayman Island Monetary Authority (CIMA) had formerly applied to be a qualified jurisdiction. The Cayman Island reinsurance sector has been growing over the past few years. So, at this point, it has filed this application for the NAIC's review.

Rehagan noted that the plan for these reviews is to follow the requirements of the process for evaluating qualified and reciprocal jurisdictions. While the NAIC does not yet have a timeline for the rules, he noted that the leadership of the Mutual Recognition of Jurisdictions (E) Working Group, the Reinsurance (E) Task Force, and NAIC committee support will begin to work through these and conduct timely reviews. Rehagan announced that the Working Group plans to meet in regulator-to-regulator session at the end of the month to discuss the plans for work to begin on these reviews.

4. Adopted a Referral to the Life-Risk Based Capital (E) Working Group

Commissioner Houdek noted that the materials included a draft letter to the Life-Risk Based (E) Working Group. He explained that the referral was being driven by the substantial increase in the use of life reinsurance and the need to factor some of these issues into the NAIC's solvency framework. He added that reinsurance has been a topic discussed by the Valuation Analysis (E) Working Group with the adoption of Actuarial Guideline *LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55), and commissioners heard a summary of that work at the Commissioners' Mid-Year Roundtable

in June. He noted that while that Working Group's work is not final, it has been noted that some reinsurance agreements were flagged in the analysis of those reports due to their increasing risk on U.S. ceding companies.

Commissioner Houdek added that reinsurance has also been a topic discussed at the Financial Analysis (E) Working Group, and there is a general belief among insurance regulators that immediate attention is needed, given the significant increase in reinsurance activity. He went on to explain that another basis for the recommendation is information shared with the Financial Analysis (E) Working Group from U.S. domestic regulators from numerous states dealing with their concern about recapture risk and counterparty risk associated with these reinsurance arrangements. As a result, there is a concern among regulators that the life RBC framework may not adequately consider the level of recapture risk, as well as credit risk related to unrated and lower-rated reinsurers.

Commissioner White made a motion, seconded by Commissioner Ommen, to adopt the referral to the Life Risk-Based Capital (E) Working Group (Attachment Six). The motion passed unanimously.

5. Exposed a Letter Regarding Model #285

Commissioner Houdek explained that the materials included a draft letter requesting feedback on whether the *Disclosure of Material Transactions Model Act* (#285) should be modified. While the background and rationale are similar to those discussed under the previous agenda item on reinsurance—specifically, increased transparency for unaffiliated reinsurance transactions—the proposed changes could be broader. However, regulators currently have transparency into new reinsurance agreements with domestic affiliates under the *Insurance Holding Company System Regulatory Act* (#440), but they do not have that same transparency with unaffiliated reinsurance transactions.

Commissioner Caljouw made a motion, seconded by Commissioner White, to expose the letter for a 45-day public comment period ending Sept. 29 (Attachment Seven). The motion was unanimously carried. Commissioner Houdek announced that once comments are received, the Committee will review and discuss them to determine if it wants to request authority from the Executive (EX) Committee to modify Model #285.

6. Exposed a Memorandum from the Natural Catastrophe Risk and Resilience (EX) Task Force

Peterson explained that there was an exciting growing collaboration between the Financial Condition (E) Committee and the Natural Catastrophe Risk and Resilience (EX) Task Force. He explained that the Committee has various reporting requirements that produce data and metrics that help train financial analysts, actuaries, and examiners, and which are also used to implement changes to the *NAIC Financial Condition Examiners Handbook* and the *Financial Analysis Handbook*. Regulators use the data for planning and communicating with insurance stakeholders. The Task Force also has long-standing tools related to reinsurance and catastrophe modeling that help states understand market utility. Its focus is on strengthening those tools and improving regulators' understanding of how they can be used.

Peterson said that, looking ahead at the two groups' continued collaboration, the Natural Catastrophe Risk and Resilience (EX) Task Force composed the referral included in the materials so that it could continue to collect key data and build out those catastrophe modeling and reinsurance trainings. He noted how catastrophe risk is now informing a series of new training for regulator staff. There is a three-part catastrophe modeling series open to all states, not just state actuaries or analysts. Peterson noted that the California Department of Insurance (DOI) has attorneys that take it. He added that throughout the DOI's data collection team, others take it, and so it is becoming a significant resource for regulators. Those catastrophe modeling training courses include practical rate review training and samples, and this RCAT scenario analysis data can be helpful.

Peterson noted that there is also training on catastrophe climate risk for financial examiners and financial analysts. And then this past May, the NAIC collaborated with the Reinsurance Association of America (RAA) to host a reinsurance training that ended up including 50 attendees from 36 states. Peterson said the training had broad participation and was valuable. From the Task Force's perspective, it could be the first in a series of trainings designed to help regulators better understand property reinsurance and connect that work to the NAIC Catastrophe Risk Management Center of Excellence (COE).

Peterson described how there are numerous training courses that link these tools and show the nexus between reinsurance and the property/casualty (P/C) market, natural catastrophe risk, models, and forward-looking scenario analysis. He expressed a growing value for the NAIC for this type of information. He noted the Center for Insurance Policy and Research (CIPR) event two days prior that specifically focused on property reinsurance, where there were presentations from AON that examined current trends and how they look at that moving forward. Peterson said the value is building out those reinsurance trainings. Peterson explained that a secondary purpose of the referral is to continue collecting the data needed to support scenario analysis. For this referral that the Task Force has submitted, it is seeking to extend the RCAT data for four additional years when it reaches its sunset next year.

Peterson explained that this information, combined with the information from the reinsurance interrogatory, brings together model losses collected under different scenarios. By doing this, it achieves a couple of things. First, it provides regulators with a baseline of probable maximum loss estimates for earthquake, hurricane, wildfire, and severe convective storms. And second, it provides medium and long-term modelled probable maximum loss estimates for hurricanes and wildfires under two future scenarios. This allows regulators to compare forward-looking projections. The information includes net and gross estimates related to reinsurance, as well as a description of the catastrophe reinsurance program.

Peterson noted that under this data collection, insurance companies have flexibility on the methodology they use to generate the data. This flexibility is important for two reasons. One is that it provides insurers with a way to use what is most relevant to them as they submit data. It also supports the training of department staff by allowing regulators to compare different methodologies and better understand how insurers are approaching these future scenarios. Peterson said that there were four key uses to share with Committee members from the Natural Catastrophe (EX) Task Force. First, it is used as a regulator-to-regulator tool, and that provides value to regulators. Second, it is a training mechanism to help train financial regulators on how to use scenario analysis. Third, it provides an ability to assess solvency of property reinsurers with an extremely high cat risk or a growing cat risk. Fourth, there have been fewer data quality issues, more engagement and submissions from the insurance companies, and also more engagement from the catastrophe modeling vendors who are part of this nexus of reinsurers, insurers cap modelers, and regulators.

Peterson said in closing, he wanted to leave the Committee with a couple of points on why the Task Force decided it wanted to send this referral to the Committee. First, the catastrophe scenarios mimic how reinsurers approach risk. So it provides a good opportunity to build out those reinsurance training courses in a way that helps multiple levels of staff understand how reinsurers are approaching the market. Reinsurers use similar scenarios when planning for capital and concentration risks, and it improves other data sources, like the reinsurance interrogatory and data that regulators get from public sources. Lastly, individual states like his are providing training for existing staff rather than contracting experts, which is a huge benefit internally to capacity. Peterson summarized that this referral recommends extending this data collection for four additional years under the same parameters. He noted that maintaining a consistent approach over the next several years will help the NAIC continue developing its reinsurance training series, resulting in a strong catastrophe modeling training series and a catastrophe and reinsurance for property training series.

Commissioner Caljouw made a motion, seconded by Commissioner Samsom, to expose the referral received (Attachment Eight). The motion passed unanimously.

7. Received an Update on the Future Work Plan of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow provided an update on the future work plan for the Risk-Based Capital Investment Risk and Evaluation (E) Working Group. He said the Working Group is considering two tracks for its next steps. For the first, the NAIC committee support are reviewing annual statement data to categorize the asset backed securities (ABS) in the 2025 Schedule D filings to assist in determining which asset class to address next. The review will rank various types in order of magnitude and, to the extent determinable, also identify whether an asset class could be considered similar to collateralized loan obligations (CLOs). The Working Group will consider whether those asset classes can be mapped into the existing CLO factors, whether each asset class can be readily identified through Schedule D reporting, and whether totals are available through that reporting. He noted that the Working Group would avoid relying on company records to break out the assets, preferring instead to use the information reported directly in the financial statements. The Working Group also will consider whether the underlying assets are considered consumer or commercial assets. Once that list is put together, the Working Group will expose it for a public comment period. Then it will set priorities to work on those assets using the flow chart that the American Academy of Actuaries (Academy) developed.

The second path is asking the Academy to look at the three sensitivities for CLOs previously identified: 1) systemic risk; 2) the recovery, average, and collateral repurchase price; and 3) prepayment. The Working Group will expose parts of the previous Academy presentation discussing these three items shortly after this meeting. Barlow noted that the Working Group will specifically request comments on the correlation. In its previous work, the Academy indicated that the literature it reviewed did not reflect a consensus on the appropriate correlation to use. The Working Group is seeking feedback on whether a different correlation should be used. Barlow noted that this later path would be the focus for the rest of this year, and by then the Working Group would have the other assets prioritized and would start to look at the next category of assets.

Barlow also mentioned Matt Chung (IL) has agreed to take over as chair of the RiskBased Capital Investment Risk and Evaluation (E) Working Group next year, while Thomas Reedy (CA) will continue to serve as vice chair. Barlow said the Working Group looks forward to continuing its work and as seamlessly as possible. Commissioner Houdek said that the rest of this year is going to be focused on further refinement of the work that has been happening regarding CLOs while also soliciting input and feedback on what the next steps are with broader ABS. Barlow agreed and noted that the Academy's original work assumed that the items they are going to be looking at offset each other. If the review identifies an issue, the Working Group could propose revisions to the recently adopted factors. However, any proposed revisions would not be considered until next year at the earliest.

8. Received an Update on the Work of the Invested Assets (E) Task Force

Commissioner Houdek noted that as part of that transition in the formation of the new Task Force and the three working groups under it, the Committee agreed last year that it would continue to receive regular updates throughout 2026 to make sure that as the governing parent committee, people are comfortable with this new structure and to make sure things are working as expected.

Mears directed Committee members to the report of the Task Force and highlighted some key points of interest. The Credit Rating Provider (E) Working Group exposed the Credit Rating Provider (CRP) Due Diligence Framework (Framework)May 4 for a 60-day public comment period ending July 3. During its Aug. 12 meeting, the Working Group discussed comments received. Its next step is to continue working with PwC, the consultant hired to help

with that project, to review those comments. Then the Working Group will re-expose the Framework at a later date.

Mears next turned to the Investment Designation Analysis (E) Working Group. The Working Group took over a lot of the key charges of the Valuation of Securities (E) Task Force, particularly related to the Securities Valuation Office (SVO). The Working Group received a new application from a rating agency interested in being an NAIC CRP. The Working Group decided that the application should be referred to the Credit Rating Provider (E) Working Group. However, any applications received while the Framework is still being developed should not be considered until it is fully implemented.

The third working group is the Investment Analysis (E) Working Group, which meets primarily in regulator-to-regulator session. Mears noted that after the Task Force heard a presentation at the Spring National Meeting on residential mortgage loans, the Working Group used that information, along with an analysis of how residential mortgage loans are reported in the statutory financial statements, to develop two referrals. One referral was sent to the Statutory Accounting Principles (E) Working Group to consider whether additional disclosure is needed for residential mortgage loans, including related loan attributes, and whether a clearer definition of that asset group is needed. The second referral was sent to the Life Risk-Based Capital (E) Working Group to review the capital charges for that asset group. The work will begin with the Statutory Accounting Principles (E) Working Group, followed by the Life Risk-Based Capital (E) Working Group.

Mears said the broader issue before the Task Force is how to evaluate Level 3 assets, which are difficult to value. The Working Group has concluded that improvements could be made to Note 20C because it really lacks structure, functions more as a free form disclosure, and has resulted in significant variability among insurers. As part of its continued work in this area, the Task Force heard a presentation during its Aug. 13 meeting from the NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group on its processes for auditing the fair values of private credit within the generally accepted accounting principles (GAAP) and statutory accounting principles (SAP) audit process, particularly for Level 3. Mears explained how that was important because regulators generally try to leverage as much of that work from the auditor during the examination period so as not to duplicate some of the efforts there. She said that was an informative presentation and that the Task Force will likely continue exploring ways to leverage the audit work in its examination process.

9. Received an Update on the AI Systems Evaluation Supplement Pilot Process

Commissioner Samsom explained how earlier this year, the Big Data and Artificial Intelligence (H) Working Group finalized a draft of the AI systems evaluation supplement, which represents the latest step in adapting examination and related processes for regulating insurance company use of artificial intelligence (AI). The supplement does this by adding AI-specific guidance and resources to existing materials.

The pilot officially started in March and involved 12 states: California Colorado, Connecticut, Florida, Iowa, Louisiana, Maryland, Pennsylvania, Rhode Island, Vermont, Virginia, and Wisconsin. Commissioner Samsom thanked those states for working through the pilot. The pilot began with training and then transitioned to weekly meetings to share feedback and discuss what each state was hearing. The pilot group quickly heard feedback on common themes, including the need for more clarity on definitions of AI systems and models, materiality, and risk assessment. The pilot group is also working to address the scope of the tool and the use of the term “direct impact.”

The pilot group will consider all feedback received and make changes as appropriate. The goal is to provide a copy of the updated supplement to the Working Group during its Aug. 31 meeting. The pilot group will use that meeting to explain any changes made and take initial clarifying questions. Commissioner Samsom explained that the pilot

group anticipates allowing comments beyond the comment period that would follow that meeting to ensure any feedback that comes in from the pilot is incorporated into the supplement.

Commissioner Houdek responded that he believed it was a positive process overall, with a lot of good feedback and opportunities to learn on both the regulatory and industry sides. He added that the pilot ultimately will lead to a positive outcome for what the supplement will look like.

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

*2026 Fall National Meeting*
*Dallas, Texas*

**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE**
Monday, November 16, 2026
1:30 – 2:00 p.m.
Convention Center—Grapevine A123—Level 3

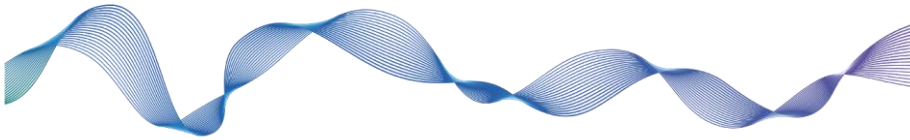
**Meeting Summary Report**

The Accounting Practices and Procedures (E) Task Force met Nov. 16, 2026. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes (*see NAIC Proceedings – Summer 2026, Accounting Practices and Procedures (E) Task Force*).

2. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met Nov. 15. During this meeting, the Working Group took the following action:
   A. Adopted the following statutory accounting principle (SAP) concepts and clarifications:
      i. Adopted conceptual revisions to *Statement of Statutory Accounting Principles (SSAP) No. 7—Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR)*, a corresponding issue paper detailing discussions and rationale for revisions, and various miscellaneous revisions to other SSAPs to reflect the revisions adopted to IMR/AVR with a Jan. 1, 2028, effective date. The Working Group directed future data assessments and agenda items to assess compliance with IMR reporting provisions, with future planned Working Group discussions to consider potential increases to the net negative IMR admittance limit recommended by the American Council of Life Insurers (ACLI) IMR compliance proposal. (Ref #2023-14)
      ii. Adopted revisions that reject *Accounting Standards Update (ASU) 2025-10, Accounting for Government Grants Received by Business Entities*, and clarify the accounting treatment of government grants related to assets, as well as the statutory treatment of *FASB Statement No. 116, Accounting for Contributions Received and Contributions Made*. (Ref #2026-04)
      iii. Adopted revisions to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to clarify the reporting and accounting of funds withheld liabilities under reinsurance contracts with a Dec. 31, 2027, effective date. (Ref #2026-02)
      iv. Adopted revisions to nullify *Interpretation (INT) 18-03: Additional Elements Under the Tax Cuts and Jobs Act* (TCJA), effective Jan. 1, 2027, and to update *SSAP No. 101—Income Taxes* for net controlled foreign corporation tested income and make other updates in response to changes made by the One Big Beautiful Bill Act. (Ref #2026-14)

   B. Exposed new SAP concepts and clarifications for a public comment period ending Feb. 12, 2027:
      i. Exposed revisions to the Preamble to adopt, with modification, the disclosure principles in *ASU 2025-11, Interim Reporting (Topic 270), Narrow-Scope Improvements*. (Ref #2026-19)
      ii. Exposed revisions permitting structured settlements that receive a Securities Valuation Office (SVO)-assigned NAIC designation to be reported as an "interest in a joint venture, partnership



or limited liability company with underlying assets having characteristics of bonds with an NAIC Designation Assigned by the SVO." (Ref #2026-18)

iii. Exposed revisions in response to a referral from the Life Risk-Based Capital (E) Working Group to expand collateral loan reporting, focused on the independent verification of the collateral's fair value. (Ref #2026-17)

iv. Exposed revisions to remove the Canadian foreign currency exception and directed NAIC committee support to develop transition guidance to implement the change for a Jan. 1, 2028, effective date. (Ref #2026-15)

v. Exposed revisions to incorporate additional concepts within the principles-based bond definition, with modification to consider structural mitigants in assessing significant asset-liability management (ALM) risk in financial asset-backed securities, along with proposed transition and effective date language. (Ref #2026-10)

vi. Exposed revisions to incorporate new disclosures related to the source of private letter ratings. (Ref #2026-16)

vii. Re-exposed the agenda item with additional questions on residential mortgage loans and directed NAIC committee support on drafting revisions. (Ref #2026-11)

viii. Exposed updated revisions clarifying that Medicaid state-directed capitated payments are included in insured plans, while Medicaid state-directed payments with separate payment terms without utilization risk are excluded from insured plans. (Ref #2026-13)

ix. Exposed revisions to clarify that for *SSAP No. 97—Investments in Subsidiaries, Controlled and Affiliated Entities* paragraph 8.b.ii and 8.b.iv entities, if the statutory adjustments result in a negative equity value, the amount reported on Schedule BA for that subsidiary, controlled, and affiliated (SCA) shall stop at zero, with the amount of the negative equity reclassified as a liability. (Ref #2026-23)

x. Exposed revisions to clarify *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* and simplify disclosures. (Ref #2026-20)

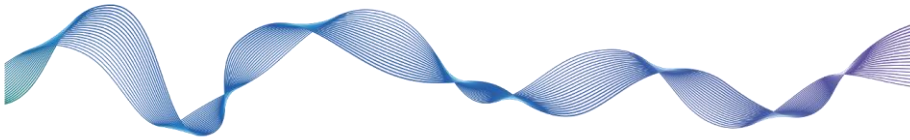
xi. Exposed updated revisions to prescribe the reporting format for the financial instruments fair value disclosure and remove the existing disclosure for when it is not practicable to determine fair value. Directed NAIC committee support to address the distinction between "operating entities" and "investment entities" through the *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* project. (Ref #2026-06)

xii. Exposed revisions to establish a commitments definition, clarify various reporting and disclosure elements involving commitments and contingencies, replace the existing financial statement note with a summary disclosure of commitments, and add general investment instructions to require investment commitments to be reported on the applicable investment schedule regardless of whether there is an existing investment balance. (Ref #2025-24)

xiii. Exposed a revised proposed *SSAP No. 109—Asset Liability Management Derivatives* and corresponding issue paper with the addition of an "effective duration" hedge effectiveness test. The Life Actuarial (A) Task Force is currently working with companies to conduct a pilot program to allow life regulatory actuaries to review the specific hedge-effectiveness tests and other guidance proposed by this agenda item. In addition, NAIC committee support were directed to draft a related annual statement blanks proposal. (Ref #2024-15)

xiv. Exposed a concept agenda item with a request for comments on disclosures that can potentially be either simplified or removed. (Ref #2026-21)

xv. Annual statement blank or instructions:



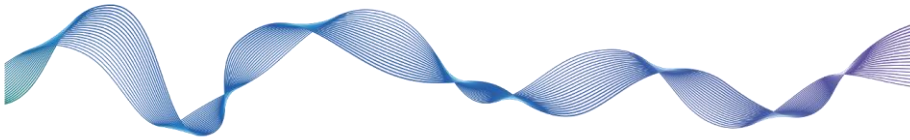
a. Exposed revisions proposing to remove the restricted asset column from the investment schedules. (Ref #2026-22)
b. Exposed revisions to consistently define how the acquisition date shall be reported throughout the investment schedules, excluding derivatives on Schedule DB. Regulator comments were requested on whether it would be beneficial to add a new column to the "owned" schedules to detail "most recent acquisition date." (Ref #2026-24)
c. Exposed revisions to update the definition of what shall be captured in the Schedule D-1-2: Asset-Backed Securities reporting lines for collateralized loan obligations, collateralized bond obligations, collateralized debt obligations (CLOs/CBOs/CDOs). (Ref #2026-25)

C. Directed NAIC committee support to:
   i. The Working Group moved the agenda item on insurance company-owned life insurance (ICOLI) to the active listing and directed NAIC committee support to work with the industry and the Capital Adequacy (E) Task Force on an expanded disclosure for year-end 2027. The Working Group also directed a referral to the Life Actuarial (A) Task Force to provide guidance regarding the use of ICOLI in cash flow testing. (Ref #2026-08)
   ii. Directed NAIC committee support to develop revisions to *SSAP No. 62—Property and Casualty Reinsurance* exception to retroactive reinsurance for intercompany reinsurance among 100% owned or controlled affiliated, clarifying the measurement of the gain on inception and developing revised disclosures. (Ref #2026-12)
   iii. Directed NAIC committee support to draft revisions to consolidate accounting replication synthetic asset transactions (RSATs) guidance in *SSAP No. 86—Derivatives* and work with industry and regulators in the interim on the parameters for when RSATs should be permitted, including a disclosure that would allow comparison to state investment limits from NAIC designations. (Ref #2026-09)

D. Received updates on the following:
   i. Received a referral from the Investment Analysis (E) Working Group on the reporting of structured investments and underlying collateral and other reporting enhancements. This referral requests a project to improve classifications within ABS reporting lines for multi-collateral financial asset-backed securities and to identify how an insurer obtains exposure to the underlying collateral (e.g., feeder funds).
   ii. Received an update on SSAP No. 48 project discussions.
   iii. Received details on current U.S. generally accepted accounting principles (GAAP) exposures, noting that comments are not recommended, and review of issued standards will occur under the normal maintenance process.
   iv. Received a comment letter from Kerper and Bowron on the unearned premium tests in *SSAP No. 65—Property and Casualty Contracts*.

E. Adopted its Oct. 7 minutes. During this meeting, the Working Group took the following action:
   i. Received a presentation from the ACLI on a proposed IMR compliance proposal.

F. Adopted its Summer National Meeting minutes (*see NAIC Proceedings – Summer 2026, Accounting Practices and Procedures (E) Task Force, Attachment One*).



3. Adopted the report of the Blanks (E) Working Group, which met Aug. 26. During this meeting, the Working Group took the following action:
   A. Adopted its July 29 minutes (*see NAIC Proceedings, Summer 2026, Accounting Practices and Procedures (E) Task Force, Attachment Two*).

   B. Adopted four proposals:
      i. 2026-13BWG Modified – Add an active status code column to the Cybersecurity Insurance Coverage Supplement, Part 5, and to the Private Flood Insurance Supplement, Parts 2 through 6, to identify the active status for each state.
      ii. 2026-14BWG – Update Schedule P instructions with revisions exposed at the Casualty Actuarial and Statistical (C) Task Force.
      iii. 2026-15BWG Modified – Update the "CUSIP" column throughout the annual and quarterly investment schedules to be a "Security Identifier" column to allow for different types of identifiers, such as Committee on Uniform Security Identification Procedures (CUSIP), CUSIP International Numbering System (CINS), Private Placement Numbers (PPNs), International Securities Identification Numbers (ISINs), and Legal Entity Cross-Reference Identifier (LXID). Add a "Security ID Type" column to the investment schedules to identify what security identifier is being used. Update references to CUSIP throughout the annual and quarterly statements to the security identifier when the instructions are not specifically referring to CUSIP.
      iv. 2026-17BWG – Update Annual General Interrogatory 25.04 and 25.05, changing "amount of collateral" to "assets lent." Update Notes to Financial Statements Note #5L(1) category "Collateral held under security lending agreements" to "Assets lent under security lending agreements."

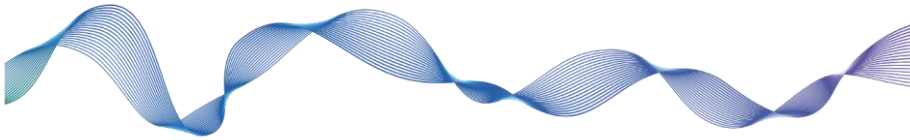
   C. Deferred two proposals and exposed three new proposals for a 70-day public comment period ending Nov. 3.

   D. Withdrew two proposals sponsored by the Statutory Accounting Principles (E) Working Group to allow time for additional discussion.
      i. 2025-29BWG – Update Investment Schedules General Instructions restricted asset codes to add codes that were previously added to Notes to Financial Statements, Note 5L – Restricted Assets, for reporting funds withheld and modified coinsurance (modco) arrangements.
      ii. 2026-16BWG – Update the list of disclosure exclusions for Notes to Financial Statements, Note #20C, to remove investments accounted for under the equity method.

   E. Adopted its editorial listing.

6. Received an update on the Financial Data Repository (FDR) modernization project and freeze period.

The NAIC is modernizing its annual and quarterly financial reporting system, including the annual and quarterly statement filings, the supplemental filings, and the risk-based capital (RBC) filings. The modernization is intended to improve system flexibility, speed, and filing accuracy in statutory reporting; enhance automation and functionality to support modern regulatory needs; and enable modular design for easier upgrades and integration with emerging technologies.



NAIC committee support are working with its vendor, SAIC, to identify the reporting fields in XBRL format, as well as working with the financial statement vendors. The PDFs will be created from the company data input into the vendor system. They will appear as they do now, with the exception of the Notes to the Financial Statement. All notes disclosures will appear in the electronic version, as well as in the PDF.

To facilitate the full transition to the new system, there will need to be a metadata freeze period. Metadata is the background information that describes, organizes, and gives context to the data. The freeze period means that all proposal changes to the annual and quarterly financial statements need to be adopted by May 2028 to be included in the year-end 2028 annual statement filing submitted in March 2029, and by Jan. 1, 2029, for the quarterly statement to be filed May 15, 2029. The date would be June for the RBC.

Changes after May/June 2028 would not be in effect until Jan. 1, 2030, essentially skipping any new changes for year-end 2029. This will allow SAIC and NAIC committee support to get everything in the new system ready for the first-quarter reporting.

*2026 Fall National Meeting*
*Dallas, Texas*

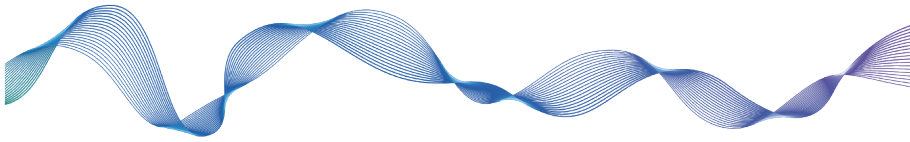
**CAPITAL ADEQUACY (E) TASK FORCE**
Monday, November 16, 2026
11:30 a.m. – 12:30 p.m.

**Meeting Summary Report**

The Capital Adequacy (E) Task Force met Nov. 16, 2026. During this meeting, the Task Force:

1. Adopted its Nov. 3 and Aug. 4 minutes (*see NAIC Proceedings – Summer 2026, Capital Adequacy (E) Task Force*). During its Nov. 3 meeting, the Task Force took the following action:
   A. Adopted proposal 2026-04-CR (Jan. 1 – Sept. 30, 2026, Catastrophe Event Lists).
   B. Adopted proposal 2026-13-CR (Severe Convective Storm Implementation).
   C. Adopted its Task Force and its Working Groups' working agenda.
   D. Adopted its revised risk-based capital (RBC) procedures.
   E. Received referrals from the Statutory Accounting Principles (E) Working Group regarding insurance company-owned life insurance (ICOLI) and securities lending. The Task Force noted that it will dedicate a significant portion of its Nov. 16 meeting to the ICOLI item. NAIC committee support have prepared a draft proposal incorporating the securities lending changes.
   F. Exposed proposal 2026-14-CA (Security Identifier Update) for a 30-day public comment period ending Dec. 3.
   G. Exposed proposal 2026-16-CA (Non-Controlled Assets) for a 30-day public comment period ending Dec. 3.
   H. Adopted the RBC publication editorial changes listing.

2. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met Nov. 16. During this meeting, the Working Group took the following action:
   A. Adopted its June 23 minutes (*see NAIC Proceedings – Summer 2026, Capital Adequacy (E) Task Force, Attachment Five*).
   B. Adopted its Oct. 5 minutes. During this meeting, the Working Group took the following action:
      i. Received comments on a presentation by the American Academy of Actuaries (Academy) on the collateralized loan obligation (CLO) RBC project, focusing on residual tranches.
      ii. Received comments on the Academy's experts from its Dec. 15, 2025, C-1 Subcommittee presentation.
      iii. Reviewed asset-backed securities (ABS) reported in the *2025 Annual Statement* filings. The summary of ABS, titled "Asset-Backed Securities Reported in 2025 Statutory Filings – Schedule D, Part 1, Section 2 – For All Types of Businesses," along with cover questions, was exposed for a 30-day public comment period ending Nov. 5.
      iv. Adopted its working agenda.
      v. Discussed broadly syndicated loan (BSL) CLOs thin tranche list.
   C. Received the Academy's model document titled "Model Construction and Development of RBC C-1 CLO Factors." The Working Group directed posting of the model document on the Working Group's web page.



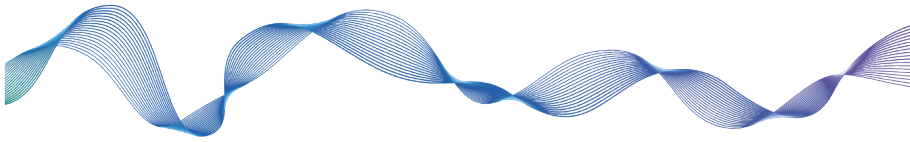
D. Received an update from the Investment Designation Analysis (E) Working Group on its recent exposures, including: 1) a proposed amendment to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) *to* publish the List of Broadly Syndicated Loan CLOs Impacted by the Tranche Thickness RBC Guidance: 2) an amendment to the P&P Manual to update the filing exempt (FE) treatment of CLOs; 3) a technical amendment to the P&P Manual to expand eligibility for the NAIC U.S. Government Money Market Fund List to include master/feeder fund structures; 4) an amendment to the P&P Manual to update the eligible security identifiers to file a security; and 5) an amendment to the P&P Manual to update the reporting guidance for the Securities Valuation Office (SVO) Analytical Department Symbol "ER."

E. Received an update from the Statutory Accounting Principles (E) Working Group on a few investment-related exposures/topics: 1) revised CLO definition, 2) embedded asset-liability management (ALM) risk; 3) referral from the Investment Analysis (E) Working Group regarding reporting of the structured investments and underlying collateral and other reporting enhancements project.

F. Received comments on the summary titled "Asset-Backed Securities Reported in 2025 Statutory Filings - Schedule D, Part 1, Section 2 - For All Types of Businesses." The Academy provided a refresher on the C-1 modeling flowchart, which captures guiding principles in reviewing C-1 factors for structured securities.

G. Heard an update from the Academy on the CLO RBC modeling refinement project. The Academy reported progress to date, focusing on future runs involving model assumptions such as systemic correlation, collateral repurchase price and prepayment.

3. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Nov. 15. During this meeting, the Working Group took the following action:
   A. Adopted its July 16 minutes (*see NAIC Proceedings – Summer 2026, Capital Adequacy (E) Task Force, Attachment Four*).
   B. Adopted its Oct. 28, Oct. 13, Oct. 6, and Aug. 6 minutes. During these meetings, the Working Group took the following action:
      i. Heard a presentation from Bridgeway Analytics on reinsurance recapture and counterparty risk.
      ii. Adopted its 2027 working agenda.
      iii. Received comments on the reinsurance recapture charge from the Financial Condition (E) Committee referral.
      iv. Discussed questions on the reinsurance recapture charge from the Financial Condition (E) Committee referral.
      v. Received notification from the Statutory Accounting Principles (E) Working Group's intention to sponsor a proposal on a referral on asset value reserve (AVR) affiliated common stock.
      vi. Exposed the Financial Condition (E) Committee referral on reinsurance recapture and counterparty risk.
   C. Received an update from the Generator of Economic Scenarios (GOES) (E/A) Subgroup, which noted that the Life Actuarial (A) Task Force took the following action:
      i. Adopted the latest revisions to the GOES Model Governance Framework.
      ii. The GOES Model Governance Framework will be exposed each year to receive comments from interested parties on whether updates or enhancements need to be made.
   D. Received an update from the Longevity Risk (E/A) Subgroup. The Longevity Risk (E/A) Subgroup has not met since the Summer National Meeting.



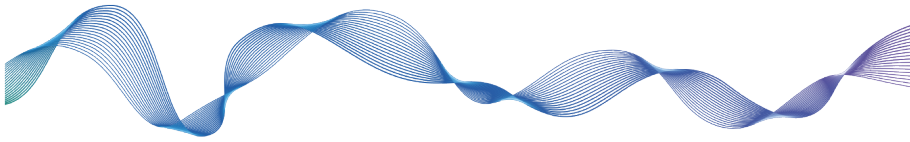
E. Adopted GOES Model Governance Framework revisions. Key revisions include the addition of:
   i. An overview section that clarifies objectives of the model governance framework and sets metrics for operational performance.
   ii. A scenario file retention policy that states that scenario files and associated data will remain on the GOES website unless removed after a public exposure process.
   iii. A hashing process that will help with the auditability of the scenario files stored on the website.

F. Exposed proposal 2026-17-L (Recapture Risk Non-Reciprocal Jurisdiction), along with a cover letter question on retrocessions, for a 30-day public comment period ending Dec. 15.

G. Received an update on C-3 alignment field and model office testing. The Academy proposed a modernization of the C3 framework, and an industry field test began in October. As part of the field test, participants share their results directly with regulators. These calls are scheduled to begin after the Fall National Meeting concludes. Participants will also provide results via a standardized template. NAIC committee support will work to analyze and share aggregated field test results at the beginning of next year. Additionally, the Academy, the American Council of Life Insurers (ACLI), and the NAIC are hiring Ernst & Young as a consultant to produce field test model office results for public discussion. The Academy proposes changes to the framework be effective for year-end 2027.

4. Adopted the minutes of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup, which met Oct. 28 in joint session. During this meeting, the Working Group and Subgroup took the following action:
   A. Adopted their July 9 minutes (*see NAIC Proceedings – Summer 2026, Capital Adequacy (E) Task Force, Attachment Six*).
   B. Adopted their Sept. 28 minutes. During this meeting, the Working Group and Subgroup took the following action:
      i. Discussed comments regarding proposal 2026-13-CR (Severe Convective Storm Implementation).
      ii. Discussed severe convective storm implementation impact analysis.
      iii. Discussed the Working Group and Subgroup working agenda.
   C. Adopted proposal 2026-13-CR (Severe Convective Storm Implementation).
   D. Adopted proposal 2026-04-CR (Jan. 1 – Sept. 30 Cat Event List).
   E. Discussed climate impact disclosures. Industry representatives supported sunsetting the reporting requirements after 2026. The Working Group and Subgroup encouraged industry representatives to share their perspectives with the Financial Condition (E) Committee for consideration.
   F. Heard a recommendation from the Academy to conduct future analysis of correlations among perils within the catastrophe scenario (Rcat) component. The Working Group and Subgroup suggested coordinating with the Academy's Extreme Events Committee, which has developed an extensive database that could support this analysis.
   G. Discussed editorial changes to the 2026 property/casualty (P/C) RBC publications. The changes do not alter the intent of the adopted proposals and will be reflected in the 2026 P/C RBC Forecasting and Instructions.

5. Adopted the minutes of the Health Risk-Based Capital (E) Working Group, which met Oct. 28. During this meeting, the Working Group took the following action:



A. Adopted its July 15 minutes (*see NAIC Proceedings – Summer 2026, Capital Adequacy (E) Task Force, Attachment Three*).
B. Adopted its working agenda.
C. Received a referral from the Statutory Accounting Principles (E) Working Group on an exposure of guidance related to State Directed Payments and Separate Payment terms with regard to updated Medicaid programs. The guidance was re-exposed yesterday during the SAP meeting with edits for additional comments.
D. Received a report from the Managed Care Credit drafting group. The group met in August and September to develop a discussion draft of expanded Exhibit 7 reporting, using comments received from group members and discussion from the meetings.
E. Discussed a tool that helps estimate the impact of implementing the factors from the H2 report on XR013. The tool is available on the Health Risk-Based Capital (E) Working Group web page under the documents tab.

6. Heard a presentation from the Academy titled "Risk-Based Capital Ratios and Impairment Risk: Are They Related and, If So, When?" The Academy's analysis of insurer data from 2000 through 2024 found that RBC ratios have been a stronger predictor of impairment since 2010, particularly when size outliers are excluded.

7. Discussed a referral from the Statutory Accounting Principles (E) Working Group regarding ICOLI. The Task Force noted that the level of investment risk in ICOLI varies depending on product structure (e.g., general account vs. separate account products) and other product characteristics. The Task Force exposed a request for an RBC proposal, supported by quantitative analysis and rationale, for a 60-day public comment period ending Jan. 15, 2027. To help develop the RBC proposal, the Task Force also exposed questions on considerations for developing charges for general account and separate account ICOLI products. For reference, it also provided the comment letters received on the Statutory Accounting Principles (E) Working Group's exposure of agenda item 2026-08.

*2026 Fall National Meeting*
*Dallas, Texas*

**Financial Stability (E) Task Force**
Sunday, November 15, 2026
4:00 p.m. – 5:00 p.m.

**Meeting Summary Report**

The Financial Stability (E) Task Force met Nov. 15, 2026, in joint session with the Macroprudential (E) Working Group. During this meeting, the Task Force and Working Group:

1. Adopted its 2026 Summer National Meeting minutes and interim Oct. 7, 2026 meeting.

2. Heard an update on recent activities of the Financial Stability Oversight Council (FSOC).

3. Heard an update on the interconnectedness project which will provide a regulatory tool to provide an ability to identify interconnectedness. This initiative was formally launched during the October 7 interim meeting.

4. Adopted the report of the Macroprudential (E) Working Group.

5. Exposed the proposed 2026 Liquidity Stress Testing Framework (LST Framework) for a 60-day public comment period ending Jan. 15, 2027.

6. Received a Valuation Analysis (E) Working Group update.

7. Heard an update regarding private credit and presentations held in regulator only meetings regarding private credit exposure with several different insurance companies.

8. Received an international update, which included an update on the International Association of Insurance Supervisors (IAIS) Global Monitoring Exercise (GME).

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

*Virtual Meeting*

**JOINT MEETING OF THE EXAMINATION OVERSIGHT (E) TASK FORCE AND FINANCIAL EXAMINERS (E) HANDBOOK TECHNICAL GROUP**

November 10, 2026

**Summary Report**

The Examination Oversight (E) Task Force and Financial Examiners Handbook (E) Technical group met in a joint meeting on Nov. 10, 2026. During this meeting the groups:

1. Received Comment Letters and Adopted Proposed Revisions to the *Financial Condition Examiners Handbook* related to:
    a. Assessing Private Asset Exposures
    b. Unauthorized Offshore Reinsurers
    c. Exhibit N – Reinsurance Clauses
2. Adopted its Oct. 9 and Aug. 7 Meeting Minutes
3. Adopted the Reports of its Working Groups and Technical Group:
    a. Financial Analysis Solvency Tools (E) Working Group
    b. Financial Examiners Handbook (E) Technical Group
    c. Information Technology (IT) Examination (E) Working Group

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

*Virtual Meeting*

**RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE**
October 27, 2026

**Summary Report**

The Receivership and Insolvency (E) Task Force met Oct. 27, 2026. During this meeting, the Task Force:

1. Adopted its Sept. 17 and Aug. 5 minutes. During these meetings, the Task Force took the following actions:
   A. Adopted its April 20 minutes.
   B. Received the report of the Receivership Financial Analysis (E) Working Group.
   C. Adopted the report of the Receivership Law (E) Working Group.
   D. Exposed its 2027 proposed charges for a 30-day public comment period ending Oct. 16.
   E. Exposed a memorandum on the treatment of funding agreement-backed notes (FABNs) in receivership for a 30-day public comment period ending Oct. 16.

2. Reported that it met Aug. 24 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) and paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings.

3. Adopted its 2027 proposed charges, which include disbanding the Receivership Law (E) Working Group as of Dec. 31, 2026.

4. Adopted a memorandum to the Macroprudential (E) Working Group on the treatment of FABNs in receivership.

5. Received the report of the Receivership Law (E) Working Group. The Working Group exposed draft guidance on Medicare secondary payer issues for the *Receiver's Handbook for Insurance Company Insolvencies* (Receiver's Handbook) for a 30-day public comment period ending Nov. 23.

6. Received the report of the Receivership Financial Analysis (E) Working Group, which met Aug. 12 and plans to meet Nov. 16 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.

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*2026 Fall National Meeting*
*Dallas, Texas*

**INVESTED ASSETS (E) TASK FORCE**
Monday, November 16, 2026
2:00 – 3:00 p.m.

**Meeting Summary Report**

The Invested Assets (E) Task Force met Nov. 16, 2026. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes (*see NAIC Proceedings – Summer 2026, Invested Assets (E) Task Force)*.

2. Adopted its Sept. 1 minutes. During this meeting, the Task Force took the following action:
   A. Adopted its 2027 proposed charges and those of its working groups.

3. Received the report of the Investment Analysis (E) Working Group, which met Oct. 5 and Sept. 22 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group took the following action:
   A. Heard a brief presentation concerning reporting observations and potential enhancements to the identification and reporting of fund finance and structured asset variants. The presentation and subsequent discussion focused on the form and function of complex investments and on whether regulators have sufficient information to understand the underlying assets and legal structures.
   B. Heard a presentation on private credit, level 3 asset valuation, red flags to watch for in level 3 assets, and other similar matters of interest to regulators.
   C. Issued a referral to the Statutory Accounting Principles (E) Working Group seeking consideration of enhancements to Schedule D, Part 1, Section 2, to improve the identification and reporting of asset-backed securities (ABS) and their underlying collateral. Recommendations include establishing a threshold for assigning a single collateral classification, creating reporting categories for multi-collateral structures, and considering additional reporting guidance and classifications for complex investment structures.

4. Adopted the report of the Investment Designation Analysis (E) Working Group, which met Oct. 28. During this meeting, the Working Group took the following action:
   A. Adopted its Summer National Meeting minutes.
   B. Adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to update the Filing Exempt (FE) treatment of collateralized loan obligations (CLOs).
   C. Exposed the following amendments to the P&P Manual:
      i. Expanding eligibility for the NAIC U.S. Government Money Market Fund List to include master/feeder fund structures.
      ii. Updating the eligible security identifiers to file a security.

iii. Updating the reporting guidance for the NAIC Securities Valuation Office (SVO) analytical department symbol "ER."
iv. Requiring publishing a list of broadly syndicated CLOs impacted by tranche thickness risk-based capital (RBC) guidance.

5. Except for adoption of Credit Rating Provider (CRP) Due Diligence Framework, the Task Force adopted the report of the Credit Rating Provider (E) Working Group, which met Nov. 15. During this meeting, the Working Group took the following action:
   A. Adopted its Oct. 1 minutes.
   B. Discussed comments received and adopted the revised CRP Due Diligence Framework.

6. Received and adopted the Credit Rating Provider (E) Working Group's CRP Due Diligence Framework, establishing a structured, risk-based approach to evaluating the reasonableness of credit rating providers' ratings and their translation into NAIC designations. The framework is intended to promote greater consistency and appropriateness in the NAIC's use of credit ratings, with due diligence efforts focused on areas where ratings have the greatest potential impact on insurers' financial solvency.

7. Heard a presentation from Kroll Bond Rating Agency (KBRA) on fund finance and other emerging investment structures as well as evolving market trends, including the increasing complexity, risk, and interconnectedness of certain structured investments.

*2026 Fall National Meeting*
*Dallas, Texas*

**REINSURANCE (E) TASK FORCE**
Sunday, November 15, 2026
8:00 – 9:00 a.m.

**Meeting Summary Report**

The Reinsurance (E) Task Force met Nov. 15, 2026. During this meeting, the Task Force:

1. Adopted its Sept. 14 and Summer National Meeting minutes. During its Sept. 14 meeting, the Task Force took the following action:
   A. Adopted its 2027 charges and those of its working groups.

2. Adopted the report of the Reinsurance Financial Analysis (E) Working Group, which met Oct. 27, Sept. 17, Aug. 27, and Aug. 6, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During these meetings, the Working Group took the following action:
   A. Completed the reviews of certified reinsurers and reciprocal jurisdiction reinsurers.

3. Received a status report on the reinsurance activities of the Mutual Recognition of Jurisdictions (E) Working Group, which met Nov. 4, in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group:
   A. Reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions that are not subject to an in-force covered agreement.
   B. Reapproved the Canada Office of the Superintendent of Financial Institutions (OSFI) as a jurisdiction that recognizes and accepts the U.S. approach to the group capital calculation (GCC).
   C. Heard an update on the qualified jurisdiction review process for Cayman Islands, Guernsey, and the Republic of Korea.

4. Received an update on *Actuarial Guideline LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55).

5. Received an update on the reinsurance recapture and counterparty risk project at the Life Risk-Based Capital (E) Working Group. This project is in the early stages and comes from a referral that was sent by the Financial Condition (E) Committee to the Working Group after the Summer National Meeting.

6. Heard a proposal on longevity reinsurance from Swiss Re. The proposal would allow for the concept of longevity reinsurance under that U.S. solvency system.

7. Heard an update on other projects at the NAIC that involve reinsurance. The Task Force plans to further address ongoing issues with both life and property/casualty (P/C) reinsurance.

Draft: 10/6/2026

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
October 5, 2026

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met Oct. 5, 2026. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Michele Lo (CA); Jack Broccoli and William Arfanis (CT); Carolyn Morgan (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Tom Travis (LA); Vanessa Sullivan (ME); Kristin Hynes (MI); John F. Rehagen and Shannon Schmoeger (MO); Jessica Price and Monique D. Smith (NC); Tadd Wegner (NE); Paul Lupo (NJ); Tracy Snow and Zach Wheatley (OH); Eli Snowbarger (OK); John Tudino (RI); Amy Garcia (TX); Jake Garn (UT); Jennifer Blizzard (VA); Dan Petterson (VT); and Tarik Subbagh (WA).

1. Adopted Updated Salary Guidance for NAIC Handbooks

Malm stated that the primary agenda item for the meeting is to consider adoption of updated examiner salary recommendations for inclusion in the NAIC *Financial Condition Examiners Handbook* (Handbook). The Working Group has received a charge to "continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff."

Newly recommended salary ranges for analysts and examiners were first added to NAIC handbooks in 2020 based on the research and work of the Working Group. At that time, the Working Group committed to reviewing and updating the recommended salary ranges as needed, with a minimum review period of every other year. As the ranges were reviewed and updated in 2025, they are not expected to be reviewed again until 2027. However, in addition to updating the recommended salary ranges every other year, the Working Group has also been tasked with reviewing and updating the legacy per diem examiner rates published in the Handbook, which require annual review and updates. The rates are generally updated in accordance with movements in the Consumer Price Index (CPI). As such, NAIC committee support are recommending an increase to the legacy per diem rates published in the Handbook of 3.4% for the 2026 publication.

Subbagh made a motion, seconded by Snowbarger, to adopt the proposed 2027 examiner per diem rates for publication in the Financial Condition Examiners Handbook. The motion passed unanimously, with Ohio abstaining.

2. Received an Update on the Peer Review Project

Nickelson stated that three peer-review sessions have been held so far in 2026. The first session was a special information technology (IT) examination session in February. The goal of that session was to support the Information Technology (IT) Examination (E) Working Group in its project to update and enhance the IT review process conducted during each financial examination. Five different states participated in that session, some of which sent contract IT examiners on their behalf.

The second session was a more traditional financial exam session, held in May with another five states participating, all represented by state employees. Participants were well prepared, and the session produced positive results.

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The third session was an Own Risk and Solvency Assessment (ORSA) analysis session held in August, in which seven states participated. This session focused reviewing and using information in an ORSA filing to guide ongoing financial analysis efforts. Several new sound practices were identified, which have been documented and posted to NAIC Connect for regulators' use.

The final session planned for 2026 is a traditional analysis peer review session scheduled for the week of Oct. 19. Due to high demand, the session will have 15 states participating, which is a new record for an individual session. The Working Group is looking forward to meeting and learning from so many different states at the upcoming session.

3. Discussed its Charges and Future

Malm stated that the NAIC's Financial Condition (E) Committee has been asked to reduce its footprint and consolidate some of its work due to its high number of existing groups, some of which have overlapping responsibilities. The Examination Oversight (E) Task Force is a standing NAIC group responsible for overseeing financial examination and analysis activities. At the time risk-based supervision was developed by insurance regulators in the mid-2000s, a new Working Group, at the time known as the Risk Assessment (E) Working Group, was formed to oversee the project. Since that time, the group's name and responsibilities have changed somewhat, but it has continued to oversee the implementation of risk-based supervision. However, now that a risk-focused approach to financial analysis has been in place for more than five years and risk-focused exams in place for more than 15 years, Malm stated it is time to turn full responsibility for overseeing exam and analysis activities back over to the Examination Oversight (E) Task Force, which is proposed to be renamed the Solvency Oversight (E) Task Force in 2027. As such, it is proposed that the Risk-Focused Surveillance (E) Working Group be disbanded at the end of 2026, with its charges being distributed to the Solvency Monitoring (E) Task Force and its supporting groups.

However, given that this Working Group developed and has overseen the Peer Review Project since its inception and the fact that it represents an education and training initiative that is not directly related to the Task Force's functions, Nickelson and Malm were asked to continue to oversee the Peer Review Project as a separate and stand-alone initiative, and they have accepted that assignment. The Peer Review will continue to support state insurance regulators by allowing an opportunity to learn from one another and identify sound practices in conducting solvency monitoring activities.

Malm thanked the members of the Working Group for their support and service over the years and encouraged them to continue to support the work on these charges through the Solvency Oversight (E) Task Force in 2027 and beyond.

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

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**GROUP CAPITAL CALCULATION (E) WORKING GROUP**
Friday, November 6, 2026

**Meeting Summary Report**

The Group Capital Calculation (E) Working Group met Nov. 6, 2026. During this meeting, the Working Group:

1. Adopted the 2026 group capital calculation (GCC) template with updated scalers for Japanese entities to reflect Japan's transition to an economic solvency regime (ICF-based).

2. Adopted testing materials for internationally active groups (IAGs) that do not alter core GCC calculations. These include an automatic scaler analysis tool, a reserving-basis mapping table, a recommended process to formalize periodic scaler updates, an interest-rate sensitivity disclosure for life IAGs, and guidance updates for supervisors. Further discussion is expected in 2027 once testing information has been gathered and summarized.

**REQUEST FOR NAIC MODEL LAW DEVELOPMENT**

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

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

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

   Invested Assets (E) Task Force

2. **NAIC staff support contact information:**

   Jim Pinegar - jpinegar@naic.org

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

   Insurance Holding Company System Regulatory Act (#440)
   Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)

   Clarifying changes to the Insurance Holding Company System Regulatory Act, including the definitions section, specifically the definition of control and Section 5 governing the Form D filing process and the exemption for investments that do not exceed 3% of the insurer's admitted assets.

**Anticipated Scope of the Proposed Revisions to Models 440 and 450**

*The revisions outlined below reflect the anticipated scope of the proposed amendments and are intended to identify the primary areas under consideration. The scope may be refined as the work progresses, including additional clarifying or conforming changes to Models 440 and 450 as necessary to support the proposed revisions.*

**Model 440:**

1) Section 1. Definitions
   Edits to the definition of control to include a presumption of control related to board representation – or – voting interest – or – economic interest thresholds.
2) Section 5. Standards and Management of an Insurer Within an Insurance Holding Company System
   A. Transactions Within an Insurance Holding Company System
      Paragraph (2)
         Subparagraph (a)
            New item to clarify that initial or additional Investments with an affiliate, whether a direct loan or investment, or a securitization or similar vehicle such as mutual funds, limited partnerships and limited liability companies with an affiliate as sponsor, originator, manager, servicer or other similar influential role that in aggregate would equal or exceed XX% of admitted assets.
         Subparagraph (f)
            Clarification edits to reflect proposed edits in subparagraph (a)

**Model 450**: Consistency with any revisions to Model 440, if applicable.

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

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

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

**If yes, please explain why**

The life insurance sector has seen a growing complexity in its investments over the last decade with an increasing number of affiliated investments, which were always intended to be subject to regulatory approval.

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

☒ **Yes** **or** ☐ **No** **(Check one)**

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

☒ **1** ☐ **2** ☐ **3** ☐ **4** ☐ **5** **(Check one)**

**High Likelihood** **Low Likelihood**

**Explanation, if necessary:**

While the model 440 contains numerous sections, these clarifications to the initial intent are not expected to be significant**.**

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

☒ **1** ☐ **2** ☐ **3** ☐ **4** ☐ **5** **(Check one)**

**High Likelihood** **Low Likelihood**

**Explanation, if necessary:**

As noted, the life sector has changed over the last decade, necessitating changes in this area, for all states.

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

☒ **1** ☐ **2** ☐ **3** ☐ **4** ☐ **5** **(Check one)**

**High Likelihood** **Low Likelihood**

**Explanation, if necessary:**

Since most of these changes do not change the original intent and are needed to keep pace with the changing industry, likelihood is high.

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

Yes

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

No

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**Statement of Statutory Accounting Principles No. 7**

**Asset Valuation Reserve and Interest Maintenance Reserve**

**STATUS**

| | |
|---|---|
| Type of Issue | Life, Accident and Health |
| Issued | Initial Draft, |
| Effective Date | January 1, 2001, 2026 Fall NM Draft |
| Affects | No other pronouncements |
| Affected by | No other pronouncements |
| Interpreted by | INT 23-01 |
| Relevant Appendix A Guidance | None |

**STATUS** ..... **1**
**SCOPE OF STATEMENT** ..... **1**
**SUMMARY CONCLUSION** ..... **2**
Asset Valuation Reserve ..... 2
Interest Maintenance Reserve ..... 3
Adjustments – Market Value Adjustments ..... 4
Amortization ..... 5
Net Negative IMR Recognition Restrictions ..... 5
Adjustments – Ceded and Assumed Reinsurance ..... 6
Admittance ..... 7
Disclosures ..... 9
Effective Date and Transition ..... 10
**REFERENCES** ..... **12**
Relevant Issue Papers ..... 12

**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for an asset valuation reserve (AVR) and an interest maintenance reserve (IMR) for life and accident and health insurance companies filing on the *Life, Accident & Health/Fraternal Annual Statement Blank* for the general account as well as book-valued insulated and noninsulated separate accounts[1].

[1] Pursuant to SSAP No. 56, if AVR is required for investments held at book value or fair value in a separate account, it is combined with the general account AVR and accounted for in the general account statements. Guidance in SSAP No. 56 shall be followed for recognizing IMR for book value separate accounts.

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**SUMMARY CONCLUSION**

2. Life and accident and health insurance companies shall recognize an AVR in the general account and an IMR in the general account and in book-valued insulated and noninsulated separate accounts in accordance with the principles included in this statement. (IP 6)

3. The AVR represents a reserve to offset potential non-interest investment losses on all invested asset categories excluding cash, policy loans, premium notes, and income receivable. (IP 7)

4. The IMR is a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). IMR intends to defer and amortize the recognition of non-economic realized gains or losses where investment activity essentially unlocks interest rate related unrealized gains and losses. IMR is not intended to defer economic realized losses compelled by liquidity pressures that fund cash outflows (e.g., such as excess withdrawals and collateral calls). (IP 8)

5. Both AVR and IMR are required to be recognized as statutory assets and liabilities although they do not meet the definition of assets and liabilities under *SSAP No. 4—Assets and Nonadmitted Assets* and *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets*, as neither represent present rights to an economic benefit or present obligations to transfer an economic benefit. AVR represents a valuation adjustment to invested assets for future expected non-interest-related losses and IMR represents a valuation adjustment to maintain consistency between the valuation manual basis for insurance liabilities (for which the rate used to discount cash flows is often unchanged from origin), and the amortized cost of assets needed to support them (where the portfolio yield is updated any time there are fixed income realizations). Separate reporting of these valuation adjustments as assets or liabilities facilitates their accounting and tracking. While AVR can only be in a liability position, IMR can be either positive (liability) or negative (asset). (IP 9)

6. This statement includes requirements for the recording of various types of unrealized and realized gains and losses. In all circumstances, the portion of any unrealized or realized gains or losses attributable to changes in foreign currency exchange rates shall be immediately recognized as either a change in net unrealized foreign exchange gains or loss or as realized foreign exchange capital gains or losses (excluded from both AVR and IMR), with the remaining portion subject to the requirements contained in this statement. (IP 15)

**Asset Valuation Reserve**

7. The accounting and reporting guidance for the AVR is primarily contained with the *Life, Accident & Health/Fraternal Annual Statement Instructions*. The guidance contained there addresses the basis for determining the basic contribution to the AVR, reserve objective, maximum reserve, and other relevant guidance. The AVR guidance contained in this statement is limited to determining which unrealized and realized gains and losses are allocated to the AVR due to the impact this determination has on the IMR. Unrealized gains and losses as referred to in this statement are those which are recorded in the financial statements in accordance with the applicable SSAPs. (IP 16)

8. Realized and unrealized gains and losses on equity investments and fixed income investments held at fair value are recorded to the AVR except where other specific statutory accounting provisions exist. (IP 17)

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9. Realized losses on sales of fixed income investments and derivatives that otherwise would qualify for the IMR under paragraph 10 are allocated to AVR if the investment or derivative counterparty has experienced credit deterioration, as defined as one of the following: (IP 21)

a. For those with NAIC designations[2] (excluding derivative counterparties), if the NAIC designation has declined by more than 3 designation categories and does not have an ending NAIC 1 designation.

b. There was an acute credit event (a known event that significantly impacts the price of the security), that was not reflected in the credit rating provider (CRP) rating detail and/or within the SVO AVS+ (NAIC designation detail) at the time of the sale.

c. An other-than-temporary impairment is recognized because the insurer does not expect to collect all contractual amounts due from the issuer, regardless of the extent of NAIC designation changes. This provision is specific to credit-related impairments and is not intended to encompass situations in which an OTTI is recognized simply because a decision was made to sell the security at fair value, and that amount is below the book/adjusted carrying value (BACV) due to interest-related changes.

d. For mortgage loans:

i. Mortgage loan had an established valuation allowance under *SSAP No. 37—Mortgage Loans*,

ii. Interest was more than 90-days past due,

iii. Loan was in process of foreclosure,

iv. Loan was in course of voluntary conveyance, or

v. The terms of the loan have been restructured during the last two years.

**Interest Maintenance Reserve**

10. Realized gains and losses from the following list of qualifying fixed income investments shall be allocated to the IMR, subject to the other provisions and requirements of this standard. Investments not included on this list are not permitted to have realized gains or losses allocated to the IMR. (IP 22 & 33)

a. Debt securities that do not Qualify as Bonds as defined in *SSAP No. 21—Other Admitted Assets*

b. Investments in scope of *SSAP No. 26—Bonds*

*c.* Investments in scope of *SSAP No. 43—Asset-Backed Securities*

d. Redeemable preferred stock in scope of *SSAP No. 32—Preferred Stock*

[2] Mandatory convertible bonds in scope of SSAP No. 26 are not assigned NAIC designations and are reported at the lower of amortized cost or fair value prior to conversion. If sold prior to conversion and reported at amortized cost, the realized gain or loss shall be fully allocated to the IMR. If reported at fair value at the time of sale, the realized gain or loss shall be fully allocated to the AVR.

e. Mortgage loans in scope of *SSAP No. 37—Mortgage Loans*

f. Investments in scope of *SSAP No. 41—Surplus Notes*

g. Highly-effective hedging derivatives qualifying for "hedge accounting treatment" under *SSAP No. 86—Derivatives* when the realized derivative gain or loss offsets the realized gain or loss from a hedged item that was recognized in IMR.

h. Terminated income generating derivatives in scope of SSAP No. 86 resulting in a realized gain or loss when the covering asset is accounted for at amortized cost. (Per SSAP No. 86, for options that are exercised, the remaining premium adjusts the cost, resulting in no gain or loss for the derivative.)

i. Replication (synthetic asset) (RSAT) transactions in scope of SSAP No. 86 when the derivative is reported at amortized cost[3].

11. All realized gains on sales of qualifying fixed income investments shall be allocated to IMR net of tax, using the federal marginal tax rate. This includes all gains, including those incurred during periods in which the entity has incurred known liquidity sales. (IP 23)

12. Realized losses on sales of qualifying fixed income investments that have not experienced credit deterioration under paragraph 9 shall be allocated to IMR, unless it represents a known liquidity sale loss. Known liquidity sale losses shall be recognized as capital losses immediately when incurred[4]. (IP 24)

13. Liquidity sale losses are realized losses that occur when an IMR qualifying fixed income investments are sold and the proceeds are not reinvested into other IMR qualifying fixed income investments. While it is impractical to track sales and reinvestment on an asset-by-asset basis, reporting entities shall not defer losses on sales for which it is known that proceeds will not be reinvested into other IMR qualifying fixed income investments. Situations in which reinvestment may be known to not occur include, but are not limited to, sales used to fund surrenders/withdrawals, derivative collateral calls, or other needs that lead to a decision to sell investments. Additionally, reporting entities shall implement control procedures designed to identify material known liquidity sale losses. The reporting entity shall attest to having identified and recognized all material known liquidity sale losses in the quarterly and annual financial statement disclosures. (IP 25)

**Adjustments – Market Value Adjustments**

14. Gains or losses resulting from market value adjustments (MVA), net of the federal marginal tax impact, shall be captured in the IMR as they are incurred throughout the year[5]. Reporting entities that

[3] Allocation to IMR or AVR for RSAT transactions shall follow the designation change guidance in paragraph 9a based on the SVO-assigned NAIC designation for the RSAT. Gains or losses from RSAT transactions when the derivative is reported at fair value are not permitted to be recognized in the IMR. Realized gains and losses associated with the cash component of the RSAT shall be credited or charged to the IMR or AVR in accordance with the provisions stated within the statement for the specific asset used as the cash component.

[4] Gains and losses from known liquidity sales offset by a SSAP No. 86 highly effective hedging derivative, captured in paragraph 10g, shall be reported consistently along with the gain or loss of the hedging instrument and reported as a known liquidity loss if the net amount is a loss.

[5] MVAs shall only be deferred for book-valued separate account and general account products. No MVAs shall be deferred in the IMR for separate accounts held at fair value.

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have recognized known liquidity sale losses in the current year are permitted to reclassify current year net MVA gains from the IMR to net realized capital gains and losses at the current year-end. This reclassification is not required, and the reclassification of net MVA gains is limited to the extent of current year known liquidity sale losses reflected in net capital gains and losses. (IP 70)

**Amortization**

15. Reporting entities shall amortize IMR into income over the expected remaining life of the qualifying fixed income investment sold using a standard method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to expected maturity[6] using the NAIC "Grouped Amortization Schedule" published annually. For application of this guidance, "the calendar year to maturity" means the calendar year of maturity minus the calendar year of sale date. As such, a bond sold in 2007 that would have matured in 2012 has five calendar years to expected maturity. (IP 88)

16. For MVA (liability) taken to IMR, the amortization timeframe shall also use a simplified method in which the gains and losses are grouped according to the calendar years remaining in which the policy would incur a MVA, following the NAIC "Grouped Amortization Schedule," not to exceed 10 years. For example, a policy surrendered in 2010 with a MVA that would have incurred a MVA if surrendered through 2015, has five calendar years to expected maturity. (IP 71)

**Net Negative IMR Recognition Restrictions**

17. The allocation of interest-related realized gains and losses from qualifying investments to the IMR shall occur as sales occur, with an updated net negative or positive IMR balance reflected in each quarterly financial statement. For year-end, reporting entities are required to assess their net IMR position in each account (general and each filed separate account blank) and determine whether they are required to complete a proof of reinvestment disclosure for each account to support the initial recognition of a net negative IMR balance (from a prior positive IMR balance) or the increase of a net negative IMR balance from the prior year. (IP P. 26)

a. Reporting entities with an ending net positive IMR position, after inclusion of expected amortization from the prior year IMR balance and current year realized gains and losses, are not required to complete the proof of reinvestment.

b. Reporting entities with an ending net negative IMR position that is a lesser net negative IMR position from the prior year (closer to zero), after inclusion of expected amortization from the prior year IMR balance, and current year realized gains and losses are not required to complete the proof of reinvestment.

18. The premise for deferring and amortizing interest-related realized losses into income over time, and the support for admittance for any portion of net negative IMR, is predicated on the concept that sales proceeds are reinvested into new fixed-income investments with higher yields that will cause those realized losses to reverse over the remaining period that they support policyholder obligations. The year-end proof of reinvestment calculation and disclosure provides a validation check of this reinvestment concept with 1) a test that determines if investments acquired exceeds investments sold and investable

[6] For fixed income investments with fixed contractual repayment dates and amounts, the term "expected maturity" shall be consistent with the "effective date of maturity" defined in SSAP No. 26 for callable bonds under the yield-to-worst concept. This requires amortization to the call or maturity value/date that produces the lowest asset value. The annual statement instructions include further guidance on the application of "expected maturity" for specific investments.

premium and 2) a test that determines whether the yield of purchased fixed income investments is greater than the yield of fixed income investments sold. (IP P. 27)

19. Reporting entities (other than those described in paragraphs 17a and 17b) that do not pass both tests within the proof of reinvestment disclosure are only permitted to defer current year realized losses to the IMR that can be offset by current year IMR realized gains. Any realized losses in excess of realized gains must be recognized as realized capital losses. This guidance shall be followed regardless of whether a reporting entity admits net negative IMR. If a reporting entity does not complete or pass the proof of reinvestment, the reporting entity is permitted to recognize current year IMR losses beyond what is offset by current year IMR realized gains resulting from the following two exceptions only. These exceptions are permitted because the net negative losses are not from the sale of a fixed-income investment; therefore, these IMR impacts are outside the parameters of the proof of reinvestment calculation. (IP P. 28)

a. Reporting entities are permitted to recognize current year net negative IMR losses resulting from transfers that occurred at fair value between the general account and a book-value separate account beyond what is permitted as an offset to realized capital gains.

b. Reporting entities are permitted to recognize current year net negative IMR losses recognized from an assumed reinsurance arrangement beyond what is permitted as an offset to realized capital gains.

**Adjustments – Ceded and Assumed Reinsurance**

20. At inception of the reinsurance agreement, an insurer (ceding entity) that has sold, transferred or reinsured a block of its in-force liabilities under an agreement that qualifies for reinsurance accounting as described in *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance*, except where asset risk is not transferred such as with most yearly-renewable term (YRT) agreements, shall derecognize the associated IMR at the time the business is ceded unless the transaction is a modified coinsurance (modco) or coinsurance with funds withheld (FWH) agreement. An insurer (ceding entity) shall derecognize the associated IMR when the policyholder obligations or related treaty balances to which those amounts were attributed have been derecognized. The amount of the IMR that shall be derecognized includes: (IP P. 77)

a. Past Sales Attributed to Reinsured Block of Business: Remaining, unamortized, interest related realized gains and losses recognized in the IMR from prior asset sales associated with the reinsured block of liabilities shall be derecognized from the IMR as part of the reinsurance transaction. If the ceding entity had not been tracking assets specific to the block of business, the entity shall identify the assets (and the unamortized realized gains/losses remaining in the IMR from those assets) using methodologies in line with the insurer's existing practices, for example, proportionate to reserves ceded .

b. Current Sales Incurred or the Transfer of Assets to Provide Reinsurance Premium: Interest-rate related gains and losses generated from the sale or transfer of qualifying fixed-income investments supporting the reinsurance transaction shall be recognized initially in the IMR and then derecognized as part of the reinsurance transaction.

21. For insurers ceding business under a modco or FWH agreement, the accounting for the IMR depends on the terms of the reinsurance agreement. Reporting entities shall follow the IMR reporting process in the Annual Statement Instructions for ceding/assuming reinsurance business using a modco or FWH agreement. (IP P. 78)

a. For agreements that stipulate that the IMR is transferred to the reinsurer with ongoing realized gains and losses settled with the reinsurer as they occur, the insurer (ceding entity) shall derecognize the IMR associated with the block of reinsured business at treaty inception consistent with paragraph 20. An insurer (ceding entity) shall continue to recognize and derecognize IMR generated from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. An insurer (ceding entity) shall derecognize the IMR as a direct adjustment to IMR with the offset to Aggregate Writes-Ins for Deductions. .

b. For agreements that settle realized gains and losses with the reinsurer over time through inclusion of the IMR amortization, an insurer (ceding entity) shall retain the IMR attributed to the reinsured business and pass through the associated IMR amortization through an adjustment to the FWH liability or modco reserve on an ongoing basis. An insurer (ceding entity) that retains the IMR and passes through the amortization shall continue to recognize the IMR from any fixed-income investment sales incurred for investments held under the modco or FWH reinsurance agreement. The amortization of the IMR shall be passed through as an adjustment to the FWH liability or modco reserve.

22. A U.S. domiciled reporting entity that has assumed business via a qualifying reinsurance transaction from another U.S. domiciled insurer shall set up an IMR balance that reflects an equal amount of IMR derecognized by the ceding entity. This IMR recognition shall reflect the unamortized IMR balance of gains and losses from prior asset sales associated with the reinsured block of business and interest-related realized gains and losses from the current dispositions or asset transfers the ceding entity incurred to transfer the reinsurance obligation. (IP P. 80)

23. The ceding entity shall provide the IMR amortization timeframe details for the derecognized IMR to the assuming entity to allow for continuation of IMR accounting, if required. In the event the reinsurance transaction is recaptured, the assuming entity shall provide current information on the remaining unamortized IMR balance and amortization schedule back to the ceding entity for re-recognition of remaining IMR. If an assuming entity is not required to maintain IMR (i.e., non-U.S. domiciled insurance reporting entities), and has not tracked IMR, the ceding entity shall re-establish an estimated IMR using reasonable methodologies, such as imputing a value from the change in market interest rates between reinsurance inception and the recapture date. (IP P. 81)

**Admittance**

24. Reporting entities that meet the requirements of paragraph 25 are permitted to admit overall net negative IMR (collectively between the general accounts and all separate accounts) up to 10% of the reporting entity's adjusted general account[7] capital and surplus as required to be shown on the reporting entity's statutory balance sheet for its most recently filed financial statement with the domiciliary state commissioner. Further, to safeguard from situations in which the reporting entity has experienced a decline in capital and surplus, the admittance of overall net negative IMR (collectively between the general account and all separate accounts) shall also not exceed 10% of the current period unadjusted capital and surplus. Reporting entities with net negative IMR that exceeds either admittance limit shall nonadmit the negative IMR that exceeds the allowable thresholds. Reporting entities are not required to admit any portion of net negative IMR in any account (general account or separate account). (IP P. 94)

[7] The general account capital and surplus includes surplus reflected in the separate account; therefore, an aggregation of general account and separate account surplus is not necessary.

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a. For the adjusted capital and surplus calculation: Capital and surplus shall be adjusted to exclude any admitted net positive goodwill, electronic data processing (EDP) equipment and operating system software, net deferred tax assets (DTAs) and net negative IMR. The adjusted capital and surplus calculation shall reflect the most recently filed financial statements for all admitted components (e.g., a subtraction of admitted positive goodwill, EDP equipment/software, net DTAs and net negative IMR as reported in the third quarter financial statements to determine the limit for the annual financial statements.)

b. For the unadjusted capital and surplus restriction: Reporting entities required to nonadmit net negative IMR that exceeds 10% of current period unadjusted capital and surplus are not required to recalculate the reconciliation of admitted negative IMR to the reported IMR reflected for principles-based reserving and asset adequacy testing pursuant to paragraph 25.c. Rather, any reconciliation difference from the admitted IMR originally determined based on the prior period adjusted capital and surplus 10% limit and what is admitted based on the 10% unadjusted current period limit shall be identified in the notes to the financial statements and in the actuarial opinion memorandum.

25. Requirements to admit net negative IMR: (IP P. 95)

a. Reporting entities admitting net negative IMR are required to have a risk-based capital (RBC) greater than 300% authorized control level (ACL) after an adjustment to total adjusted capital (TAC) that reflects a reduction to remove any admitted net positive goodwill, EDP equipment and operating system software, net deferred tax assets and admitted net negative IMR. Compliance with this adjusted RBC calculation shall be affirmed for all quarterly and annual financial statements for which net negative IMR is reported as an admitted asset in the general or separate accounts. Reporting entities shall provide documentation to illustrate compliance with this requirement upon state regulator request. Reporting entities with an adjusted RBC calculation of 300% ACL or lower are not permitted to admit net negative IMR in the general or separate accounts.

b. Reporting entities admitting any amount of net negative IMR shall fully complete the data-captured disclosures described in paragraph 29. If a reporting entity does not fully complete the data-captured disclosures[8] the reporting entity shall nonadmit all net negative IMR.

c. Reporting entities admitting any amount of net negative IMR shall capture the admitted negative IMR in the principles-based reserving (PBR) calculation or asset adequacy testing (AAT) pursuant to all relevant Valuation Manual calculations, including but not limited to, *Valuation Manual (VM)-20: Requirements for Principle-Based Reserves for Life Insurance, VM-21: Requirements for Principle-Based Reserves for Variable Annuities*, *VM-22: Requirements for Principle-Based Reserves for Non-Variable Annuities*, and *VM-30: Actuarial Opinion and Memorandum Requirements*. Reporting entities shall prepare a reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT to ensure reserves are appropriately stated.

26. Reporting entities are permitted to admit net negative IMR in the general account and/or in each separate account to the extent net negative IMR is recognized in each account, up to the overall net

8 Reporting entities that complete narrative disclosures in lieu of the data-captured templates, even if reporting equivalent information, are not permitted to admit negative IMR.

admittance limit as detailed in paragraph 24. Reporting entities that follow an admittance allocation approach that is not proportionate to the recognized net negative IMR in each account shall provide rationale supporting their admittance allocation methodology upon state regulator request. (IP P. 97)

27. Reporting entities that admit net negative IMR shall allocate an amount equal to the admitted net negative IMR from unassigned funds to an aggregate write-in for special surplus funds (named as "Admitted Negative IMR"). Although dividends are contingent on state specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend. (IP P. 98)

**Disclosures**

28. Reporting entities are required to detail the recognized realized capital gains and losses from the sale of securities and the allocation to AVR and IMR in the Exhibit of Capital Gains and Losses. Reporting entities are also required to complete the IMR rollforward and amortization schedule[9] in the annual financial statements. (IP. P 101)

29. Reporting entities are required to complete the following disclosures in the annual and quarterly financial statements: (IP P 102)

a. Reporting entities with admitted net negative IMR shall complete a note disclosure that details the following:

i. Total net negative IMR in aggregate and allocated between the general account, insulated separate account and non-insulated account,

ii. Amounts of net negative IMR admitted in the general account and in the separate account insulated and non-insulated blank,

iii. The calculated adjusted capital and surplus per paragraph 24.a., and

iv. Percentage of adjusted capital and surplus for which the admitted net negative IMR represents (including what is admitted in the general account and in the separate accounts).

b. Reporting entities shall include an attestation regarding known liquidity sale losses: (IP 103)

i. The reporting entity has a documented process to identify material known liquidity sale losses, as addressed in paragraph 13..

ii. The reporting entity has not allocated any material realized losses to IMR from known liquidity sales. Realized losses taken to the IMR are attributable to investment activity related to a block of recognized insurance liabilities, whereby the proceeds have been reinvested in fixed income investments.

iii. The reporting entity has disclosed all known liquidity sale losses recognized in

[9] For reporting entities subject to paragraph 29.c., the annual amortization schedule shall be completed after completion of the proof of reinvestment to ensure that the year-end IMR balance and amortization schedule is completed after any required modifications to eliminate losses from IMR.

income.

c. Reporting entities that have moved from a net positive IMR position to a net negative position or that have increased a net negative position in any account (general account or filed separate accounts) and wants to defer current year net realized losses that exceed current year realized gains allocated to IMR shall complete the proof of reinvestment template applicable to the account with a net negative IMR balance. Reporting entities that fail the proof of reinvestment in any account shall disclose the amounts removed from IMR and recognized as immediate capital losses. (IP. 104)

d. Reporting entities that had previously allocated realized gains or losses to IMR from derivatives that did not qualify as highly effective hedges or a permitted income generation or RSAT transaction under SSAP No. 86 shall disclose the unamortized balances in IMR from these allocations separately between gains and losses. This disclosure shall include the amortization projection to eliminate these remaining unamortized balances within 10 years. (IP P. 105)

e. Reporting entities shall disclose the reconciliation of admitted negative IMR to the reported IMR reflected for PBR and AAT as required in paragraph 25. Reporting entities that are required to nonadmit net negative IMR based on the 10% unadjusted current period limit shall disclose the difference between the admitted IMR reflected in the principles-based reserving or asset adequacy testing reconciliation to the admitted IMR ultimately shown in the annual financial statement. Notation of this difference shall also be captured in the actuarial opinion memorandum annually. (IP P. 106)

**Effective Date and Transition**

30. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

31. Revisions to this statement, adopted month/year, that incorporate revisions reflecting a comprehensive review of the IMR, are effective January 1, 2028, and shall be applied prospectively from the effective date. With the implementation of this guidance, distinct changes from historical guidance, and transition provisions (as applicable) include the items noted in the following subparagraphs. Issue Paper No. ___ includes additional discussion and other revisions incorporated. (IP. P 98)

a. Designation Change Guidance: The NAIC designation category change guidance incorporated within this statement is based on the 20 designation categories (NAIC designation with the NAIC designation modifier) initially applied in 2020. Investments acquired prior to 2020 shall use the initial designation category attributed to the investment when the 20-granular designation approach was implemented as the beginning designation in determining whether the investment had three or less designation declines at the time of sale. Changes also revised the guidance to require allocation to the AVR for fixed-income instruments held at fair value, instead of using the NAIC 6 designation and incorporated the designation category change guidance for all investments with NAIC designations. This was a change for asset-backed securities and non-bond debt securities that previously required individual assessment and bifurcation of interest and non-interest components.

b. Disallowed IMR: Prior the effective date of this statement, IMR in the general account and the separate accounts was compared to determine whether the IMR was "disallowed." Meaning, a negative IMR in the general account was permitted to be reported as a contra-liability instead of a nonadmitted asset if the separate account IMR was in an offsetting positive balance. With the changes reflected in this statement, IMR shall be separately contained within each account, and the reporting shall be based on the position of IMR in each account. The provisions of this statement do not allow reporting of the IMR as a contra-liability, and the concept of "disallowed" IMR has been eliminated.

c. IMR Amortization: Prior to the effective date of this statement, reporting entities had three options in determining IMR amortization. With the revisions, all reporting entities shall follow the standard "simplified" method in which capital gains and losses, net of capital gains tax, are grouped according to the number of calendar years to maturity and shall follow the NAIC "Grouped Amortization Schedule" published annually. Reporting entities that had elected a different amortization approach for previously recognized IMR are permitted to continue to follow that amortization schedule until the associated IMR has fully amortized. All IMR recognized after the effective date of this statement shall follow the simplified group method for amortization.

d. IMR from Hedging Derivatives: Although SSAP No. 86 only referenced IMR allocation for realized gains and losses from highly effective accounting hedges, an industry interpretation of the annual statement instructions resulted with some companies allocating gains and losses from non-accounting effective hedging derivatives to the IMR. With the revisions in this statement, only realized gains and losses from highly effective hedges that qualify under the "hedge accounting method" under SSAP No. 86 are permitted to be allocated to the IMR. Reporting entities that had previously allocated realized gains and losses to IMR from non-qualifying hedging derivatives shall amortize those IMR balances over a period not to exceed 10 years.

e. Hypothetical IMR: The concept of hypothetical IMR has been removed with the effective date of this statement. This was a historical concept to eliminate IMR for what would be generated if the remaining assets associated with a ceded block of business were to be sold, ultimately reflecting a ceding of IMR that had yet to be established. After assessing the theoretical basis and practical limitations, the concept of hypothetical IMR was eliminated. Discussion of the rationale supporting this position is retained in Issue Paper ___.

f. Excess Withdrawal Test: The excess withdrawal formula calculation has been eliminated. With the elimination, reporting entities shall recognize immediately realized capital losses from known liquidity sales and not defer them through the IMR. A new disclosure attestation was incorporated with the effective date of this statement to identify known liquidity sales losses.

g. Market Value Adjustments: The inclusion of all MVAs in IMR is a change from historical guidance where they were only included in accordance with a materiality threshold. With the revisions, reporting of market value adjustments is separately divided between realized gains and losses on the IMR schedule.

## REFERENCES

### Relevant Issue Papers

Issue Paper No. 7—Asset Valuation Reserve and Interest Maintenance Reserve

Issue Paper No. XX – Interest Maintenance Reserve

https://naiconline.sharepoint.com/teams/frsstatutoryaccounting/national meetings/a. national meeting materials/2026/11-15-26 fall national meeting/hearing/04 - ssap no. 007 - imr - revised 10.5.2026.docx

# NAIC Credit Rating Provider (CRP) Due Diligence Framework – Whitepaper

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## Executive Summary

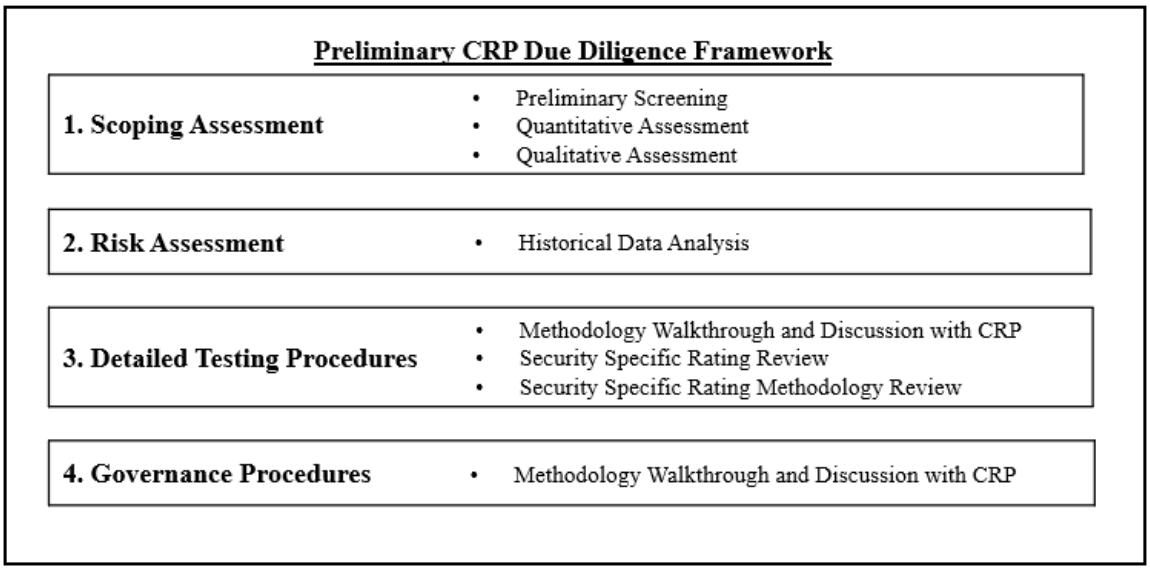
U.S. insurers depend on NAIC Designations for statutory reporting and solvency monitoring. A significant portion of those designations are derived from the translation of Credit Rating Provider (CRP) opinions for Filing-Exempt (FE) and Private Letter (PL) securities. Currently, the translation of CRP ratings to equivalent NAIC Designations relies on a mapping provided to the NAIC by each CRP. The NAIC has "blind reliance" on these CRP-provided mappings in that the NAIC does not have a due diligence process to assess each CRP-provided mapping to NAIC Designations. In 2024, more than 152,000 securities relied on CRP ratings, underscoring the need for a structured, scalable, and pragmatic due diligence program to support the NAIC's reliance on CRP-provided ratings.

This whitepaper sets out a four-part due diligence framework (the "CRP Due Diligence Framework" or the "Framework") consisting of the Scoping Assessment, Risk Assessment, Detailed Testing Procedures, and Governance Procedures (see image below). The Framework is intended to corroborate the appropriateness of CRP-provided mappings for the Translation Matrix to NAIC Designations and align with broader objectives to harmonize regulatory oversight related to investments in the insurance industry.

The Framework acknowledges that methodological differences among CRPs exist. The Framework does not require CRPs to adopt a uniform methodology. Rather, as a consumer of CRP-provided mappings, the NAIC's due diligence procedures assess whether resulting ratings and related mappings are reasonable and fit for purpose in evaluating investment risk and assigning NAIC Designations.

The Framework supports consistent translation of CRP ratings to NAIC Designations, focuses due diligence activities where CRP ratings are most consequential on insurer balance sheets and where there are areas of increased risk in CRP provided ratings, and establishes a structured and governed process for remediation activities, monitoring and ongoing maintenance. The Framework is led by the Credit Rating Provider (E) Working Group (CRPWG), as supported by NAIC staff, with inputs and information sharing among the Invested Assets (E) Task Force (IATF) working groups including the Investment Analysis (E) Working Group (InvAWG) and Investment Designation Analysis (E) Working Group (IDAWG)[1].

[1] For additional information on the reorganization of the VOS TF, see the *New Invested Assets Task Force Organization* section.




# Current State & Background

## Use of the NAIC Translation Matrix

CRPs follow publicly disclosed rating methodologies that combine quantitative analysis, qualitative judgment, and rating-committee governance to form independent credit opinions evaluating credit risk. These methodologies require transparent documentation, reliable data inputs, and ongoing surveillance. Importantly, CRPs say that they do not differentiate their methodologies between public and private assets; however, public and private assets themselves may be very different. Any variations between public and private ratings may reflect differences in available information, as opposed to differences in methodology.

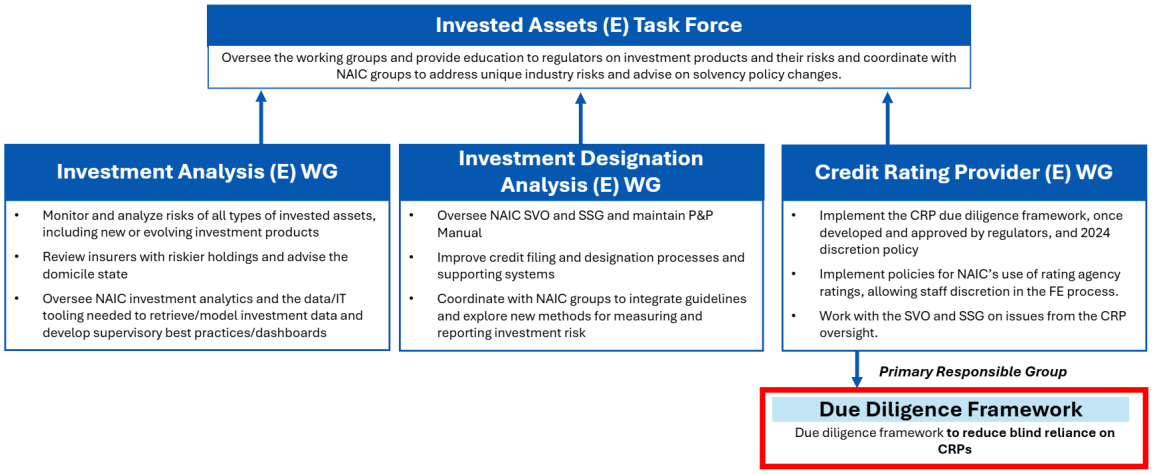
NAIC Designations reflect an assessment of investment risk, as defined in Part One, paragraph 87 of the 2025 Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), which characterizes investment risk as the likelihood that an insurer will receive the full and timely payment of principal and expected interest. When the NAIC independently determines a designation, it often relies on CRP methodologies as described in Part One - "Use of Generally Accepted Techniques or Methodologies" of the P&P Manual.

For eligible FE/PL securities, the NAIC Translation Matrix found on the NAIC website, as referenced in the P&P Manual, is applied to translate eligible assigned ratings from all eight CRPs.

Currently, the translation of CRP ratings to equivalent NAIC Designations relies on mapping tables provided by each CRP. In practice, the NAIC accepts these mappings without an independent process to validate that the resulting equivalencies appropriately reflect comparable levels of investment risk and support consistent assignment of NAIC Designations. Consequently, the current framework depends on the CRPs' methodologies and judgments without an independent assessment of whether the mappings are reasonable and fit for regulatory purposes.

## Organizational Structure – New Invested Assets Task Force Organization

Under the oversight of the IATF, formerly the VOS TF, the CRPWG, with the assistance of NAIC staff as deemed appropriate by those NAIC groups, will be responsible for implementing and operating the Framework once developed and approved by regulators, with inputs from InvAWG and IDAWG. The CRPWG will share results and findings of due diligence activities among the IATF and other NAIC groups on an ongoing basis.[2]



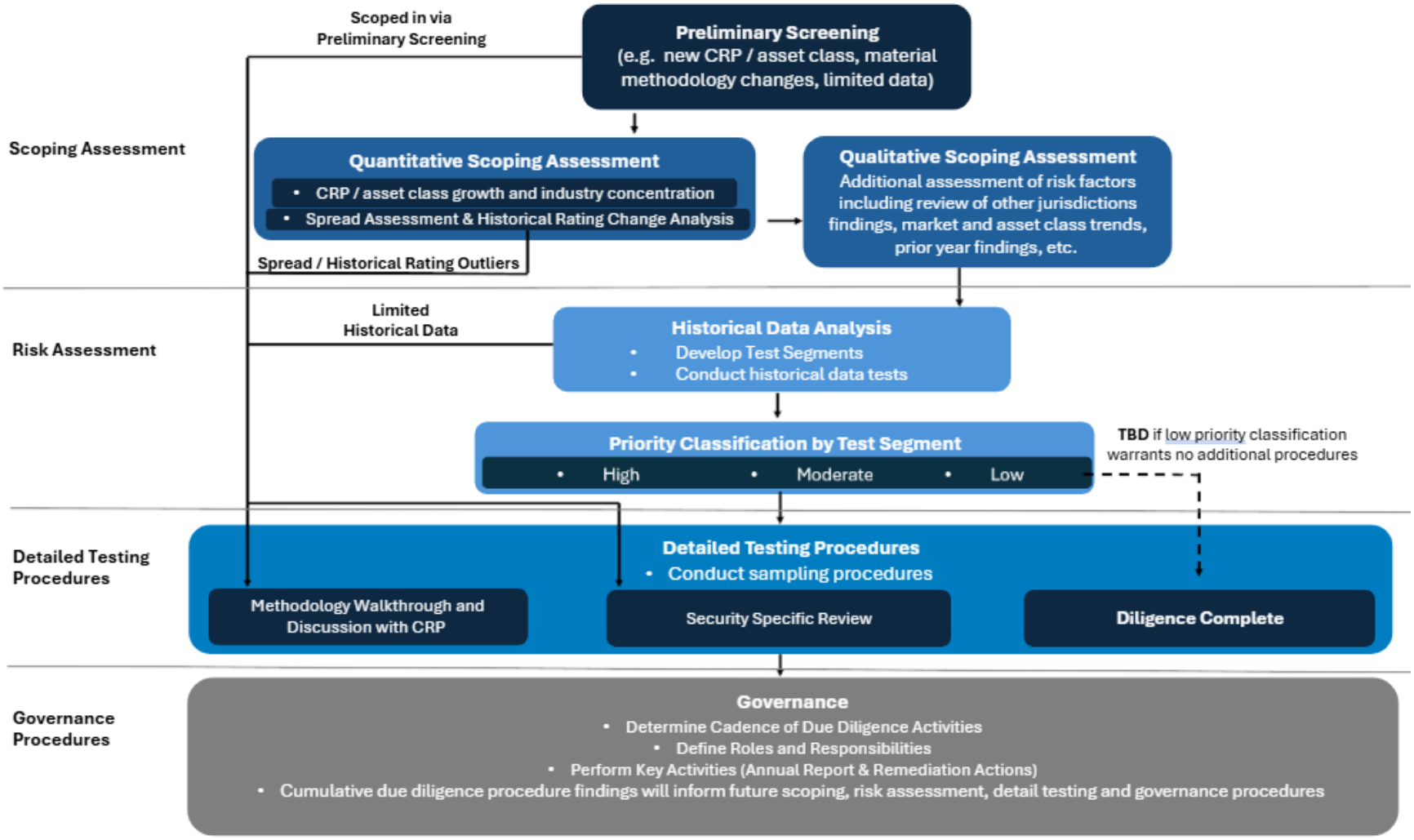

## Overview of the CRP Due Diligence Framework

The Framework establishes a structured, scalable, and pragmatic oversight process for the NAIC's reliance on CRP opinions in assigning NAIC Designations through the FE/PL processes. The Framework is designed as an ongoing monitoring tool supporting the NAIC and its IATF working groups. It aims to reduce blind reliance on CRP ratings, promote transparency into the equivalency of CRP provided rating mappings as applied to FE/PL securities, and provide disciplined methods for identifying and remediating inconsistencies in ratings outcomes.

The Framework primarily applies to assets whose NAIC Designation is derived from a CRP rating, including rated, FE, and PL securities. Its due diligence activities may also inform NAIC consideration of CRP ratings used for other NAIC purposes (e.g.,, certain non–Schedule D bonds and Subsidiary, Controlled and Affiliated (SCA) and related party investments).

The Framework does not assess insurer-specific exposure or opine on whether a given rating is "correct." Instead, it evaluates the risk characteristics of rating cohorts, the degree of alignment or divergence across CRPs, and whether continued reliance on those ratings remains appropriate for regulatory purposes. The diagram below illustrates the Framework, which is discussed in greater detail in the following sections.

[2] The roles and responsibilities of the working groups under the Invested Assets (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.


Scoping Assessment
Scoped in via Preliminary Screening
Preliminary Screening
(e.g. new CRP / asset class, material methodology changes, limited data)
Quantitative Scoping Assessment
• CRP / asset class growth and industry concentration
• Spread Assessment & Historical Rating Change Analysis
Spread / Historical Rating Outliers
Qualitative Scoping Assessment
Additional assessment of risk factors including review of other jurisdictions findings, market and asset class trends, prior year findings, etc.
Risk Assessment
Limited Historical Data
Historical Data Analysis
• Develop Test Segments
• Conduct historical data tests
Priority Classification by Test Segment
• High • Moderate • Low
TBD if low priority classification warrants no additional procedures
Detailed Testing Procedures
Detailed Testing Procedures
• Conduct sampling procedures
Methodology Walkthrough and Discussion with CRP
Security Specific Review
Diligence Complete
Governance Procedures
Governance
• Determine Cadence of Due Diligence Activities
• Define Roles and Responsibilities
• Perform Key Activities (Annual Report & Remediation Actions)
• Cumulative due diligence procedure findings will inform future scoping, risk assessment, detail testing and governance procedures

## Provisional Acceptance of CRPs

Upon implementation, CRP provided FE and PL ratings that rely on NAIC Designation mapping will be subject to the scope of the Framework and, in parallel, provisional acceptance of the CRPs will begin. Historically accepted CRPs will be provisionally accepted under this Framework immediately following implementation, provided that: (i) the CRP continues to meet the acceptance criteria established in the P&P Manual; (ii) no materially adverse findings related to a specific CRP are identified in the most recently available SEC (or other applicable jurisdictional) examination reports as of the implementation date, and (iii) the CRP agrees to meet NAIC data call requirements to support the NAIC in the implementation and on-going maintenance of this Framework.

Provisional acceptance will be granted for a period of 36 months from the implementation date, subject to extension by the CRPWG. The provisional acceptance process will be carried out in two phases, during which time all historically accepted CRPs must be assessed on both an organizational and methodological basis, as described below.

Phase 1: Organizational Walkthroughs

During Phase 1 following implementation, the NAIC will conduct organizational walkthroughs with each historically accepted CRP to assess organizational approach, processes, and governance related to the assignment of credit risk ratings.

Phase 2: Methodology Walkthroughs and Discussions with CRPs

Following Phase 1, the NAIC will conduct Methodology Walkthroughs and Discussions with CRPs as part of Phase 2 described in Section 3 below focusing on the methodologies applied to FE/PL securities. These walkthroughs will leverage Appendix A – CRP Methodology Walkthrough Questionnaire.

The NAIC will determine the sequence of these reviews considering several factors including, but not limited to, the relative proportion of FE and PL security rating coverage provided by each CRP and the proportion of CRP rating coverage for asset classes determined to be experiencing higher growth in insurer holdings or identified as higher priority asset classes.

Following the completion of Phase 2, the NAIC will make a determination as to whether each CRP has satisfied the acceptance criteria. For CRPs that were determined not to satisfy the acceptance criteria, the NAIC will determine the appropriate actions in reference to Section 4.2.2 Remediation Actions of the Framework.

## Guiding Principles

The Framework is grounded in a set of guiding principles that ensure its design and execution remain pragmatic, scalable, and transparent. These principles establish how due diligence activities are prioritized, governed, and continuously improved to maintain the Framework's relevance as the investment landscape evolves:

**1. Pragmatic approach**

The Framework applies a practical approach to oversight, focusing on areas where the CRP ratings have the greatest potential impact on the insurance industry or an insurance company's solvency. Risk Assessment and Detailed Testing Procedures are aligned to industry exposure, data history and observed rating variability, ensuring that diligence activities are both effective and efficient.

**2. Scalable for growth and changing complexity of insurer balance sheets**

The Framework is designed to scale with the continued growth and changing composition of insurer balance sheets. It accommodates the evolution of new asset classes, emerging risk types and changes in CRP methodologies, ensuring adaptability to shifting industry dynamics and regulatory priorities over time. The NAIC expects the Framework to evolve over time with a) changing investment and market landscapes, b) as data availability, volume, and quality improve, and c) as the NAIC gains further implementation experience under the Framework.

**3. Transparency**

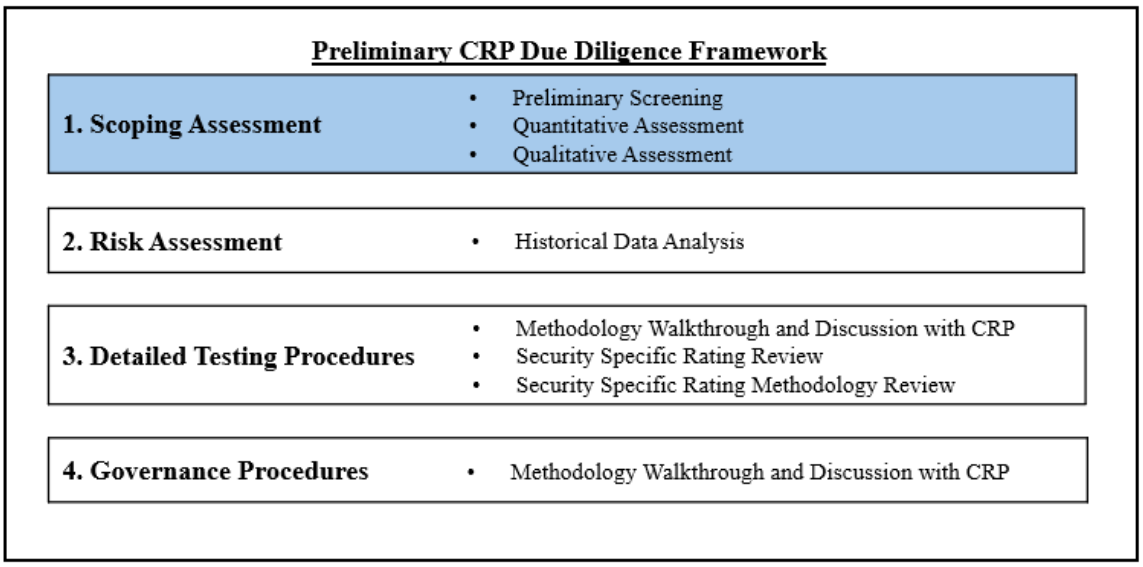
All components of the Framework – from data collection through scoping, risk assessment, testing, remediation, and governance – are documented and transparent. This ensures that key Framework design components, diligence activities, quantitative and qualitative results and remediation actions are communicated clearly, reinforcing confidence in both the process and its outcomes. The NAIC believes that a prudent approach is to be transparent about the type of analysis that will be performed under the Framework, the purpose of such analysis, and the basis for conclusions, without committing to publication of all underlying formulas and parameters.

## CRP Data Requirements for Implementation and On-going Operation of the CRP Due Diligence Framework

Many asset classes – particularly private or emerging asset classes may have limited historical data or inconsistent information, restricting the ability to perform meaningful quantitative testing. In addition, differences in data collection practices, as well as self-reported data by insurers can introduce the potential for misleading quantitative outcomes. The NAIC will require the cooperation of the CRPs to provide the requisite rating data and the NAIC will be responsible for maintaining the technological expertise and infrastructure to consume and standardize the data from various parties. If reliable and standardized data are not available, quantitative due diligence activities may not be possible. As a result, additional Detailed Testing Procedures including security-specific reviews and Methodology Walkthrough and Discussions with CRPs may be

required as further detailed in Section 3 below. As the NAIC gains more experience with the Framework and to address data gaps and other issues that may arise, the NAIC may adjust this Framework to utilize other tests and processes as appropriate.

# 1. Scoping Assessment




## 1.1 Scoping Assessment Overview

The Scoping Assessment procedures will be carried out by the NAIC. The scoping procedures include:

- **Preliminary scoping activities** - designed to target new CRPs, new asset classes, CRPs and asset classes with limited data or revisions to CRP asset class methodologies deemed significant.
- **Quantitative scoping activities –** designed to identify areas of elevated risk across CRPs, asset classes, or securities based on insurance industry exposure, growth trends, spread outliers, limited rating comparability and material changes in ratings or SVO or SSG designations over time.
- **Qualitative scoping activities –** designed to assess the reliability of CRP ratings using regulatory review findings and other qualitative risk factors, including rating methodologies, market conditions, and asset class trends, to determine whether additional targeted procedures are warranted.

## 1.2 Key Activities

### 1.2.1 Preliminary Scoping Activities

The preliminary scoping activities are designed to assess either a) new nationally recognized statistical rating organizations (NRSROs) for acceptance as accepted CRPs by the NAIC, or b) instances where previously accepted CRPs have introduced a new or materially changed

methodology for a legacy or new asset class. This process will be carried out by conducting interviews with each CRP on an annual basis to understand if there are new asset classes or significant changes to methodologies. (Refer to Appendix A – CRP Methodology Walkthrough Questionnaire.) This preliminary scoping process establishes a baseline understanding of the CRP's methodologies, data history and analytical transparency before inclusion in the broader due diligence cycle.

In cases where either a) a new CRP or b) a new or materially changed methodology for a legacy or new asset class is introduced, that CRP or asset class will automatically proceed to Section 3. Detailed Testing Procedures for targeted methodology walkthroughs and additional security-specific testing procedures. Similarly, if a CRP or asset class has fewer than two years of historical data, it bypasses the Risk Assessment entirely and proceeds directly to Section 3. Detailed Testing Procedures, where additional testing can be performed based on available ratings information and supplemental CRP data.

The identification of a new CRP, new asset class, materially changed methodology, or limited-history population for additional review is not intended to be punitive and does not indicate that the CRP, asset class, or methodology is deficient. Rather, these areas are prioritized for additional diligence because limited historical data or limited observed performance may reduce the usefulness of quantitative testing during the initial assessment period.

### 1.2.2 Quantitative Scoping Activities

Quantitative scoping activities are made up of four component assessments, CRP Scoping, Asset Class Scoping, Spread Comparison, and Historical Rating Change Analysis. It is expected that the availability, volume, and quality of data will improve over time, potentially enabling a broader range of quantitative scoping activities to be performed.

#### *1.2.2.1 Quantitative Attribute Analysis*

Quantitative scoping activities will first compare key attributes and metrics at the rating, CRP, and asset class level using a binary assessment against thresholds to determine whether each CRP or asset class segment is "In Scope" or "Out of Scope."

For the CRP scoping assessment, activities include reviewing aggregate insurance sector balance sheet exposure by individual CRPs (as measured by Book Adjusted Carrying Value) to identify exposure risk and analyzing the growth of CRPs that provide ratings for FE/PL securities to detect rapid expansion relative to peer CRPs.

| Category | Attribute | Thresholds* |
|---|---|---|
| CRP | Insurance Industry Exposure | Low – Within 1st quartile of distribution<br>High – Above 1st quartile of distribution |
| | Growth | Low - Within 1st quartile of year-over-year growth relative to peers<br>High – Above 1st quartile of year-over-year growth relative to peers |

* These thresholds are preliminary and will require further discussion and refinement

Similarly, the Asset Class Scoping activities include reviewing aggregate insurance sector balance sheet exposure by individual asset classes (as measured by Book Adjusted Carrying Value) to identify exposure risk and analyzing the growth of asset classes that were FE or PL rated to detect rapid expansion relative to other asset classes. Asset classes used for scoping purposes will be defined based primarily on insurer statutory filing categories, supplemented where appropriate by CRP methodology classifications and available external data sources (see Appendix B). The level of granularity applied will reflect data availability, recognizing that overly granular segmentation may limit the ability to draw meaningful conclusions. Asset class definitions may evolve over time as data quality and availability improve.

| Category | Attribute | Thresholds* |
|---|---|---|
| Asset Class | Insurance Industry Exposure | Low – Within 1st quartile of distribution<br>High – Above 1st quartile of distribution |
| | Growth | Low – Within 1st quartile of year-over-year growth relative to peers<br>High – Above 1st quartile of year-over-year growth relative to peers |

* These thresholds are preliminary and will require further discussion and refinement

If *either* attribute for the CRP or Asset Class is deemed High Priority, then the corresponding Scoping Segment will be "In Scope." In instances where both the CRP and Asset Class attributes are deemed low priority, then the corresponding Scoping Segment will be "Out of Scope."

*Illustrative 1.2.2 Quantitative Scoping Activities Outcome*

| | | Corporate Debt | |
|---|---|---|---|
| **Scoping Segment** | | Insurance Industry Exposure | Growth |
| **Example CRP** | Insurance Industry Exposure | In Scope | In Scope |
| | Growth | In Scope | Out of Scope |

Result: Example CRP, Corporate Debt: In Scope

### *1.2.2.2 Spread Comparison*

The next quantitative scoping activity involves a spread comparison at the security level. In scope securities will be segmented by rating band. Origination spreads for the in scope securities will be compared to the overall spreads within a given rating band. Spread comparisons may consider rating band, asset class or security type, and relevant security characteristics to the extent the data permits. Where appropriate and feasible, spread comparisons can be expected to account for additional factors outside of credit profile that may impact spread such as market conditions, tenor, and origination timing. The purpose of this analysis is to identify potential outliers for further

review, not to conclude that a rating based on spread alone is inappropriate. The process will include:

- Identification of individual security outliers within the rating band. Thresholds to determine outliers will be monitored overtime but may include statistical measures such as standard deviations from the mean, quartile outliers or alternative approaches.
- Review of the asset classes that the individual outlier securities fall into to determine if additional asset class qualitative scoping assessment is warranted. Individual security outliers will be subject to Detailed Testing Procedures as outlined in Section 3.

#### *1.2.2.3 Historical Rating Change Analysis*

The next quantitative scoping activity, historical rating change analysis, involves comparison of the following for in scope securities:

a) Securities previously assigned a designation by the SVO or SSG
b) Securities previously rated by one CRP now rated by another CRP

These securities will be reviewed to determine whether there has been a material increase in rating from the prior rating or designation provider. Those securities that have an improvement of three or more sub-notches compared to the prior rating or designation will be subject to Detailed Testing Procedures as outlined in Section 3 below.

#### *1.2.2.4 Assessment of CRP-Rated Security Performance*

The final quantitative scoping activity involves reviewing an insurer's financial position (based on its annual statements, for example) to identify indicators of investment performance deterioration, such as instances where insurers have taken impairments on investments with high FE/PLR NAIC Designations (e.g. NAIC 1 and 2 Designations), and from that data assessing whether the operative CRP rating is properly adjusting for credit or other asset deterioration.

### 1.2.3 Qualitative Scoping Activities

#### *1.2.3.1 SEC Assessment and Monitoring Over Rating Agencies*

Under the Credit Rating Agency Reform Act (2006) and Section 15E of the Exchange Act, the U.S. Securities and Exchange Commission (SEC) (through its Office of Credit Ratings) examines each NRSRO annually. Importantly, the SEC cannot regulate the substance of ratings or methodologies, but it can enforce compliance with laws, rules, and governance standards.

In order not to duplicate efforts under the SEC's regulatory oversight efforts, the NAIC may rely on findings, data, or other information provided by the SEC to inform the NAIC's Scoping Assessment. The NAIC will make a judgement as to whether the information constitutes a material risk to ratings of a given CRP. We expect that to constitute a material risk to ratings of a given CRP, the information from the SEC would need to be significant and that a conclusion that would impact scoping, within the Framework, based on the information is likely to be rare.

At its discretion, the NAIC may also utilize findings, data or other information from other jurisdictions including but not limited to the Bermuda Monetary Authority (BMA), the European Securities and Markets Authority (ESMA), the Financial Conduct Authority (FCA) and the Japanese Financial Services Agency (JFSA) to make a qualitative judgement about whether information under other jurisdictions indicate material risk to ratings of a given CRP. If that determination is affirmative, that CRP will be assessed as "In Scope" across all asset classes.

#### *1.2.3.2 Additional Qualitative Assessment*

The CRPWG may also utilize additional qualitative assessments to inform their scoping conclusions for CRPs and asset classes. These qualitative factors include but are not limited to:

- CRP methodologies with significant qualitative approaches in their methodology (e.g.,, lack of specific factors, thresholds and defined weightings in publicly available methodology documentation)
- CRP methodologies with significant qualitative adjustments to quantitative approaches included as part of the overall rating methodology
- Market-driven events or emerging asset class trends that can be reasonably expected to affect the risk reflected in CRP ratings or ratings for particular asset classes
- Results of a prior-year Risk Assessment or Detailed Testing Procedures that indicate elevated risks of a given CRP or asset class
- Information from regulators or relevant NAIC groups, for example, findings from the Financial Analysis Working Group.

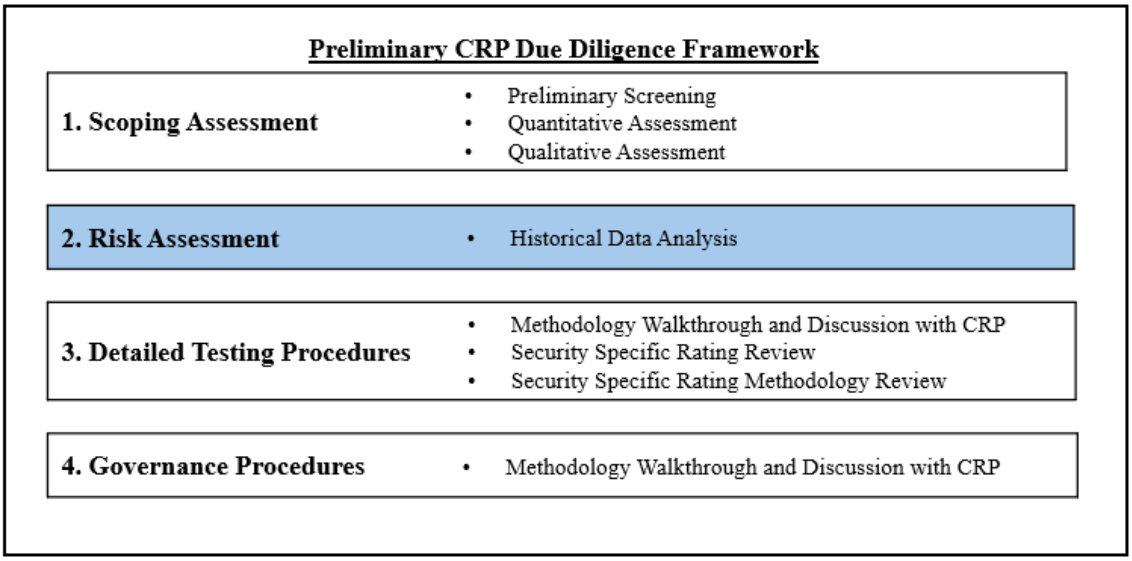
## 1.3 Expected Outcome

The results from the CRP and Asset Class scoping activities are then combined to determine which CRP/asset class intersections, or "Scoping Segments," should be prioritized for further analysis, based on cumulative results of the Scoping Assessment.

Final Scoping Activity Outcomes:

| Scoping Activity | Outcome Categories | Logic | Final Scoping Outcome |
|---|---|---|---|
| 1.2.1 Preliminary Scoping Activities | - New CRP<br>- New Asset Class<br>- Material Methodology Change<br>- CRP or asset class with <2 years of historical data | If any condition is met, the Scoping Segment automatically qualifies for Section 3 Detailed Testing Procedures | Automatically **"In Scope"** |
| 1.2.2 Quantitative Scoping Activities | CRP Scoping:<br>• Insurance Industry Exposure (High/Low)<br>• Growth (High/Low)<br><br>Asset Class Scoping:<br>• Insurance Industry Exposure (High/Low)<br>• Growth (High/Low)<br><br>Spread Comparison<br>• Outlier<br>• Non-outlier<br><br>Historical Rating Change Analysis | A scoping segment is "In Scope" if either the CRP or Asset Class has a High Priority outcome in any attribute (Insurance Industry Exposure or Growth).<br><br>If all attributes for both CRP and Asset Class are Low Priority, then segment is "Out of Scope."<br><br>A security-specific origination spread is determined to be an outlier within a specific rating band if the spread is materially higher or lower than the population average.<br><br>Comparison of an individual security rating or SVO or SSG designation as the rating or designation provider has changed to determine when material improvements have occurred with the change in provider. | **"In Scope"** if any attribute is High Priority<br><br>**"Out of Scope"** only if all four attributes are low priority<br><br>**"Outliers"** if the spread difference is above tolerance threshold, securities bypass risk assessment and are subject to Detailed Testing Procedures<br><br>**"Material Rating Change"** Individual securities with a rating change of three rating subcategories are subject to Detailed Testing Procedures |
| 1.2.3 Qualitative Scoping Activities | -SEC or other jurisdiction findings indicate material risk to ratings of a given CRP<br><br>-Additional qualitative assessment | If NAIC review of SEC findings or findings across other jurisdictions indicate material risk, the entire CRP is deemed "In Scope," across all asset classes, irrespective of preliminary or quantitative results.<br><br>If additional qualitative assessment indicates risk to a specific CRP or asset class the entire CRP, specific asset classes for a given CRP, or an entire asset class may be deemed "In Scope" | SEC or other jurisdiction findings: CRP **"In Scope"** across all asset classes<br><br>Additional qualitative assessment: entire CRP, asset class for a given CRP or entire asset class determined to be **"In Scope"** |

## 2. Risk Assessment




### 2.1 Risk Assessment Overview

In the Risk Assessment, quantitative methods are used to facilitate the selection of securities for incremental detailed testing, as described in Section 3 of this document. The goal of these procedures is to assess the equivalency of CRP ratings that is implied by the CRP rating to NAIC Designation mapping (the "NAIC Translation Matrix"). Using quantitative methods designed to accept or reject either the hypothesis of equivalency or non-equivalency of ratings across comparable Test Segments allows the NAIC to focus its detailed testing efforts on Test Segments of securities that exhibit the potential for systematic disagreement across the CRPs. Systematic disagreement across comparable Test Segments of securities implies that the CRP ratings that are mapped to analogous NAIC Designations may not be equivalent. The Risk Assessment functions as the analytical bridge between Scoping (what to examine) and Detailed Testing Procedures (how to examine), enabling the NAIC to apply data-driven rigor in determining which CRP-ratings within comparable Test Segments of securities present elevated risk.

By assessing rating equivalence, Risk Assessment provides empirical evidence to support supervisory decisions, enhance transparency, and ensure proportional regulatory focus. The goal is to establish a quantitative foundation for risk tiering that can be used to define which Test Segments warrant further testing (and the extent of that testing).

Using historical CRP and asset class data, NAIC applies time-series, cross-sectional, and pooled-time-series descriptive and statistical analyses to evaluate rating performance across time and between rating providers. (Refer to *Appendix B – Preliminary Asset Class Segmentation*)

The outcome of this process includes:

- A quantitative assessment of rating alignment, across CRPs for Test Segments (as defined below) of securities.
- Identifying potential systematic differences that may indicate misalignment across CRPs within certain Test Segments.
- Classification of Test Segments (as defined below) into High, Moderate, or Low Priority, setting thresholds for further diligence procedures.

## 2.2 Defining the Test Segments for Quantitative Risk Assessment

Defining the appropriate segments for quantitative testing (the "Test Segments") is a foundational part of the Risk Assessment. While an idealized set of Test Segments can be defined for the purposes of developing the Risk Assessment framework, in practice, there are limitations due to a) the availability of certain data attributes, b) the reliability of certain data attributes, c) the limited history associated with certain data, and d) the number of available observations available to make meaningful statistical inferences.

Accordingly, Test Segment definitions are expected to evolve over time and will be informed by data availability, asset class characteristics, rating coverage, statistical reliability, and implementation experience. The Framework is not intended to prescribe a static segmentation taxonomy. Rather, Test Segments will be defined and refined as needed to support meaningful, risk-based analysis while maintaining sufficient flexibility to accommodate changes in insurer holdings, CRP rating coverage, and available data.

For the purposes of this Framework, the data used to perform the quantitative risk assessment procedures is limited to a) data supplied by the rating agencies to the NAIC, b) data reported to the NAIC by insurance companies, and c) data the NAIC licenses. Due to limitations in the available data, it may be necessary to segment the data in a way that produces larger Test Segments than would be ideal in a more refined segmentation analysis (e.g. more granular homogenous Test Segments). Once the Test Segments are determined, if those Test Segments result in population sizes that do not meet minimum viable sizes to inform statistically significant findings, the Test Segments may be grouped into larger populations as needed. As a result, this may impact the level of detailed testing that is performed. Additionally, it may be necessary to extrapolate results across Test Segments (e.g. applying findings from jointly rated securities to comparable single-rated securities).

The table below presents an illustrative, idealized set of fields considered when defining Test Segments for equivalency testing. Certain idiosyncratic characteristics of the securities (such as borrower financial information) are excluded, as obtaining this data from each CRP, for each security, over a meaningful time period is not practical or feasible. Augmentation of the data with publicly available and vendor data sources can and should be considered to the extent that they are practical, facilitate the refinement of the Test Segments, and expand the population of securities available for quantitative testing.

| Segmentation | Description | Potential Limitations |
|---|---|---|
| Public / Private | Indicates whether a rating is publicly available (public) or not publicly disclosed (private) | The population of privately rated securities with ratings from multiple CRPs is limited. |
| Asset Class or Security Type | e.g. Corporates, CLOs, etc. | Granularity is limited in the available data, particularly amongst privately rated securities. Self-reported data can be inconsistent across institutions and may be subjective in some cases. |
| Industry | e.g., Financial, Technology, etc. | Self-reported data can be inconsistent across institutions and may be subjective in some cases. When including Industry, certain Test Segments may have limited observations. |
| Investment Grade (IG) vs Non-Investment Grade | Test Segments may consider the bifurcation of securities into investment grade and non-investment grade tiers for analysis. Non-IG ratings may exhibit more ratings volatility and/or a higher risk of non-equivalency across CRPs. | Further segmentation into IG vs Non-IG ratings could further reduce the observations available for testing purposes. |
| Jointly Rated / Single Rated | Test Segments can be divided into groupings with one CRP rating versus multiple CRP ratings | There are a significant amount of single rated securities, which limits the available tests that can be performed |
| CRP | The rating agency that provided a given credit score. | The time series associated with certain credit rating providers in certain Test Segments may be limited |

## 2.3 Key Activities

The Key Activities table below presents the following:

- **Activity –** A high-level overview of the types of statistical tests that would be conducted to evaluate rating equivalence across predefined Test Segments is provided below. The feasibility of each activity will depend on data availability. It is expected that the availability, volume, and quality of data will improve over time, enabling a broader range of activities to be performed. Upon adoption of the Framework, testing may be limited to analyses that can be conducted on jointly rated securities. As indicated above, as the NAIC gains more experience with the Framework, it may determine that it needs to use other tests and processes it deems appropriate to determine the reasonableness of a CRP's ratings for NAIC purposes.
- **Data Requirements – A high-level description** of the data required from each CRP to perform the activity

- **Example Tests –** Examples of descriptive and/or statistical tests designed to test CRP equivalency/non-equivalency across each Test Segment. The universe of tests (descriptive or statistical) within each "Activity" area will be refined and is a function of the available data within each Test Segment. Given the data limitations, not all of the example tests will be utilized in the Risk Assessment of the Framework.
- **Illustrative Thresholds** – Hypothetical thresholds related to the Example Tests that can be used to classify the Test Segments into priority cohorts (e.g. Low, Moderate, and High) and ultimately determine the level of detailed testing that may be required. The thresholds presented below are illustrative statistical thresholds for consideration and will ultimately be refined.
- **Expected Outcomes –** The potential outcomes of the tests that would allow for the classification of each cohort into their respective priority buckets (low, moderate, high)

| Activity[3] | | Data Requirements[4] | Example Tests | Illustrative Thresholds[5] |
|---|---|---|---|---|
| Event-Based and Predictive Equivalence Tests | 1) Identification of deviations between CRP ratings and realized default frequency or losses.<br>2) Assessment of whether CRP ratings rank-order risk appropriately. | Historical ratings and realized default data (binary outcomes) over time. | - ROC & AUC analysis;<br>- CAP / Accuracy Ratio | - AUC > 0.7 = good discrimination.<br>- AR/CAP > 0.6 = strong predictive power. |
| Descriptive and Distributional Tests | Compare rating distributions and migration patterns across CRPs to test alignment in rating philosophy (equivalency) and stability. | Long-term historical ratings from multiple CRPs and relevant rating change/review dates. | - Comparison of Transition matrices and Ratings histograms;<br>- Chi-square test<br>- Kolmogorov–Smirnov (KS) test; | - KS test: $p \geq 0.05 \rightarrow$ no significant difference.<br>- Chi-square: $p \geq 0.05 \rightarrow$ independent distributions.<br>- Kullback-Leibler (KL) divergence (> .05 higher risk of divergence). |
| Correlation and Association Tests of jointly rated securities | Detect divergence or systemic biases in jointly rated securities. | Matched security ratings from multiple CRPs. | - Spearman's $\rho$;<br>- Kendall's $\tau$;<br>- Cohen's $\kappa$;<br>- Concordance Correlation Coefficient (CCC) | - Spearman's $\rho$ / Kendall's $\tau$ > 0.8 = strong agreement.<br>- Cohen's $\kappa$ > 0.8 = high; 0.6–0.8 = moderate; < 0.6 = weak.<br>- CCC $\approx 1 \rightarrow$ high equivalence. |
| Time-Series Equivalence Tests | Identifying equivalency in ratings over time (changes in ratings) | Time-series issuer ratings from multiple CRPs that include specific rating review/change dates. | - Cointegration (Engle–Granger, Johansen);<br>- Cross-correlation functions;<br>- | - Cointegration → shared long-run equilibrium.<br>- CCF: peaks near lag 0 → no leader/laggard; lag > 0 → leader/laggard exists.<br>- |

Benchmark Comparison Test: Compare spreads at origination with ratings as of origination across each Test Segment to identify spread outliers and benchmark spreads by Test Segment.

The thresholds, tests, sampling approaches, and related procedures described in this Framework are intended to provide an initial implementation structure and may be refined over time as data quality improves, additional analytical history becomes available, and the NAIC gains experience operating the Framework

[3] Initial testing may be limited to tests of jointly rated securities ("Correlation and Association Tests of jointly rated securities")
[4] The use of particular activities / tests may depend on the nature and scope of the data received from CRPs.
[5] Concluded thresholds and resulting Risk Assessment outcomes to be finalized once additional data analysis is performed.

Test Segments that lack sufficient data or reliable history will initially default to High Priority status and proceed to qualitative review or Detailed Testing.

## 2.4 Expected Outcome

The Risk Assessment should result in a priority classification for each Test Segment that is based on tests that result in quantifiable outcomes with pre-defined thresholds.

It provides:

- A clear High / Moderate / Low Priority rating, by Test Segment.
- Identification of cohorts requiring detailed testing or additional qualitative review.
- Analytical insights into CRP rating behavior, performance alignment, and systemic differences.
- A composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification.

The expected outcome of the Risk Assessment is to ensure that subsequent due diligence activities are proportionate to the level of perceived risk, forming a cornerstone for the NAIC's risk-based oversight of CRP reliance.

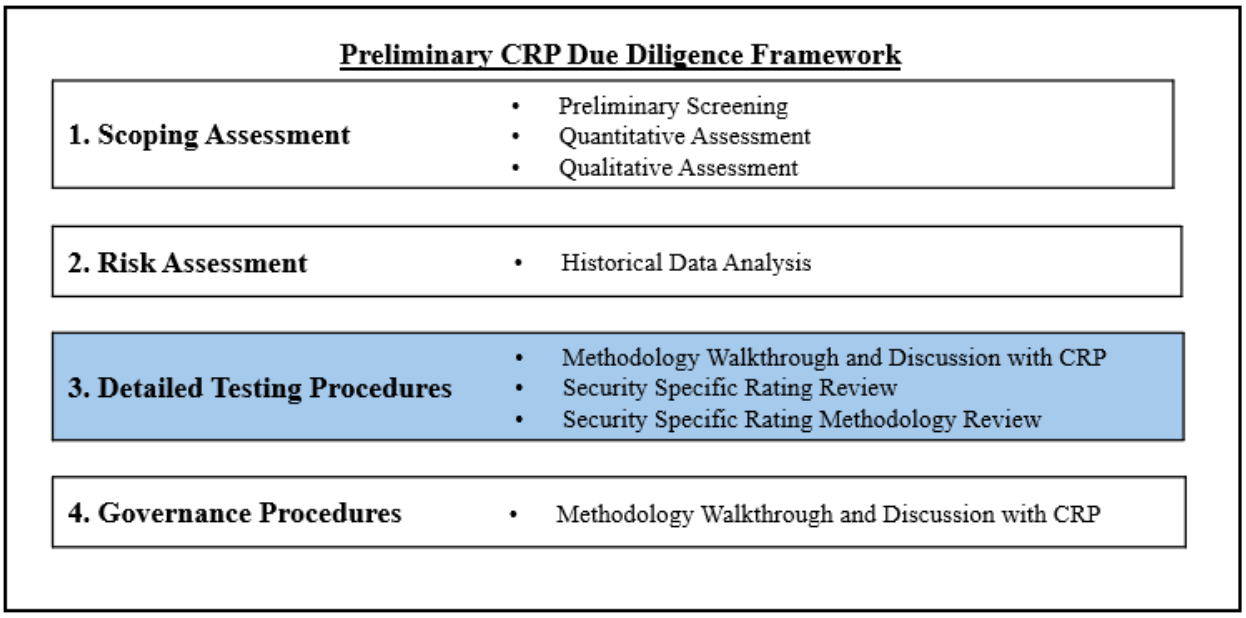
*Illustrative 2.4.1 Risk Assessment Activities Outcome*

*For a hypothetical Test Segment, the risk assessment procedures will categorize each security and CRP combination within that Test Segment as High, Moderate, or Low Priority, as illustrated in the table below. In the case below, CRP X ratings are statistically different from the other CRP ratings in the example Test Segment, signaling that CRP X ratings may be systematically not equivalent to the other CRP ratings.*

| Correlation and Assocation Test of Jointly Rated Securities (Example Results by Illustrative Test Segment) | | | | | | |
|---|---|---|---|---|---|---|
| **Public Private** | **Asset Class** | **Industry** | **IG/Non-IG** | **Jointly Rated** | **Test Result** | **Outcome** |
| Public | Corporate | Drilling Oil and Gas | Non-IG | Y | CRP X > Threshold | High |
| Public | Corporate | Drilling Oil and Gas | Non-IG | Y | CRP Y < Threshold | Low |
| Public | Corporate | Drilling Oil and Gas | Non-IG | Y | Low Threshold < CRP Z < High Threshold | Moderate |

*The Asset Class "Corporate" being a security issued by an operating entity consistent with the Statement of Statutory Accounting Principles (SSAP) No. 26 – Bond definition for an issuer obligation.*

# 3. Detailed Testing Procedures




## 3.1 Detailed Testing Procedures Overview

Detailed Testing Procedures are performed when Scoping and Risk Assessment indicate elevated priority. Detailed testing includes methodology walkthroughs and security-specific rating reviews that focus on verifying the reasonableness of CRP ratings, as further defined in Section 3.2.1 below. Their primary purposes are to determine future ongoing due diligence activities and potential remediation actions, ensuring that the reliance on CRPs and Translation Matrix outcomes are governed by sufficient NAIC oversight and are well substantiated.

### 3.1.1 Sampling Approach

Sampling for Detailed Testing Procedures will be directly informed by the priority classifications of High, Moderate, or Low established during the Risk Assessment.

The sampling methodology will emphasize that higher priority Test Segments require larger sample sizes and a lower tolerance for unreasonable results in Detailed Testing Procedures. While final sample sizes are still to be determined, the approach may leverage statistical or judgmental (nonstatistical) sampling techniques depending on the characteristics of Test Segments and data availability. Risk-based sampling is expected to be informed by both the priority classifications (High, Moderate, and Low) in the current year and the outcomes of the prior year Detailed Testing Procedures (reasonable vs. unreasonable and Translation Matrix equivalency findings). Test Segments from the prior year where Detailed Testing Procedures determined results were unreasonable or Translation Matrix equivalency was at risk for a CRP or asset class will be expected to be subject to increased sampling.

Sampling is intended to produce findings that can inform views for each Test Segment.

## 3.2 Key Activities

The Detailed Testing Procedures outlined below will be conducted by the NAIC in coordination with the CRPs. These procedures are designed to evaluate the reasonableness of CRP ratings. All data requests, follow-up analyses, and methodological discussions related to these procedures will be managed directly between the CRPWG and the respective CRPs.

### 3.2.1 Detailed Testing Procedures

(a) **Methodology Walkthrough and Discussion with CRP** — Conduct technical walkthroughs to understand asset class scope for the methodology, methodology design, input assumptions, and quantitative and qualitative analysis conducted by a CRP for a given asset class or group of asset classes to understand details of the CRP methodology and determine the appropriate level of subsequent Security-Specific Review. (See Appendix A – CRP Methodology Walkthrough Questionnaire for an illustrative questionnaire to guide methodology walkthroughs with CRPs.)

(b) **Security-Specific Rating Review:** Perform an independent rating analysis.

a. NAIC to perform rating analysis, leveraging an acceptable methodology (as outlined in the P&P Manual) and an independent approach, to assess the reasonableness of the CRP rating provided.

b. When performing an independent rating analysis, the NAIC will consider the most recent available public rating and any changes in rating from the latest insurer filing. When performing an independent rating analysis for a private security, the NAIC will request the most recent private rating letter from the CRP to perform the analysis.

Materiality: When performing a rating review, apply the NAIC's three sub-notch materiality tolerance threshold—as defined under the Ratings Challenge Authority in the P&P Manual—as the acceptable deviation threshold between independent and CRP-assigned ratings. Deviations beyond this tolerance are determined to be unreasonable and will be flagged for escalation.

(c) **Security-Specific Rating Methodology Review:** Perform an independent rating methodology review for a sample security that includes an assessment of the methodology selected by the CRP, accuracy of inputs, assessment of assumptions, and model accuracy to assess the reasonableness of the CRP rating provided for the sample security.

### 3.2.2 Detailed Testing Procedures Application

#### *3.2.2.1 Test Segments in Scope based on 1.2.1 Scoping Activities*

When Scoping Activities, as described above in Section 1.2. indicate "In Scope", Detailed Testing Procedures will include a Methodology Walkthrough and Discussion with CRP as described above. The results of those procedures will determine what level of additional security-specific detailed testing is appropriate, if any.

#### *3.2.2.2 Test Segments "In Scope" and Categorized Based on 2. Risk Assessment Procedures*

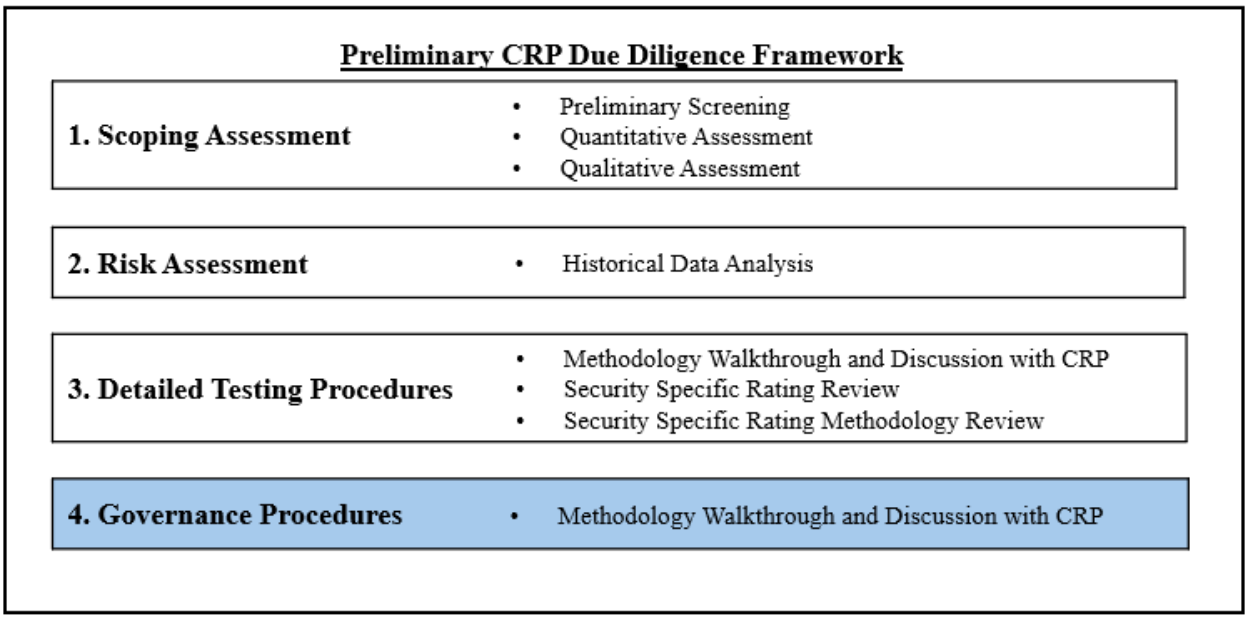
Following the Scoping Assessment determination of "In Scope" as described in Section 1 above, the nature and extent of Detailed Testing Procedures will be determined based on the outcome of the Risk Assessment for each identified Test Segment as follows:

- Low Priority Test Segments are expected to be subject to Methodology Walkthrough and Discussions with CRPs with no additional security-specific Detailed Testing
- Moderate Priority Test Segments are expected to be subject to moderate security-specific Detailed Testing
- High Priority Test Segments are expected to be subject to the highest level of security-specific Detailed Testing

### 3.3 Expected Outcome

Detailed Testing Procedures develop an independent and well-documented view on the reasonableness of CRP asset class ratings to inform views on Translation Matrix equivalency or risk of a given CRP or asset class.

## 4. Governance Procedures




### 4.1 Governance Overview

Governance ensures that Framework activities are successfully implemented, sustained, and able to evolve as needed overtime via appropriate review processes and feedback loops. A well-defined governance structure will facilitate transparency, as needed, and provide clearly defined roles and responsibilities for both NAIC stakeholders and CRPs. Lastly, a robust governance structure enables timely and effective risk mitigation via remediation actions, when appropriate. To enable the Framework to evolve as needed, this Framework may be amended by the CRPWG, with adoption by parent task forces and committees, as appropriate, following standard NAIC meetings, exposure and public comment protocols.

### 4.1.1 CRP Due Diligence Framework Activities

The table below outlines the cadence of the Framework procedures, beginning with data collection, followed by risk assessment and quantitative testing, and culminating with detailed testing and governance procedures.

| Activity |
|---|
| **Scoping Assessment** |
| Data Receipt from InvAWG and IDAWGs |
| Quantitative and Qualitative Scoping Analysis |
| **Risk Assessment** |
| Defining Test Segments |
| Conducting Quantitative Tests |
| Priority Classification Results |
| **Detailed Testing Procedures** |
| CRP Methodology Walkthrough and Discussion with CRPs |
| Sampling Procedures |
| Security-Specific Sample Reviews |
| **Governance Procedures** |
| Produce Annual Report Summarizing CRP Due Diligence Findings |
| Review and Approval of Remediation Actions |
| Updates and Enhancements to CRP Due Diligence Framework |

### 4.1.2 Roles and Responsibilities[6]

The overall interaction model among the working groups that make up the IATF in support of the Framework will be defined in their annual charges and posted on their respective web pages on the NAIC's website.

The CRPWG is currently charged with primary responsibility for the oversight and execution of the Framework activities including coordination with CRPs to obtain necessary data to execute the due diligence activities. The application of the Framework—including data collection, analysis, testing activities, and preparation of materials – may be performed by a combination of CRPWG regulators, NAIC staff overseen by the CRPWG, and may leverage additional NAIC staff resources as appropriate.

[6] The roles and responsibilities of the working groups under the Invested Assets (E) Task Force have been established as of the January 1, 2026, reorganization date and may be revised in the future.

On an annual basis, the CRPWG will prepare a report to be presented to the IATF that summarizes key findings, observed trends, and adopted remediation actions as further detailed below in Section 4.2.1 Annual Report, for the IATF's consideration. The CRPWG will review and maintain key design decisions (e.g., thresholds, quantitative tests) that make up the Framework and adjust the design as needed on an on-going basis.

The IATF will review the annual report produced by the CRPWG. The CRPWG's parent committees (IATF, E Committee, Plenary) are responsible for final approval of all Tier 2 remediation actions, as defined below, to maintain independence and impartiality. The CRPWG shall have authority as it relates to Tier 1 remediation actions, as defined below.

## 4.2 Key Activities

### 4.2.1 Annual Report

The CRPWG Annual Report may include, but is not limited to:

- **Scoping Assessment**: Summary of observations and trends: providing insights into– new or developing asset classes and CRP methodologies, insurer CRP and asset class insurance industry exposure and growth and SEC review findings by CRP.
- **Risk Assessment**: Identification and priority classification of Test Segment results to determine in scope population for detailed testing activities – a composite Risk Assessment Report summarizing test results, thresholds applied, and rationale for each classification that results in analytical insights into CRP rating equivalency.
- **Detailed Testing Procedures**: Summary of findings and trends observed through methodology walkthroughs and detailed security-specific reviews and the implications on the Translation Matrix equivalency or risk of a given CRP or asset class.
- **Governance Procedures**:
    - Recommended remediation actions: providing remediation actions for approval based on the findings of the preceding Framework procedures
    - Forward-looking Adjustments: providing insights into how findings impact future year activities and recommend changes (e.g., procedures, thresholds, etc.)

Aspects of the CRPWG Annual Report may include confidential information that will be provided to the IATF in a regulator-only meeting in accordance with the NAIC's Open Meetings Policy on such issues.

### 4.2.2 Remediation Actions

Remediation actions represent the critical enforcement mechanism within the NAIC Framework - translating analytical findings into actionable outcomes. They ensure that any identified deficiencies, methodological inconsistencies, or rating outcome deviations are addressed promptly and proportionately. The goal of remediation actions is to address inconsistencies in rating practices or Translation Matrix outcomes.

The application of remediation actions will reflect both the severity and persistence of issues observed during the Risk Assessment and Detailed Testing Procedures. Remediation may range from heightened monitoring and data clarification requests to more consequential interventions, such as Translation Matrix

adjustments or removal of a CRP or asset class from FE/PL eligibility, or removal of ratings assigned under a specific CRP methodology. Possible remediation actions may include but are not limited to:

Tier 1: Remediation Actions:

1. **Watchlist / Enhanced Monitoring** – applied in cases for minor deviations or data limitations where further observation is warranted before taking further remediation actions.
2. **Additional Detailed Testing Scope** – additional testing assigned to specific CRPs or asset classes where data is limited or preliminary findings indicate emerging risk or inconsistency in rating outcomes or methodology application (such inconsistencies include potential patterns of unreasonable ratings or unsupported methodology applications identified through Detailed Testing Procedures), or lack of comparability.

Tier 2: Remediation Actions:

1. **Require More Than One Rating** – In the event rating inconsistencies are identified and persist, the NAIC may require additional ratings to support PL or FE submissions.
2. **Translation Matrix Adjustment** – implemented when systemic rating inconsistencies are observed for a given CRP or asset class, indicating misalignment between CRP ratings and NAIC Designations
3. **Removal of Filing Exempt Status for an Asset Class** – triggered by repeated inconsistencies in CRP ratings for a given asset class.
4. **CRP De-admittance** – considered in cases of persistent inconsistencies with rating methodology or outcomes.

For CRPWG remediation action determinations that are materially adverse to a CRP, a confidential and detailed explanation of the decision shall be provided to the subject CRP, prior to any adverse decision being made public. Following receipt of notice of a remediation action, the subject CRP may communicate with the CRPWG or staff regarding related questions or other concerns. Such communication may involve discussions of data, to the extent CRPWG data isn't subject to confidentiality restrictions. Subsequently, the CRP shall be able to present its opposition to the CRPWG determinations in a regulator-only session, including explanatory context and any new materials. Recommended remediation actions, if any, by the CRPWG will then be subject to the CRPWG's parent committees (IATF, E Committee, Plenary), as described above.

Following approval of a remediation action and notification to the affected CRP, the NAIC may provide public notice, as deemed appropriate and subject to confidentiality considerations. All public communications related to CRPWG remediation action determinations shall be specific enough to relay the primary rationale for the decision while remaining sufficiently general to protect confidential information.

Such notice is intended to provide affected stakeholders, including insurers, with notice of the remediation action and sufficient time to evaluate potential impacts before implementation. Once the remediation action is finalized, a defined notice period of 120 days, consistent with existing filing requirements outlined in the 2025 P&P Manual, will be provided prior to implementation to mitigate significant market impact. Affected

insurers may request an extension from the Credit Rating Provider Working Group when practical constraints prevent completion of necessary actions within the initial period. Any extension will be subject to CRPWG approval and based on the relevant facts and circumstances at that time. All Remediation Actions will apply on a prospective basis only. Prospective application means that a Remediation Action will not result in revisions to previously filed statutory financial statements or risk-based capital calculations and will not change the treatment of an affected security for a financial reporting date that occurs during the applicable remediation notice period (subject to a regulator's determination that such restatement is necessary for its regulatory purposes). For example, if a remediation notice period extends across a year-end financial reporting date, an insurer may continue to use the existing CRP-derived designation for the affected security for that year-end reporting date. Prospective application does not grandfather a security from the Remediation Action. Upon expiration of the remediation notice period, the insurer must have obtained an alternative CRP rating or NAIC Designation for the affected security.

CRPs subject to de-admittance may be permitted to reapply for CRP status at a later date, subject to applicable acceptance criteria. Any re-admittance will be subject to the same acceptance criteria and review process applicable to a new CRP applicant. The nature and extent of the re-admittance review may be determined on a case-by-case basis and may focus on the facts and circumstances that led to de-admittance, including whether the CRP has remediated the identified issue or provided sufficient evidence that the concern has been addressed.

## 4.3 Expected Outcome

Governance and remediation activities are designed to support a transparent oversight framework that ensures due diligence findings translate into timely, transparent, and proportionate actions.

Expected outcomes include:

- Structured, scalable, and pragmatic oversight to support the NAIC's reliance on CRP-provided ratings, including a process for identifying and escalating rating inconsistencies.

# Appendices

## Appendix A – CRP Methodology Walkthrough Questionnaire

**Methodology Walkthrough Questionnaire**
This illustrative questionnaire is designed to guide the NAIC's walkthrough with CRPs during detailed testing. It is understood that certain information about CRP methodologies is available publicly. The purpose of this questionnaire is to facilitate discussion between the CRPs and NAIC and to allow the NAIC an opportunity to ask questions about publicly available methodologies and gain a deeper understanding of CRP approaches.

The end objective is to validate that CRP methodologies used in rating securities are transparent, consistently applied, and conceptually aligned for purposes of determining NAIC Designations based on the Translation Matrix.

1. *Scope and Applicability*
    - What asset classes does this methodology cover?
    - When was the methodology last materially updated or recalibrated?
    - What triggers a formal methodology review or an internal update (e.g.,, market change, data availability, regulatory feedback)?
2. *Governance Oversight*
    - Describe the internal governance process for methodology approval and change control.
    - Which committees or governing bodies are responsible for approving updates?
    - How are changes communicated to external stakeholders (e.g., issuers, investors, and regulators)?

**A) Analytical Framework and Inputs**

3. *Model Structure*
    - Please discuss the core model architecture (e.g.,, scorecard, regression, cash flow simulation, expert judgment).
    - What are the primary input assumptions and drivers of rating outcomes (e.g.,, leverage, coverage, collateral type, tranche structure)?
    - How are qualitative factors (management quality, governance, ESG considerations) incorporated or weighted?
4. *Data and Assumptions*
    - What data is used to determine the rating methodology approach? How is it sourced, how frequently is it updated and how is it reviewed or validated?
5. *Sensitivity and Backtesting*
    - How does the CRP validate the predictive performance of the model?
    - Provide results from the most recent backtesting, calibration, or validation cycle.
    - Describe how stress testing or scenario analysis is incorporated to assess model robustness.

**B) Rating Process and Application**

*6. Analyst Judgment and Overrides*

- Under what conditions may an analyst override a model outcome?
- How are overrides documented, reviewed, and approved internally?
- What percentage of ratings historically involved an override?

*7. Consistency and Transparency*

- How does the CRP ensure consistency in ratings across analysts, geographies, or time periods?
- Are internal audits, peer reviews, internal challenge, etc. conducted on rating application consistency?

**C) Performance Monitoring and Review**

*8. Ongoing Monitoring*

- How frequently is rating performance monitored against realized outcomes (defaults, transitions)?

- What performance metrics are tracked (e.g., accuracy ratio, Gini, drift metrics)?
- If applicable, how are outcomes used to refine methodologies?

*9. Weakness Identification and Remediation*

- How are methodology weaknesses or data gaps identified internally?
- What internal escalation or remediation protocols exist?

**D) NAIC-Specific Alignment and Transparency**

*10. Data Provision and Accessibility*

- Can you meet the data requirements requested by the NAIC to support on-going due diligence on a go forward basis? Identify any confidentiality or intellectual property constraints that may limit full transparency.

**E) Summary and Supporting Materials**

*11. Supporting Documentation*

- Attach the most recent methodology document, and evidence of internal review and challenge, as available.

*12. Attestation*

- Confirm that the responses provided herein are complete and accurate to the best of the CRP's knowledge.
- Provide name, title, and contact information for the responsible officer.

## Appendix B – Preliminary Asset Class Segmentation

The following section outlines potential approaches for identifying the asset class of individual securities for purposes of segmentation. The approaches are not mutually exclusive and may be applied on a standalone basis or in combination, depending on data availability and quality. Collectively, these options are intended to provide a pragmatic basis for consistent asset class identification across insurer holdings while allowing flexibility in implementation.

1. **Option 1 –** Leverage existing Insurer Statutory Filings
    a. *Pre-2024 Data*
        i. Current data segmentation

| Current Data Segmentation |
|---|
| Commercial Paper |
| Corporate Bonds / Notes |
| Credit Facilities |
| Term Loans |
| Depository Receipts |
| Municipal Debt |
| Sovereign or Government Agency Debt |
| MBS* |
| Structured Products |
| Syndicated Loan Deals |

*-Limitation – Current state information is not detailed enough to segment out of scope RMBS and CMBS that are not filing exempt.

    b. *Post-2025*
        i. Enhanced Insurer Schedule D1.1 (ICOs) and D1.2 (ABS) Filing Segmentation

| D1.1 (ICOs) | D1.2 (ABS) |
|---|---|
| U.S. Government Obligations (Exempt from RBC) | Agency Residential Mortgage-Backed Securities - Guaranteed (Exempt from RBC) |
| Other U.S. Government Securities Obligations (Not Exempt from RBC) | Agency Commercial Mortgage-Backed Securities - Guaranteed (Exempt from RBC) |
| Non-U.S. Sovereign Jurisdiction Securities | Agency Residential Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC) |
| Municipal Bonds - General Obligations (Direct and Guaranteed) | Agency Commercial Mortgage-Backed Securities - Not/Partially Guaranteed (Exempt from RBC) |
| Municipal Bonds - Special Revenue | Non-Agency Residential Mortgage-Backed Securities (Unaffiliated) |
| Project Finance Bonds Issued by Operating Entities (Unaffiliated) | Non-Agency Residential Mortgage-Backed Securities (Affiliated) |
| Project Finance Bonds Issued by Operating Entities (Affiliated) | Non-Agency Commercial Mortgage-Backed Securities (Unaffiliated) |
| Corporate Bonds (Unaffiliated) | Non-Agency Commercial Mortgage-Backed Securities (Affiliated) |
| Corporate Bonds (Affiliated) | Non-Agency - CLOs/CBOs/CDOs (Unaffiliated) |
| Mandatory Convertible Bonds (Unaffiliated) | Non-Agency - CLOs/CBOs/CDOs (Affiliated) |
| Mandatory Convertible Bonds (Affiliated) | Other Financial Asset-Backed Securities - Self-Liquidating (Unaffiliated) |
| Single Entity Backed Obligations (Unaffiliated) | Other Financial Asset-Backed Securities - Self-Liquidating (Affiliated) |
| Single Entity Backed Obligations (Affiliated) | Subtotals - Financial Asset-Backed Securities - Self Liquidating |
| SVO-Identified Bond Exchange Traded Funds - Fair Value | Equity Backed Securities (Unaffiliated) |

| | |
|---|---|
| SVO-Identified Bond Exchange Traded Funds - Systematic Value | Equity Backed Securities (Affiliated) |
| Bonds Issued by Funds Representing Operating Entities (Unaffiliated) | Other Financial Asset Backed Securities – Not Self-Liquidating (Unaffiliated) |
| Bonds Issued by Funds Representing Operating Entities (Affiliated) | Other Financial Asset Backed Securities – Not Self-Liquidating (Affiliated) |
| Bank Loans - Issued (Unaffiliated) | Subtotals – Financial asset Backed Securities – Not Self-Liquidating |
| Bank Loans - Issued (Affiliated) | Lease-Backed Securities - Practical Expedient (Unaffiliated) |
| Bank Loans - Acquired (Unaffiliated) | Lease-Backed Securities - Practical Expedient (Affiliated) |
| Bank Loans - Acquired (Affiliated) | Other Non-Financial Asset-Backed Securities - Practical Expedient (Unaffiliated) |
| Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Unaffiliated) | Other Non-Financial Asset-Backed Securities - Practical Expedient (Affiliated) |
| Mortgages Loans that Qualify as SVO-Identified Credit Tenant Loans (Affiliated) | Lease-Backed Securities - Full Analysis (Unaffiliated) |
| Certificates of Deposit (Unaffiliated) | Lease-Backed Securities - Full Analysis (Affiliated) |
| Certificates of Deposit (Affiliated) | Other Non-Financial Asset-Backed Securities - Full Analysis (Unaffiliated) |
| Other Issuer Credit Obligations (Unaffiliated) | Other Non-Financial Asset-Backed Securities - Full Analysis (Affiliated) |
| Other Issuer Credit Obligations (Affiliated) | |

2. **Option 2 –** Supplement Insurer Statutory Filing with CRP Data
    a. CRP identified methodology applied (pending information available upon receipt of CRP data)
        i. Will require asset class mapping across CRP methodologies given known differences in naming conventions
    b. SIC Code for corporate filings

3. **Option 3 –** Supplement Insurer Statutory Filings and CRP Data with external market subscriptions

https://naiconline.sharepoint.com/teams/CRPWorkingGroup/Shared Documents/Meetings/2026/2026-11 Fall National Meeting/Materials/CRPFrameworkClean11_4_26_for_posting.docx

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

To: NAIC Financial Condition (E) Committee

From: NAIC Natural Catastrophe Risk and Resilience Task Force

Re: Recommendation to continue the existing forward-looking Scenario Analysis RCAT forms and more closely coordinate information with the concurrent Reinsurance interrogatory

Date: 07/24/2026

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**Recommendation:** The NAIC Natural Catastrophe Risk and Resilience Task Force is currently working on issues related to catastrophe risk models, risk mitigation programs, and catastrophe Property and Casualty Reinsurance, generation of real-time data and forward-looking scenarios for estimating the scope of probable maximum losses, and in doing so is finding ongoing value from collaborations with E Committee on solvency related data. The Natural Catastrophe Risk and Resilience Task Force recommends that the Financial Condition (E) Committee coordinate the interrogatories for catastrophe Reinsurance and forward-looking Scenario Analysis within the Risk Based Capital (RBC) RCAT forms, and extend the existing sunset until YE2030 for the Scenario Analysis in the RCAT to enable better integration into catastrophe Reinsurance information, and because the Scenario Analysis data are being utilized for current technical trainings, data analysis, and state-specific applications.

**Summary of reasons to continue collection of forward-looking scenario analysis:**

- State Insurance Regulators are actively using the data collected for Reinsurance training and discussions within Financial Examinations. The NAIC Center of Excellence (COE) is analyzing and integrating the Probable Maximum Loss information for use in P&C Reinsurance training, as well as financial analysis training.

- These scenarios are providing regulators with additional scope of maximum loss scenarios and for beginning to understand future catastrophe reinsurance capacity and for gauging how that capacity may react to wildfire and hurricane scenarios. In some cases, state regulators are using combinations of catastrophe reinsurance information and catastrophe risk scenarios in exams.

- These scenarios are also helping regulators to understand the models and approaches that companies are taking towards understanding medium and long-term catastrophe risks, including the ability to compare frequency and probabilistic approaches and metrics.

- Continuing to collect this information over time will help regulators understand how the results are impacted by concentration risk, underwriting portfolios and model projections change, and leverage the COE for training and analysis that can be tailored to each individual state.

COMMONWEALTH OF VIRGINIA

**SCOTT A. WHITE**
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November 12, 2026

The Honorable Nathan Houdek
Wisconsin Office of the Commissioner of Insurance
101 East Wilson Street
Madison, WI 53703

Re: Comments on the *Recommendation to Continue the Existing Forward-Looking Scenario Analysis RCAT Forms and More Closely Coordinate Information with the Concurrent Reinsurance Interrogatory*

Dear Commissioner Houdek,

The Virginia Bureau of Insurance ("Bureau") appreciates the ability to offer its comments on the exposed referral letter from the Natural Catastrophe Risk and Resilience (EX) Task Force to the Financial Condition (E) Committee to consider extending the data collection of the forward-looking scenario analysis RCAT forms. The Bureau supports the proposed extension because it finds the data collection to provide valuable information to regulators that will only continue to demonstrate its worth as the effort continues.

In the two years of collecting the forward-looking scenario analysis RCAT data, the Bureau has seen how valuable the data collection is and can be. The data collection is designed to show medium-term and long-term forecasts that (1) quantify gross and net probable maximum losses ("PMLs") to understand the potential solvency impact to a company's balance sheet from natural catastrophes and (2) assess the adequacy of the company's reinsurance program under these stress scenarios. Although the data shows the impacts of natural catastrophes in the future, the data can also be viewed as showing solvency impacts to plausible stress scenarios that could occur in a shorter period of time -- especially for those filers choosing the frequency-based reporting option. Not only is the data useful to understand the potential solvency implications of natural catastrophes, the Bureau finds that the data filed adds depth to our discussions with domestic companies on their management of climate and natural catastrophe risk, even for companies that are not large enough to file an Own Risk and Solvency Assessment.

Following adoption of the data collection, the Bureau has been using the data collected from the forward-looking scenario analysis RCAT forms as a foundational piece of our supervision related to climate and natural catastrophe risks. We are in the early stages of more fully integrating the data collected into our financial analysis and examinations of domestic companies. These efforts take time but we have accelerated our progress in 2026. In the past year, the Bureau sent three staff to Kansas City in May for the joint NAIC-RAA reinsurance training, which included training from the NAIC's Catastrophe Center of Excellence ("NAIC Cat COE") on how states can better use the forward-looking scenario analysis RCAT data. In June, we hosted the NAIC Cat COE for a deep-dive training for our Financial Regulation Division on the data collected by the scenario analysis RCAT forms and our Property

and Casualty Division's rules, rates, and forms team on reinsurance. Following these trainings, we are developing dashboards for our financial analysts that feature the scenario analysis RCAT data with established thresholds triggering enhanced supervisory actions. We have also brought in members from the NAIC Cat COE on a current examination to work with our financial examiners in developing detailed questions for management on corporate governance related to natural catastrophe and climate risks and in assessing of the company's responses through the risk-focused lens of the company's forward-looking scenario analysis RCAT data.

The Bureau views the current data collection of the forward-looking scenario analysis RCAT forms as providing valuable information to our Financial Regulation Division. Our efforts are still in their infancy and we would like the opportunity to continue build out our procedures by extending the data collection. The Bureau also finds that the value of the data collected grows with each year as year-to-year changes and, we expect, longer-term trends for each company will make the dataset richer. As such, the Bureau encourages the Committee to extend the forward-looking scenario analysis RCAT data collection to YE2030 as proposed by the Natural Catastrophe Risk and Resilience (EX) Task Force.

However, if the Committee would like to take additional time to consider the referral, the Bureau suggests that the Committee potentially work with interested stakeholders on revising the reporting options to address comments raised that the frequency-based reporting pathway is not a low-cost option. When the forward-looking scenario analysis RCAT reporting was being developed a few years ago, the same stakeholders raised concerns over the cost to comply and worked with regulators to create the frequency-based stress scenarios as an expected low-cost reporting pathway. The current comments indicate that this reporting option has not panned out as intended, so the Bureau would welcome further dialogue with interested stakeholders on revising the frequency-based reporting option to better address their cost concerns.

The Bureau supports extension of the forward-looking scenario analysis RCAT forms until YE2030 as proposed by the Natural Catastrophe Risk and Resilience Task Force. If the Financial Condition (E) Committee would like additional time to consider the proposal, we would also support continuing consideration of the proposal to next year to allow additional time for regulators to demonstrate the value of the scenario analysis RCAT forms and to continue working with interested stakeholders on potentially creating a lower-cost reporting option.

Sincerely,
/s/ Dan Bumpus
Deputy Commissioner
Innovative Solutions & Strategies Division

November 12, 2026

Nathan Houdek, Chair

Financial Condition (E) Committee

National Association of Insurance Commissioners

Re: Scenario Analysis RCAT Forms

Dear Commissioner Houdek:

Thank you for the extension of time and for considering our comments. The National Association of Mutual Insurance Companies (NAMIC), the American Property Casualty Insurance Association (APCIA) and Reinsurance Association of America (RAA) continue to oppose extending the Scenario Analysis RCAT forms through 2030 on the current record. The forms were adopted as information only, outside the catastrophe risk charge, for year end 2024 through 2026, and the original framework set a decision point after that period. The referral asks for a decision before the year end 2026 filing is made (the filing is due on March 1, 2027). We offer the following points for the Committee's consideration.

## The RBC purpose test

The RBC Preamble states that RBC requirements exist to identify potentially weakly capitalized companies. The referral does not explain how a 2040 or 2050 scenario identifies a weakly capitalized company, or why the three years of data already required, together with existing tools, are insufficient.

The scenarios cannot answer the question posed. They hold the year end book of business, the reinsurance structure, and management actions fixed. Property catastrophe policies renew annually and are repriced, reflecting any potential changes in terms, exposures, or deductibles, or nonrenewed as conditions change. The result is a hypothetical illustration for a horizon 14 to 24 years away, not a measure of the three-to-five-year solvency question that drives supervision. Management adjusts terms, exposures, and deductibles of the direct policies sold to policyholder as conditions change, and catastrophe models themselves update each year. The scenarios do not reflect how a company would respond as the conditions that drive these models change.

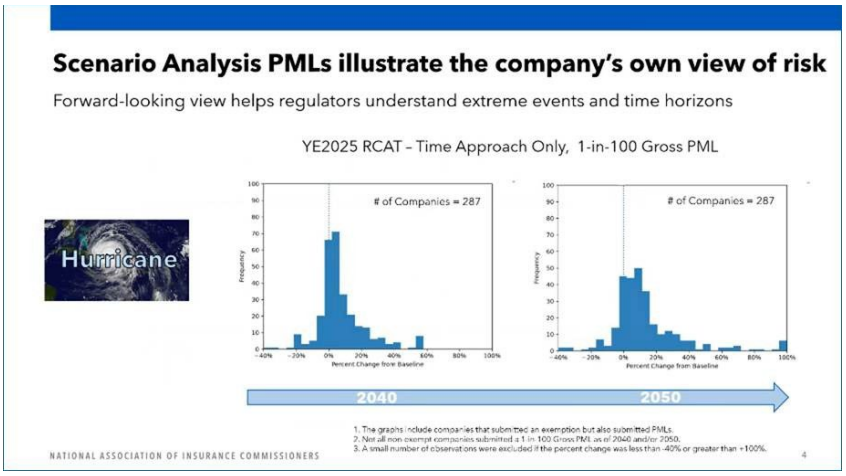
The stated uses do not yet show results. Training, financial analysis, and model comparison are legitimate uses, but the referral reports have no finding from the filings. The NAIC's own guidance described a comparison with policyholders' surplus to assess prospective solvency risk, and the referral does not say whether that comparison has produced any finding. Training value alone should not be the rationale for requiring RBC filings.

Cost Benefit Analysis

The cost to provide the scenarios analyses is real and the solvency oversight benefit is unmeasured or at least unexplained. Our member companies report that the process to compile the information necessary to complete these Scenario Analysis RCAT forms is costly. Filers complete the applicable blanks for their elected time-based or frequency-based approach, calculate net and gross PMLs at five return periods, and, if they use their own models, obtain state permission and face added examination review. Although the frequency-based option provides a less-costly way to complete the scenario requirements, this approach is nonetheless costly for companies to utilize. Using the frequency-based option still necessitates many hours of manual work, as companies cannot simply press a button to produce the required information. Each extended year repeats this work. In an environment focused on affordability, recurring costs that do not change or add meaningful value to a regulatory decision are hard to justify.

The NAIC's new test for risk-based capital changes points the same way. The Risk Based Capital Principles call for a materiality analysis, an accuracy analysis, and a consideration of time and resource intensity. We ask that the Committee consider compliance cost against the measurable regulatory benefit.

The results of previous scenario analysis RCAT filings illustrate the lack of materiality. As reflected below, results from previous filings are typically about 10% to 25% higher than baseline. At the top of the range, a 25% increase over 25 years is less than a 1% annualized trend, while the bottom of the range is less than 0.4% annualized. This is manageable for most insurers with a responsible approach to catastrophe risk management, and there's no need to ask insurers to keep filling this out for results of this magnitude.




We respectfully request the same three asks as before. First, that the Committee allow the scenario analysis RCAT forms to expire after 2026 reporting unless it establishes the need for continued collection, and that it not extends reporting through 2030 on the current record. Second, the Committee evaluate the three years of scenario data, identify the incremental supervisory benefit, assess the reporting burden and alternatives, and publish an aggregate and per company cost estimate before deciding to continue the reporting requirement. Third, that if the Committee extends the requirement, it preserve the frequency-based option, set a defined sunset and review criteria, and provide clear guidance on the intended supervisory use and the limitations of the results.

We would welcome the opportunity to discuss these points with staff and the Task Force.

Sincerely,

Matthew Vece
Sr. Director, Financial & Tax Counsel
American Property Casualty Insurance Association

Jeff Alton
Senior Vice President – Accounting, Finance, and Risk
Reinsurance Association of America

Colleen Scheele
Assistant Vice President - Policy
National Association of Mutual Insurance Companies

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: John Rehagen (MO), Chair, Mutual Recognition of Jurisdictions (E) Working Group
Monica Macaluso (CA), Vice Chair Mutual Recognition of Jurisdictions (E) Working Group

FROM: Jake Stultz, Manager II – Accounting Policy
Daniel Schelp, Chief Counsel, Regulatory Affairs

RE: 2026 Due Diligence Review of Qualified Jurisdictions & Reciprocal Jurisdictions

DATE: November 4, 2026

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**Executive Summary & Recommendation**

The Mutual Recognition of Jurisdictions (E) Working Group will perform a yearly review of Qualified Jurisdictions to determine whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions. The Working Group will also perform a yearly review with respect to non-Covered Agreement Reciprocal Jurisdictions. In this regard, NAIC legal and financial regulatory services staff has performed a due diligence review of these jurisdictions, and has the following recommendations for the Working Group's consideration:

1. The following Qualified Jurisdictions should retain their status on the *NAIC List of Qualified Jurisdictions*:

   - Bermuda, Bermuda Monetary Authority (BMA)
   - France, Autorité de Contrôle Prudentiel et de Résolution (ACPR)
   - Germany, Federal Financial Supervisory Authority (BaFin)
   - Ireland, Central Bank of Ireland (Central Bank)
   - Japan, Financial Services Agency (FSA)
   - Switzerland, Financial Market Supervisory Authority (FINMA)
   - United Kingdom, Prudential Regulation Authority of the Bank of England (PRA)

2. The following non-Covered Agreement Reciprocal Jurisdictions should retain their status on the *NAIC List of Reciprocal Jurisdictions*:

   - Bermuda, Bermuda Monetary Authority (BMA)
   - Japan, Financial Services Agency (FSA)
   - Switzerland, Financial Market Supervisory Authority (FINMA)

**Process for Periodic Evaluation after Initial Approval**

The *Process for Evaluating Qualified and Reciprocal Jurisdictions* ("Process") provides a process for evaluating both Qualified and Reciprocal Jurisdictions after their initial approval. Pursuant to NAIC policy and procedure, the

Working Group, with the assistance of NAIC staff, will perform a yearly review of Qualified Jurisdictions to assess whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions, and that this yearly review shall follow such abbreviated process as may be determined by the Working Group to be appropriate.

For this review, NAIC legal and financial regulatory services (NAIC staff) searched for any publicly available information that would potentially impact the jurisdictions' status as a Qualified Jurisdiction or as a Reciprocal Jurisdiction, including any changes to existing insurance and reinsurance laws and regulations in the jurisdictions. Next, NAIC staff researched whether a new Financial Sector Assessment Program (FSAP) Report prepared by the International Monetary Fund (IMF), or any other externally produced documentation was available, including the Technical Note on Insurance Sector Supervision, and any other information regarding the laws, regulations, practices, and procedures applicable to the jurisdiction's reinsurance supervisory system. This research also included any public reports from ratings agencies and any other public information that was deemed to be relevant.

Except as otherwise noted in this memorandum, NAIC staff did not engage directly with the Qualified Jurisdictions or Reciprocal Jurisdictions and relied solely on publicly available information. Additionally, NAIC staff considered any information received (if any had been received) directly from state insurance regulators, interested parties or affected U.S. insurance companies that could potentially impact the status of the Qualified Jurisdictions or Reciprocal Jurisdictions.

**Life Reinsurance Placed in Qualified or Reciprocal Jurisdictions**

There have been several discussions regarding the regulatory practices of insurance supervisors and systems from jurisdictions outside of the U.S., focusing on private equity owned life insurers' offshore reinsurance over the past several years. There have been ongoing discussions at the Macroprudential (E) Working Group, as well as other NAIC groups regarding the use of offshore reinsurance. NAIC staff does not believe that these activities rise to a level that would impact the status of any Qualified or Reciprocal Jurisdictions, but that it is appropriate that this issue be included in this discussion. NAIC staff will continue to closely monitor this issue and will provide any added information to the Working Group, as appropriate.

**Jurisdictions with Ongoing Regulatory Changes**

When Bermuda, Japan, and Switzerland were originally approved for Reciprocal Jurisdiction status, the Working Group relied heavily upon the Solvency II equivalency. Under the Solvency II Directive the European Commission may determine whether the solvency regime of a third country is equivalent to that laid down in Solvency II, including the SCR capital requirements, and the Working Group agreed that the Reinsurance (E) Task Force, Mutual Recognition of Jurisdictions (E) Working Group and the Reinsurance Financial Analysis (E) Working Group, use the Solvency II equivalency assessments in making its initial determination on the applicable capital and solvency ratios for Bermuda, Japan and Switzerland. Historically, Bermuda and Switzerland held full Solvency II equivalence, while Japan had held temporary equivalence from November 26, 2015 onward.

<u>Japan</u>

In June 2022, the Japan Financial Services Agency (FSA) announced its intention to reform its solvency regulation framework, known as Japan Insurance Capital Standard (J-ICS), effective March 31, 2026. The overall intent of these reforms is to make Japan's regulatory regime more similar to the Insurance Capital Standards of the International Association of Insurance Supervisors (IAIS) and Solvency II. The primary change will be to the

methodology for calculating the solvency margin ratio for Japanese insurers, moving from a factor-based approach to one that assesses assets and liabilities on an economic value basis. After several years of deliberation, Japan's new economic value-based solvency margin ratio (ESR) replaced the prior Solvency Margin Ratio (SMR) beginning with the fiscal years beginning after March 31, 2026 (FYE26). When Japan was approved as a Reciprocal Jurisdiction Reinsurer, their minimum solvency calculation threshold was 200% SMR, but with the new framework, it is now ESR of 100%. NAIC staff reached out to the Japanese FSA, who confirmed that ESR of 100% is the new minimum solvency or capital ratio to be used going forward.

On September 17, 2025, the EU granted Japan with provisional equivalence, which is a higher level of equivalence than the previously held temporary equivalence. This gives Japan the same level of Solvency II equivalence as the United States. While the Commission Delegated Decision recognized the change to an economic value-based solvency margin ratio that is effective on March 1, 2026, it appears that the approval of equivalency is based on the prior SMR calculation, which was the solvency ratio that was in effect prior to that date.

To substantiate the new solvency ratio, NAIC staff obtained a Milliman report on the new solvency regime, which compared the new system with Japan's prior system as well as Solvency II. Below is a table from that report that agreed with assertion that ESR of 100% is equivalent to the prior SMR at 200%. The Milliman report noted in their analysis of the new ESR calculation that it is similar to Solvency II.

| | **AFTER REVISION (J-ICS)** | **BEFORE REVISION** |
|---|---|---|
| **Exception from category** | ESR≧100% | SMR≧200% |
| **Category 1** | 100%>ESR≧70%<br>request to submit an improvement plan and an order for its implementation.<br>・insurance company should achieve the level of the SMR of at least 100% within a year in principle. | 200%>SMR≧100%<br>request to submit an improvement plan and an order for its implementation.<br>・insurance company should achieve the level of the SMR of at least 200% within a year in principle. |
| **Category 2** | 70%>ESR≧35%<br>・order concerning various measures that contribute to improving solvency in terms of the ability to pay insurance claims, etc.<br>・insurance company should achieve the level of the SMR of at least 70% within six months in principle. | 100%>SMR≧0%<br>・order concerning various measures that contribute to improving solvency in terms of the ability to pay insurance claims, etc.<br>・insurance company should achieve the level of the SMR of at least 100% within a year in principle. |
| **Category 3** | 35%>ESR<br>・order to suspend all or part of the operations for a limited term.<br>・insurance company should achieve the level of the SMR of at least 35% within three months in principle. | 0%>SMR<br>・order to suspend all or part of the operations for a limited term. |

Based on the evidence that NAIC staff were able to find publicly and the communication with the Japanese FSA, our recommendation is to approve the use of ESR of 100% as the minimum solvency ratio on a temporary basis, until such time as it has been confirmed that Japan has full Solvency II equivalence on an ongoing basis, using the new ESR solvency calculation.

Bermuda

In early 2024, the Bermuda Monetary Authority implemented several enhancements to their regulatory regime. The changes have three main areas of focus: 1) updates to the calculation of the Bermuda Solvency Capital Requirement (BSCR), 2) the calculation of technical provisions (risk margin and scenario-based approach), and 3) updates to their supervisory regime (transaction approvals, liquidity risk management, supervision, reporting and disclosure). NAIC staff are continuing to monitor the implementation of these changes.

Additionally, on January 1, 2026, the Insurance (Prudential Standards) (Class C, D and E Solvency Requirement) Amendment Rules 2025, became effective. These changes amended the Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Rules 2011 to require that all Class C, D and E insurers (other than those carrying on domestic business) prepare and file an asset and liability statement as part of the applicable year-end filing period. The relevant statement should be signed by the insurer's chief executive officer and a senior executive responsible for the actuarial, investment management, risk management, internal audit or compliance function. Copies of such statements must be kept at each insurer's principal office for a period of at least five years beginning with its filing date.

At the Working Group's meeting on October 21, 2025, NAIC staff were directed to further review the solvency ratios of the Reciprocal Jurisdictions that are not subject to an in-force covered agreement. NAIC staff reached out the BMA and they confirmed that 100% Enhanced Capital Requirement (ECR) is still the appropriate minimum solvency or capital ratio and there have been no changes since the Bermuda was approved as a Reciprocal Jurisdiction.

United Kingdom

In November 2022, the UK announced that they are moving away from Solvency II to a similar framework to be called Solvency UK. Since that time, several changes have been implemented which introduce major changes such as a reduced risk margin, more flexible matching adjustment rules, simplified reporting, relaxed third-country branch capital requirements, and a principles-based internal model framework, with phased implementation completed on December 31, 2024, and further updates continuing into 2026. The UK PRA is also working on a proposal to address funded reinsurance, which is their term for asset-intensive reinsurance. The proposal is still in the early stages, but the direction appears to be somewhat similar in outcome to Actuarial Guideline 55. The UK is subject to a covered agreement, so there is no action that needs to be taken at this time, but NAIC staff will monitor the changes and implementation of these reforms over the next year.

**NAIC Staff Overall Findings**

Upon review of all publicly available information and communication with Japan and Bermuda, NAIC staff has reached the conclusion that the reinsurance supervisory systems of the seven Qualified Jurisdictions listed above continue to achieve a level of effectiveness in financial solvency and reinsurance regulation for purposes of reinsurance collateral reduction, that their demonstrated practices and procedures with respect to reinsurance supervision continue to be consistent with their respective reinsurance supervisory systems, and that their laws and practices satisfy the criteria required of Qualified Jurisdictions as set forth in the Credit for Reinsurance Model Law and Regulation. NAIC staff have reached similar conclusions with respect to the three Reciprocal Jurisdictions listed above that are not subject to an in-force Covered Agreement.

**Therefore, it is the recommendation of NAIC staff that the above listed jurisdictions continue to qualify for inclusion on the *NAIC List of Qualified Jurisdictions* and the *NAIC List of Reciprocal Jurisdictions*. It is the further recommendation of NAIC staff that the minimum solvency ratio for the Japanese Financial Services Agency (FSA) be amended from its current 200% of the Solvency Margin Ratio (SMR) to 100% of the Economic-Value-Based Solvency Margin Ration (ESR), which took effect for Japanese-domiciled (re)insurers for fiscal years beginning after March 31, 2026.**

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: John Rehagen (M), Chair, Mutual Recognition of Jurisdictions (E) Working Group
Monica Macaluso (CA), Vice Chair Mutual Recognition of Jurisdictions (E) Working Group

FROM: Jake Stultz, Manager II – Accounting Policy
Daniel Schelp, Chief Counsel, Regulatory Affairs

RE: 2026 Due Diligence Review of GCC Recognize and Accept Jurisdictions

DATE: November 4, 2026

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**Executive Summary & Recommendation**

The Mutual Recognition of Jurisdictions (E) Working Group will perform a yearly review of the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* ("GCC") to determine whether there have been any significant changes over the prior year that might affect inclusion on the List. In this regard, NAIC legal and financial regulatory services staff have performed a due diligence review of these jurisdictions, and have the following recommendations for the Working Group's consideration:

1. Effective December 18, 2024, the NAIC determined that the Canadian Office of the Superintendent of Financial Institutions (OSFI) (i.e., all Canadian Provinces except for Quebec) met the criteria set forth for inclusion on the List under the NAIC *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation*. The OSFI joined those Reciprocal Jurisdictions on the List as identified under Section 4L(2)(c) of the NAIC *Insurance Holding Company System Regulatory Act* (#440); i.e., European Union member states, United Kingdom, Bermuda, Japan, and Switzerland.

2. For this due diligence review, NAIC legal and financial regulatory services staff searched for any publicly available information that would potentially impact the jurisdictions' status as a GCC Recognize and Accept Jurisdiction, including any changes to existing insurance laws and regulations in the jurisdictions. Additionally, NAIC staff considered any information received (if any had been received) directly from state insurance regulators, interested parties or affected U.S. insurance companies that could potentially impact the status of GCC Recognize and Accept Jurisdictions.

3. Upon review of all available information, NAIC staff has reached the conclusion that the above listed jurisdictions continue to meet the criteria to be included on the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation,* and further recommend that they retain their status on this List.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

**MEMORANDUM**

To: Ben Slutsker (MN), Chair of the Life Risk-Based Capital (E) Working Group

From: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

Date: October 26, 2026

Re: Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions

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At the Summer National Meeting in Columbus, Ohio, the Financial Condition (E) Committee approved a referral to the Life Risk-Based Capital (E) Working Group directing the working group to take immediate action on issues of concern relating to reinsurance recapture and counterparty risk. That referral was in response to the significant increase in cross-jurisdictional reinsurance activity and the impact on numerous states with domestic companies that have been parties to those reinsurance transactions. This memorandum is specific to the issue of reinsurance recapture risk for cessions to non-reciprocal jurisdictions.

As a reminder, earlier this year, the Valuation Analysis (E) Working Group (VAWG) conducted an analysis of the initial filings required by Actuarial Guideline *LV—Application of the Valuation Manual for Testing the Adequacy of Reserves Related to Certain Life Reinsurance Treaties* (AG 55). From that analysis, a material number of reinsurance transactions were flagged as raising regulatory concerns which require immediate action by U.S. insurance regulators to ensure adequate policyholder protection.

The following information is being provided in response to comments and questions that have been received by the Life Risk-Based Capital (E) Working Group relating to this recent referral. Specifically, this memorandum provides additional explanation of the identified risks associated with the increase in reinsurance ceded to non-reciprocal jurisdictions and how regulators are focused on mitigating those risks. It should be noted that the AG 55 filings contain company-specific, confidential information which limits the amount of detailed information that can be shared resulting from the VAWG analysis.

Most significantly, VAWG's analysis of the AG 55 filings found that approximately 70% of life insurers ceding to non-reciprocal jurisdictions have portfolios of comparatively riskier assets supporting very generous annuity guarantees that raise significant concerns about the ability to pay future claims under reasonable economic scenarios. Furthermore, the reserves and capital supporting these annuity liabilities may fall below the newly adopted VM-22 annuity reserve standards, as well as U.S. Risk-Based Capital standards. There also continues to be notable growth in both the number of companies pursuing similar business strategies, as well as expansion in the size of existing companies through rapid annuity sales growth backed by higher-risk assets.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

The referral to the Life Risk-Based Capital (E) Working Group was predicated upon four general matters from VAWG's analysis of the AG 55 filings, as follows:

1. The potential insufficiency of reserves maintained by the assuming reinsurer to satisfy claims arising under moderately adverse conditions;
2. The potential insufficiency of excess capital to absorb claims arising under conditions more severe than those characterized as moderately adverse;
3. Questions regarding the risk profile of assets supporting the applicable reserve obligations; and
4. Potential high-risk business practices of life insurers participating in transactions involving non-reciprocal jurisdictions.

With respect to matters #1 and #2, in evaluating AG 55 filings, certain transactions generally demonstrate a greater reliance on comparatively optimistic asset-return assumptions to meet capital adequacy requirements.

With respect to matter #3, life insurers participating in certain reinsurance transactions with non-reciprocal jurisdictions have generally pursued more aggressive asset strategies than insurers participating in comparable transactions that do not involve non-reciprocal jurisdictions, based on the review of the AG 55 filings.

With respect to matter #4, certain reinsurance transactions with non-reciprocal jurisdictions involve a significant percentage of life insurers that are newer market entrants or experiencing rapid growth. These insurers tend to pursue more aggressive asset strategies and assume significant liability risk, principally through the issuance of certain annuity products offering credited rates that are comparatively higher than the rest of the industry.

These findings warrant heightened concern, as comparatively generous annuity guarantees backed by higher risk assets have historically contributed to heightened financial distress for insurers. The increased availability of non-reciprocal jurisdiction reinsurance transactions may facilitate these higher-risk business strategies by enabling the issuance of products containing comparatively generous guarantees.

The concerns raised through the AG 55 observations regarding transactions involving non-reciprocal jurisdictions have been further heightened by the experiences of state regulators that have been able to gain insight into them. Among these is a concern about the use of capital and reserving practices in non-reciprocal jurisdictions that combine concepts from incompatible accounting, reserving and capital frameworks, which results in a regulatory framework that lacks coherence.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

The magnitude of the observations described in this memo constitutes a serious and urgent solvency concern that requires immediate, direct action. As a result, the Committee has directed, as confirmed by this memo, that the Working Group implement an RBC requirement that approximates the amount of capital that would be required if a ceding company had to recapture reserves ceded to non-reciprocal jurisdictions. For clarity, **this is to be done without regard to the probability of recapture**.

Thank you for the work already put into accomplishing this referral on the requested timeline. Should any further clarification be needed, please contact Dan Daveline (ddaveline@naic.org).

COMMONWEALTH OF VIRGINIA

**SCOTT A. WHITE**
**COMMISSIONER OF INSURANCE**
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November 12, 2026

The Honorable Nathan Houdek
Wisconsin Office of the Commissioner of Insurance
101 East Wilson Street
Madison, WI 53703

Re: Comments on the *Exposure of the Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions Memo to the Life RBC Working Group*

Dear Commissioner Houdek,

The Virginia Bureau of Insurance ("Bureau") appreciates the opportunity to offer its comments on the exposed October 26th memo from the Financial Condition (E) Committee to the Life Risk-Based Capital (E) Working Group on developing a reinsurance recapture risk charge for non-reciprocal jurisdictions within the risk-based capital ("RBC") framework. As indicated by the Bureau's "Yes" vote on the referral at the Summer National Meeting in Columbus, the Bureau continues its support of the referral from the Committee to the Life RBC Working Group to address an issue of paramount importance.

The Bureau agrees with the actuarial and financial analysis that supports the need for the Committee to undertake this work. As discussed in the October 26th memo, the Committee stated that analysis from the Valuation Analysis (E) Working Group ("VAWG") "of the AG 55 filings found that approximately 70% of life insurers ceding to non-reciprocal jurisdictions have portfolios of comparatively riskier assets supporting very generous annuity guarantees that raise significant concerns about the ability to pay future claims under" moderately adverse conditions. The results of the AG 55 filings paired with the continued growth in the (i) number of life insurers pursuing business strategies to leverage capital arbitrage with non-reciprocal jurisdictions and (ii) the size of existing companies expanding annuity sales backed by higher-risk assets relying on comparatively optimistic asset-return assumptions to meet capital adequacy requirements, as noted in the October 26th memo, support moving expeditiously to address potential solvency concerns.

The Bureau also supports the proposed scoping to apply the reinsurance recapture risk charge to non-reciprocal jurisdictions. The July 27th referral letter noted that offshore reinsurance transactions with non-reciprocal jurisdictions "tend to produce larger reductions in total asset requirements than comparable business ceded" offshore to reciprocal jurisdictions. In the October 26th memo, the Committee noted VAWG found that "life insurers participating in certain reinsurance transactions with non-reciprocal jurisdictions have generally pursued more aggressive asset strategies than insurers participating in comparable transactions that do not involve non-reciprocal jurisdictions."

Further, the Bureau finds the Committee's proposed reinsurance recapture risk charge to be an appropriately-tailored mechanism to address the identified concern. Like the comments from the

American Council of Life Insurers, the Bureau has experienced firsthand and agrees that recapture risk is a key risk for ceding companies to consider in reinsuring blocks of business offshore. Therefore, the development of a reinsurance recapture risk charge placed on the U.S. cedent addresses the risk in recapturing the block and is an appropriate mechanism to be developed by the Life RBC Working Group.

The Bureau finds that the proposed reinsurance recapture risk charge and the process leading to the referral to be consistent with the RBC Principles. The referral seeks to assist regulators in identifying potentially weakly capitalized companies by updating the RBC framework to address a risk that could meaningfully impact a regulator's assessment of the solvency risk for an identifiable set of companies. The process is seeking to rely on data-driven methodologies to develop the reinsurance recapture risk charge, and the process has provided for transparent communication on the proposed change – the Committee discussed the referral at its open meeting at the Summer National Meeting in Columbus where the Committee sought public comment on the referral (none was provided) prior to its adoption.

The Bureau supports the substance, scope, mechanism, and process of the Committee's referral to the Life RBC Working Group to develop a reinsurance recapture risk charge for non-reciprocal jurisdictions. The empirical analysis driving development of the charge at the Life RBC Working Group is ongoing. We look forward to continuing to engage with the Committee, the Life RBC Working Group, and interested stakeholders to bring this project to a successful conclusion in a way that enhances U.S. policyholder protection.

Sincerely,
/s/ Dan Bumpus
Deputy Commissioner
Innovative Solutions & Strategies Division




November 12, 2026

Commissioner Nathan Houdek (WI)
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners

Re: Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions Memo

Dear Commissioner Houdek:

On behalf of the American Academy of Actuaries'[1] Reinsurance Work Group (RWG), we appreciate the opportunity to provide comments to the Financial Condition on the Oct. 26, 2026, memorandum (the memorandum) from Commissioner Nathan Houdek, Chair of the Financial Condition (E) Committee (the Committee), to Ben Slutsker, Chair of the Life Risk-Based Capital (E) Working Group (the Working Group). The memorandum explains the basis for the Committee's referral and directs the Working Group to implement an RBC requirement that approximates the capital that would be required if a ceding company had to recapture reserves ceded to non-reciprocal jurisdictions, "without regard to the probability of recapture."

This letter builds on, and is distinct from, the RWG's Sept. 28, 2026, letter to the Working Group on the same referral. That letter responded to the Working Group's exposure draft. Because the Working Group has said it could not change directives from its parent committee, it focused on implementation: It recommended specific approaches (a hybrid or tiered design, or a stress- or scenario-based charge) and raised a range of design and timing questions. The present letter responds to the Committee Chair's memorandum, which explains the basis for the referral itself, and it therefore addresses the premise of the referral.

The scope of the proposed charge also warrants clarification. The approach focuses on the capital shortfall that could follow recapture, without explicitly modeling potential shortfalls in the recovery of assets supporting the ceded reserves. These are distinct concerns and should be evaluated separately. Existing collateral requirements, together with other developments such as AG 55, may address potential reserve recovery shortfalls, but their adequacy for the transactions of concern must be assessed rather than assumed. We recommend that the Committee identify the residual risk that remains after these measures and clarify which component a supplemental RBC charge is intended to address.

The memorandum describes a "serious and urgent solvency concern that requires immediate, direct

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

action." An RBC change cannot be immediate. It requires development, calibration, exposure, adoption, and a filing cycle, and the stated objective is year-end 2027. RBC also works through action levels triggered by a company's ratio, so it is not designed to address a specific transaction promptly.

While a forward-looking approach is necessary to address emerging risks, the historical record also does not point to a widespread, unaddressed failure. Bridgeway Analytics (Bridgeway) identified only five life reinsurance failures over the last 10 years. Four involved alleged or established fraud in which assets were misrepresented, and one involved investment losses during the global financial crisis combined with underpriced reinsurance and adverse insurance experience. Bridgeway identified no policyholder losses directly attributable to reinsurer default. This reinforces the RWG's September 28 observation that forced recapture has been very rare. It also suggests that the drivers in those cases, such as asset misrepresentation, collateral misuse, related-party concentration, and governance and disclosure failures, are better addressed by examination, asset and collateral review, and governance tools than by a uniform capital factor.

Bridgeway's modeling of hypothetical industry-wide recaptures illustrates the consequences of an assumed recapture event; it does not, by itself, establish a risk-sensitive basis for the proposed charge. Such modeling can inform an assessment of severity and contribute to the stress- or scenario-based approach discussed in the RWG's September 28 letter. Measuring the capital shortfall conditional on recapture, however, is not the same as measuring the risk of that shortfall. An approach that translates those consequences into a charge without regard to the probability of recapture does not align with the risk-based principles underlying RBC. The analysis therefore needs a risk-sensitive calibration framework before it can support an appropriately calibrated RBC requirement.

**A supplemental RBC factor, if warranted, should be developed on facts and based on a quantified risk.** The RWG does not rule out that an RBC factor may be needed to supplement the current tools. But the potential for unintended harm from adopting a factor in a rushed fashion, on the schedule now planned, could be significant. It includes reduced reinsurance capacity, higher costs for consumers, restructuring that does not reduce risk, according to Bridgeway, potential insolvencies, and a charge that is miscalibrated and difficult to correct. Any solution should be based on facts, not impressions: observed data on transactions, resources, and shortfalls. It should also be risk-based, like other RBC factors, reflecting the likelihood and severity of loss and the characteristics of each transaction, and not a uniform charge that assumes recapture is certain.

The use of jurisdictional classification to define the charge raises a separate concern. Reciprocal versus non-reciprocal designation principally governs credit for reinsurance and associated collateral requirements, rather than the capital needed to support recaptured business. That capital need depends on the risks and characteristics of the recaptured business, not on jurisdictional designation alone. The purpose of the classification therefore does not, by itself, establish its suitability as a measure of the risk the proposed charge seeks to address. Any supplemental requirement should be tied to the underlying risk, with non-reciprocal status used as a proxy only if the analysis demonstrates a meaningful relationship to that risk.

Domiciliary regulators already have the authority to act promptly on issues of concern through targeted supervisory tools, including:

- examinations and financial surveillance of the specific companies and treaties of concern;
- hazardous financial condition authority under state law;
- AG 55 and asset adequacy analysis follow-up on the transactions flagged by VAWG; and
- company-specific requirements, such as conditions on treaty approvals, collateral or other protections, and enhanced reporting.

If the concern requires immediate action, these tools are the natural primary response, because they can reach the affected transactions now and be tailored to each. Their availability does not establish that they eliminate all residual risk; their effectiveness and any remaining exposure must be assessed. RBC may still have a role as a longer-term structural backstop, giving a consistent formulaic signal once the nature, size, and calibration of the residual risk are understood. Immediate supervisory action and development of that backstop are complementary, not alternatives. RBC should not be the primary response to an urgent solvency concern, and the timing of the RBC work should not be taken as a substitute for supervisory action in the interim.

The RWG appreciates the E Committee's and the Life RBC Working Group's attention to a significant policyholder protection issue. Any approach will involve trade-offs between simplicity and risk sensitivity, and between speed and thorough analysis. We ask the Committee to reconsider the premise and scope of the referral and to encourage domiciliary regulators to use their existing supervisory tools promptly to address urgent issues. Any potential RBC solution should adopt a forward-looking approach that distinguishes capital needs following recapture from reserve-recovery shortfalls, reflects the likelihood and severity of residual loss under future stress scenarios, and uses jurisdictional classification only to the extent it is supported as an indicator of the risk being measured. A clear statement of intended consequences, calibration, and impact testing, and phased implementation would provide a stronger basis for evaluating and implementing any approach. Academy members would be pleased to assist the Committee and the Working Group, including through discussion of options for calibration, measurement, and impact testing.

We appreciate the opportunity to share these comments and look forward to the continued collaborative conversations between the E Committee and interested stakeholders. If you have any questions or would like to discuss these comments further, please contact Will Behnke, the Academy's policy project manager, risk management and financial reporting (behnke@actuary.org).

Sincerely,

Jeremy Starr, MAAA, FSA
Chairperson, Reinsurance Working Group
Risk Management and Financial Reporting Council

CAYMAN INTERNATIONAL REINSURANCE COMPANIES ASSOCIATION

**November 12, 2026**

**Commissioner Nathan Houdek**
**Chair, Financial Condition (E) Committee**
**National Association of Insurance Commissioners**
**1100 Walnut Street, Suite 1000**
**Kansas City, MO 64106-2197**

**Re: Comments on the "Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions Memo to the Life RBC WG" Exposure**

**Dear Commissioner Houdek:**

The Cayman International Reinsurance Companies Association (CIRCA) writes regarding the Financial Condition (E) Committee's (the Committee) exposure of the October 26, 2026 memorandum directing the Life Risk-Based Capital (E) Working Group (the "Life RBC WG" or the "Working Group") to implement a risk-based capital requirement addressing reinsurance recapture risk for non-reciprocal jurisdictions.

CIRCA is the industry group for commercial reinsurers located in the Cayman Islands, dedicated to fostering the industry through peer interaction, advocacy and education on topics impacting the regulatory and business environment. We welcome the opportunity to constructively comment on the memorandum's contents, including, specifically, the cited rationale for developing a reinsurance recapture risk charge.

CIRCA respectfully asks the Committee to reconsider the prescribed reinsurance recapture risk charge (the "Recapture Charge"). The charge was directed before the policy question, or the supervisory analysis supporting it, was available for meaningful public scrutiny, and it disregards the probability of recapture. The risks the October 26 memorandum describes (asset quality, valuation, reserves and cedent conduct) stem from individual companies and transactions, not from where a reinsurer is domiciled. The charge also overlooks that regulators can already address these risks through existing collateral requirements, regulatory disclosure and supervisory intervention powers. As detailed below, CIRCA asks the Committee to revise its directive so that the Life RBC WG can determine independently whether any additional charge is warranted at all, including the possibility that none is necessary. Any requirement should weigh likelihood and severity and apply consistently to comparable risks regardless of domicile.

**A. Principal Concerns and Requests**

**1. GOVERNANCE**

Sound governance and deliberative, evidence-based decision-making have long been hallmarks of effective State-based insurance regulation and are fundamental to the NAIC. It is in that spirit that CIRCA shares its observations on the process followed to date, and it welcomes the opportunity to contribute to a deliberative, evidence-based review.

The October 26 memorandum confirms a directive to implement a Recapture Charge and expressly excludes consideration of recapture probability. While its exposure is welcome, the policy question it settles, whether

additional capital is warranted at all, has not itself been opened for comment, and the supporting supervisory analysis has not been made available in a form permitting meaningful public scrutiny. The Life RBC WG's work has accordingly focused on implementation rather than on whether the remedy is necessary. Where state RBC laws incorporate NAIC RBC instructions by reference, meaningful exposure at the NAIC level is particularly important.

The Committee's August 14 authorization of the referral is also an important part of the record. CIRCA does not suggest that authorization was absent or that a procedural violation occurred. Rather, the publicly available materials do not clearly trace the recommendation for this particular capital remedy from the underlying supervisory findings. CIRCA requests a dated explanation of the evidence that was available when the direction was approved and which substantive questions remain open for reconsideration.

In their letters to the Committee and the Life RBC WG, CIRCA, the American Academy of Actuaries, ACLI, RAA and individual companies raised substantive concerns regarding the likelihood of recapture, collateralization and counterparty financial strength. CIRCA respectfully requests that the Life RBC WG consider these concerns in deciding whether an additional charge is warranted at all, not merely how to implement a Recapture Charge.

Also, the proposal should be evaluated within the NAIC's broader RBC Model Governance framework, including its materiality and prioritization criteria.

In that regard, CIRCA notes the November 16 memorandum proposed by Commissioner Jon Godfread, Chair of the RBC Model Governance (EX) Task Force, recommending an Executive (EX) Committee review of how material financial policy decisions are developed and advanced through the NAIC committee structure.[1] The proposed review would examine whether commissioners receive the underlying evidence, reasonable alternatives and potential effects before substantive policy decisions are settled; whether policy determinations are appropriately distinguished from technical implementation; and whether stakeholder input meaningfully informs those decisions. These are precisely the governance considerations implicated by the referral and the October 26 memorandum. CIRCA respectfully encourages the Committee to apply these principles to the present initiative and reconsider its directive before the underlying policy determination becomes effectively irreversible.

Given the potential effects on solvency assessment, existing treaties, reinsurance capacity and annuity markets, CIRCA suggests that a commissioner-level policy checkpoint should be considered before final calibration. The Committee should identify how the RBC Model Governance (EX) Task Force and other relevant NAIC groups will coordinate without displacing the Life RBC WG's technical responsibilities, and specify how material policy objections may be elevated to the Committee for a reasoned decision.

**Request:** Revise the directive confirmed in the October 26 memorandum to permit the Life RBC WG to independently determine whether any additional RBC charge is warranted, evaluate alternatives to achieve the desired outcome, and expressly preserve the possibility that no additional charge may be necessary. Expose any material revision to the directive for comment before adoption.

[1] Commissioner Jon Godfread, Chair of the Risk-Based Capital Model Governance (EX) Task Force, memorandum to the Executive (EX) Committee, "Proposed Review of Governance for Material Financial Policy Initiatives," November 16, 2026, included as a draft for Task Force consideration in the Task Force's November 16, 2026 meeting materials (Attachment Four).

## 2. TRANSPARENCY OF ANALYSIS

Regulatory intervention must be supported by evidence that can withstand independent scrutiny. While CIRCA acknowledges the supervisory concerns arising from AG 55 reviews, the NAIC has not yet publicly demonstrated the nature, scale or distribution of any material residual capital deficiency after existing reserving, collateral, capital and supervisory safeguards.

The assertion made in the October 26 memorandum that approximately 70% of insurers ceding to non-reciprocal jurisdictions hold comparatively riskier assets raises fundamental questions regarding the population examined, proportion of reserves and transactions affected, definition of comparatively riskier assets and relevant comparison with reciprocal jurisdictions. Presenting a ratio of ceding insurers alone does not establish the materiality of the underlying exposures or demonstrate a capital deficiency.

Confidentiality of individual AG 55 filings need not prevent meaningful disclosure of material risks. Aggregated findings, anonymized examples and transparent assumptions would enable independent assessment without compromising confidential information. The upcoming year-end 2026 AG 55 reporting process will provide relevant evidence: the reserves held by the assuming company, any overcollateralization and dedicated excess capital, the quality of assets supporting the reserves, and the estimated effect of each transaction on the ceding company's RBC ratio.

Bridgeway Analytics' October 26 presentation is reference material for the forthcoming recapture proposal. At its October 28 meeting, the Life RBC WG said it would not adopt or separately expose the presentation, and that the forthcoming exposure would be the primary opportunity for related comments.[2] In the interest of sound governance and transparency, Bridgeway's analysis should be open to formal comment by all stakeholders. So that CIRCA's views are part of the record now, its comments on the October 26 presentation are attached as Appendix 1.

**Request: (1)** Publish aggregated, anonymized evidence identifying the number and significance of transactions of concern, the nature and magnitude of any capital deficiencies, relevant comparative data across jurisdictions and the assumptions supporting the severity of the risk that necessitates the proposed regulatory response and jurisdictional differentiation. (2) Collate and analyze the year-end 2026 AG 55 reports, including estimated RBC impacts, and publish the same aggregated, anonymized evidence before any decision on a charge. (3) Publish the data and calculations needed to test Bridgeway Analytics' October 26 presentation and November 5 memorandum to the Committee independently.[3] (4) Formally expose Bridgeway Analytics' analysis for comment by all stakeholders.

The supporting analysis should also distinguish gross exposures from demonstrated capital shortfalls, identify the relevant cohort and comparison population, and describe residual risk after legally available collateral and other safeguards. CIRCA recognizes that confidential supervisory material may support the Committee's concerns; the absence of detail in the public record does not establish that such analysis was not performed. An

[2] Life Risk-Based Capital (E) Working Group, draft minutes of its October 28, 2026 meeting, included in its November 15, 2026 meeting materials (Attachment A).

[3] Bridgeway Analytics, "Reinsurance: An Assessment of Practices and Trends Using Publicly Available Data," October 26, 2026, presented to the Life Risk-Based Capital (E) Working Group on October 28, 2026; Bridgeway Analytics, "Addressing Recapture Risk with Reinsurers from Non-Reciprocal Jurisdictions," memorandum to the Financial Condition (E) Committee, November 5, 2026, included in the Life Risk-Based Capital (E) Working Group's November 15, 2026 meeting materials (Attachment G).

aggregate evidence summary would nonetheless make the rationale more transparent and independently assessable.

**3. INSURER RISK, NOT JURISDICTION**

The October 26 memorandum identifies concerns relating to reserve adequacy, capital sufficiency, asset quality, valuation, governance and business practices. These are risks associated with individual companies and transactions rather than jurisdiction alone. A capital charge determined principally by the reinsurer's domicile risks treating materially different exposures alike while overlooking comparable risks in other jurisdictions. AG 55 reviews have already identified transactions of supervisory concern; a broad jurisdiction-based charge would extend beyond these transactions without differentiating their underlying risks.

An appropriate risk-based capital framework should consider both the likelihood and severity of recapture. While RBC can legitimately reflect severe tail events and need not represent probability-weighted expected losses, categorically excluding recapture likelihood is a consequential actuarial judgment requiring objective justification. Recapture likelihood should be assessed using reinsurer financial strength, credit ratings, stress testing and other relevant indicators of default risk, while recognizing differences in asset quality, treaty structure, collateral and other existing safeguards. These technical judgments should emerge from an independent actuarial assessment rather than being predetermined by the parent committee. As CIRCA noted in its September 23 letter to the Life RBC WG, stress and cash-flow testing can identify transactions with a material risk of collateral deficiency and recapture under stress, and the NAIC already has relevant tools available, including AG 55, financial strength ratings and other financial analyses, and the existing 0.78% counterparty risk charge on uncollateralized ceded balances. Counterparty risk should be assessed through these tools, and any Recapture Charge should account for the existing counterparty charge.

Bridgeway Analytics' October 26 presentation to the Life RBC WG indicates that more than 99% of non-reciprocal transactions in 2025 involved the Cayman Islands and Barbados, which represent only 4.75% of ceded life and annuity reserves.[4] A charge keyed to domicile would therefore operate, in effect, as a judgment on the regulatory frameworks of these two jurisdictions. The adequacy of jurisdictional regulatory frameworks should be assessed through the NAIC's established jurisdictional evaluation processes rather than implicitly determined through a capital charge.

**Request:** Permit the Life RBC WG to independently assess recapture likelihood alongside severity and determine the appropriate actuarial treatment. Any additional capital requirement should reflect demonstrable company-specific and transaction-level risks, recognize existing safeguards and apply consistently to comparable exposures irrespective of reinsurer domicile, while respecting established jurisdictional assessment processes.

Before final adoption, CIRCA also requests company-level and aggregate impact testing, including sensitivity to collateral usability, treaty structures, recapture scenarios, interaction with existing reserve and RBC requirements, and the treatment of in-force business. The Committee should explain the rationale for any transition period and establish a review point for assumptions that remain uncertain.

[4] Bridgeway Analytics, "Reinsurance: An Assessment of Practices and Trends Using Publicly Available Data," October 26, 2026, presented to the Life Risk-Based Capital (E) Working Group on October 28, 2026, slides 9, 15 and 16; 4.75% = $135.3 billion ÷ $2,848.1 billion.

**4. URGENCY AND EXISTING ENFORCEMENT POWERS**

The October 26 memorandum characterizes the identified concerns as serious and urgent, yet the proposed Recapture Charge would not take effect until year-end 2027, and so would not address the urgent concerns about specific insurers or transactions.

Concerns regarding asset quality, reserve adequacy, optimistic investment assumptions, aggressive crediting rates and rapid business growth are identifiable risks that domestic regulators already possess substantial examination, supervisory and enforcement powers to address. These include, where applicable under state law, corrective orders under the Hazardous Financial Condition Model Regulation (#385), including orders to increase capital and surplus; prior-notice review of affiliated reinsurance under the Insurance Holding Company System Regulatory Act (#440); additional reserves where asset adequacy analysis shows a deficiency, under the Standard Valuation Law and VM-30; and targeted examinations at any time. Where specific transactions or cedants present immediate solvency concerns, regulators should investigate and intervene now. State regulators can collaborate with the Cayman Islands Monetary Authority under existing memoranda of understanding to address concerns relating to ceded transactions, which would serve both jurisdictions and ultimately the policyholders.

Targeted supervisory intervention and broader capital requirements are not mutually exclusive and should be considered concurrently where warranted. However, the existence of supervisory concerns does not, by itself, establish that an additional industry-wide capital charge is necessary. The NAIC should demonstrate what material residual risk remains after existing regulatory safeguards and what incremental policyholder protection the proposed charge would provide.

**Request:** Investigate and address identified transactions and cedants of concern immediately through existing supervisory and enforcement powers. Concurrently, independently assess the necessity of any additional RBC requirement and demonstrate the incremental protection it would provide beyond existing regulatory requirements and supervisory measures.

Where immediate supervisory concerns have been identified, CIRCA supports prompt use of existing regulatory tools while the broader policy question is evaluated. Any accelerated development schedule should be accompanied by a clear explanation of the evidence, alternatives, unresolved assumptions and subsequent review process.

**B. Detailed Responses to the October 26 Memorandum**

The concerns raised in the October 26 memorandum fall into five themes. For each theme, the table below quotes the memorandum, with page references, sets out CIRCA's response, and identifies the corresponding concerns and requests in Section A. The risks the memorandum describes relate to assets, valuation, reserves and cedent conduct. None of them is a measure of the reinsurer's jurisdiction, and a charge keyed to jurisdiction needs a clearer link to those risks than the memorandum provides.

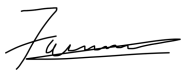
| What the memorandum says | CIRCA response | Related Concerns and Requests (Section A) |
|---|---|---|
| **The evidence and its limits** | | |
| *"a material number of reinsurance transactions were flagged as raising regulatory concerns which require immediate action by U.S. insurance regulators"* (p. 1)<br>*"the AG 55 filings contain company-specific, confidential information which limits the amount of detailed information that can be shared"* (p. 1)<br>*"approximately 70% of life insurers ceding to non-reciprocal jurisdictions have portfolios of comparatively riskier assets supporting very generous annuity guarantees"* (p. 1) | • "A material number" and "approximately 70%" are the only measures given. The 70% counts cedents, not reserves or transactions; it has no comparison group and does not define "riskier."<br>• AG 55 covers only in-scope treaties, and the memorandum does not state the population size or the number of transactions flagged.<br>• Confidentiality does not preclude meaningful disclosure of aggregated, anonymized findings that protect company-specific information while allowing independent scrutiny. | 2. Transparency of Analysis |
| **Reserves, capital and assets** | | |
| *"the reserves and capital supporting these annuity liabilities may fall below the newly adopted VM-22 annuity reserve standards, as well as U.S. Risk-Based Capital standards"* (p. 1)<br>Matters #1 to #3: *"The potential insufficiency of reserves maintained by the assuming reinsurer … The potential insufficiency of excess capital … Questions regarding the risk profile of assets supporting the applicable reserve obligations"* (p. 2)<br>*"certain transactions generally demonstrate a greater reliance on comparatively optimistic asset-return assumptions to meet capital adequacy requirements"* (p. 2)<br>*"life insurers participating in certain reinsurance transactions with non-reciprocal jurisdictions have generally pursued more aggressive asset strategies"* (p. 2) | • Each finding is framed as a possibility ("may," "potential," "questions regarding"), not a demonstrated deficiency.<br>• The memorandum measures reserves against VM-22, which is optional from January 1, 2026 and mandatory only for business issued from January 1, 2029. Reinsured business is being held to a standard U.S. insurers' own annuity reserves need not yet meet.<br>• Reserve adequacy and return assumptions are valuation questions that AG 55 already targets: the year-end 2026 guidance covers high-yield default assumptions, reliance on high returns and dedicated excess capital. A broader industry-wide capital charge is not a targeted remedy, as it treats all treaties and reinsurers alike, regardless of their underlying risk profiles.<br>• According to Model #785 and #786, the U.S. cedant transacting with an unauthorized reinsurer can take reserve credit only to the extent collateral is held. Reinsurers in the Cayman Islands collateralize at 100% or more of the U.S. statutory reserve level. That collateral is primarily funds-withheld or modified coinsurance, so the assets remain on the cedant's balance sheet. Investment guidelines are agreed with the cedant and | 3. Insurer Risk, Not Jurisdiction<br>4. Urgency and Existing Enforcement Powers |

| What the memorandum says | CIRCA response | Related Concerns and Requests (Section A) |
|---|---|---|
| | comply with the cedant's guidelines approved by the domestic state regulator.<br>• Asset risk varies by portfolio, not domicile: a jurisdiction-based charge treats a Treasury-backed treaty and a Level 3-heavy treaty alike. | |
| **Growth, business practices and distress** | | |
| *"the significant increase in cross-jurisdictional reinsurance activity"* (p. 1)<br>*"notable growth in both the number of companies pursuing similar business strategies, as well as expansion in the size of existing companies through rapid annuity sales growth backed by higher-risk assets"* (p. 1)<br>Matter #4: *"Potential high-risk business practices of life insurers participating in transactions involving non-reciprocal jurisdictions"; "newer market entrants or experiencing rapid growth"* (p. 2)<br>*"comparatively generous annuity guarantees backed by higher risk assets have historically contributed to heightened financial distress for insurers"* (p. 2) | • Growth warrants monitoring, not capital. Bridgeway's October 26 presentation puts non-reciprocal life reserve credit and ModCo at $135.3 billion of $2,848.1 billion (4.75%) in 2025,[5] and shows cedent concentration rising across all jurisdictions.[6]<br>• Product design, crediting rates and growth are cedent conduct, supervised directly through product review, ORSA, examinations and Model #285 disclosure. A jurisdiction-based charge hits well-run cedents equally and misses the same strategy run through a reciprocal-jurisdiction reinsurer or an onshore captive.<br>• Bridgeway found five life reinsurer failures in ten years, four involving alleged or established fraud. Some cedents incurred realized losses, faced liquidity constraints and required additional capital, but Bridgeway identified no policyholder losses directly attributable to reinsurer default.[7] Bridgeway stated on October 28 that the cases came from both reciprocal and non-reciprocal jurisdictions.[8] Neither the memorandum nor Bridgeway's presentation to the Life RBC WG showed that jurisdiction predicted any of them. | 3. Insurer Risk, Not Jurisdiction<br>4. Urgency and Existing Enforcement Powers |
| **Jurisdiction as the trigger** | | |
| *"The increased availability of non-reciprocal jurisdiction reinsurance transactions may facilitate these* | • "May facilitate" is a hypothesis, not a finding. The risks identified (assets, valuation, reserves and business practices) are not a function of | 3. Insurer Risk, Not Jurisdiction |

[5] Bridgeway Analytics, "Reinsurance: An Assessment of Practices and Trends Using Publicly Available Data," October 26, 2026, presented to the Life Risk-Based Capital (E) Working Group on October 28, 2026, slides 15 and 16.
[6] Bridgeway Analytics, "Reinsurance: An Assessment of Practices and Trends Using Publicly Available Data," October 26, 2026, presented to the Life Risk-Based Capital (E) Working Group on October 28, 2026, slide 16.
[7] Bridgeway Analytics, October 26, 2026 presentation to the Life Risk-Based Capital (E) Working Group, slide 8.
[8] Life Risk-Based Capital (E) Working Group, draft minutes of its October 28, 2026 meeting, included in its November 15, 2026 meeting materials (Attachment A).

| What the memorandum says | CIRCA response | Related Concerns and Requests (Section A) |
|---|---|---|
| *higher-risk business strategies"* (p. 2)<br>*"capital and reserving practices in non-reciprocal jurisdictions that combine concepts from incompatible accounting, reserving and capital frameworks, which results in a regulatory framework that lacks coherence"* (p. 2) | geography; the NAIC should explain why jurisdiction is an appropriate proxy for them.<br>• The memorandum names no jurisdiction and offers no evidence. Where supervisory shortcomings are demonstrated, they should be identified and addressed directly rather than presumed to justify an indiscriminate jurisdictional capital charge. Coherence is tested by examining transactions and reinsurers individually, not an aggregate view of the jurisdiction. | |
| **Urgency and the directive** | | |
| *"a serious and urgent solvency concern that requires immediate, direct action"* (p. 3)<br>*"the Working Group implement an RBC requirement that approximates the amount of capital that would be required if a ceding company had to recapture reserves ceded to non-reciprocal jurisdictions"* (p. 3)<br>*"For clarity, this is to be done without regard to the probability of recapture."* (p. 3) | • The concern is called urgent, yet the charge would not take effect until year-end 2027. Regulators can act on flagged transactions now, and the memorandum does not say what incremental protection a charge would add.<br>• RBC can legitimately reflect severe tail events, and not every RBC factor is a probability-weighted expected loss. But removing likelihood from the technical analysis altogether is a consequential actuarial judgment that the memorandum does not justify, and it belongs to the technical process.<br>• The memorandum's direction does not mention collateral or overcollateralization. The Life RBC WG's draft Proposal 2026-17-L recognizes permitted collateral and overcollateralization, subject to limits. The Committee should confirm that the directive permits this. | 1. Governance<br>3. Insurer Risk, Not Jurisdiction<br>4. Urgency and Existing Enforcement Powers |

Respectfully submitted,



Faramarz Romer
Chair
Cayman International Reinsurance Companies Association

**APPENDIX 1 – CIRCA COMMENTS ON BRIDGEWAY ANALYTICS' OCTOBER 26 PRESENTATION**

# Comment Letter: Bridgeway Recapture Analysis

November 12, 2026

Ben Slutsker, Chair
Philip Barlow, Vice Chair
Life Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners

Via email: Kazeem Okosun and Maggie Chang, NAIC staff

**Re: Bridgeway Analytics presentation, "Reinsurance: An Assessment of Practices and Trends Using Publicly Available Data" (Agenda Item 2, Attachment 2), Life Risk-Based Capital (E) Working Group virtual meeting, October 28, 2026**

Dear Chair Slutsker and Vice Chair Barlow:

CIRCA offers these comments on the Bridgeway Analytics presentation because it is being used as reference material for the forthcoming proposal on a non-reciprocal jurisdiction recapture charge (item L10 of the Working Group's proposed 2027 working agenda, Attachment 1). At the October 28 meeting, the Working Group said it would not separately expose the presentation and that the forthcoming exposure would be the primary opportunity for related comments. We are submitting our comments now so that they are on the record before the presentation is relied on further, and we ask that the Working Group expose Bridgeway's analysis for formal comment by all stakeholders. We welcome the presentation's distinction between counterparty credit risk and recapitalization risk, and we agree with Bridgeway that public data cannot by itself establish the quality of assets supporting a given treaty.

Read closely, Bridgeway's own exhibits do not support jurisdictional status as a proxy for recapture risk, and Bridgeway was careful not to suggest that they do. On collateral coverage and counterparty concentration, the non-reciprocal segment compares favorably with the rest of the market. Taken together, however, the points we identify could leave readers with an unbalanced view of non-reciprocal business. Most are straightforward to correct, and we offer these comments to help Bridgeway and the Working Group do so.

We separate three kinds of issue: errors in the underlying logic, data or arithmetic (Part A), data the presentation does not provide (Part B), and conclusions the data do not support (Part C). The table below classifies each point. Supporting calculations, each traceable to a specific slide, are in Appendix A.

## Summary of errors

We identify 16 issues in the presentation: 7 errors in data or arithmetic, 2 gaps in the data, and 7 conclusions the data do not support.

| Slide | Bridgeway's statement | Error/Comment | Finding |
|---|---|---|---|
| 5 | "70% coinsurance" | Retained RBC computed on a 58% cession (70 ÷ 120) rather than the 70% cession. RBC also does not scale exactly in proportion to the cession (covariance, C-0 and C-4), which the example does not consider. | Data error |

| Slide | Bridgeway's statement | Error/Comment | Finding |
|---|---|---|---|
| 6 | 400% restored "after 79.44 of new capital" | Own footnote: 70 returns from the trust; new capital is 9.44. | Data error |
| 4, 13 | Alien subsidiaries: 0% RBC with TAC exclusion (4); "100% RBC charge" (13) | Two different mechanisms with different ratio effects | Data error |
| 10 | Rated reciprocal reserve credit is generally collateralized | Own chart: AA- tier $141B exposure vs $109B collateral | Data error |
| 14 | Reciprocal reserve credit is generally fully collateralized | Own chart: $1,201B exposure vs $1,048B collateral (87%); no bucket fully covered | Data error |
| 15 | 75–100% bucket: $3.2B exposure, $0.4B collateral | Conflicts with full collateralization on Slide 9 | Data error |
| 9, 15 | 2025 non-reciprocal total | About $143B on Slide 9; $135.3B on Slide 15 | Data error |
| 8 | Five failures reviewed | Cases, domiciles and reciprocal status not disclosed | Missing data |
| 12 | Level 3 valuation risk in reinsurance | Bridgeway states the assets cannot be identified | Missing data |
| 17 | Non-reciprocal grew ~100% in five years | Base is the 2020 low; 2015–2025 growth 134% vs market 165%; share fell 5.4% to 4.75%. | Unsupported conclusion |
| 17 | Concentration is a relatively new non-reciprocal phenomenon | Non-reciprocal 26% vs reciprocal 65% and market 51%; Slide 16 says all jurisdictions; only non-reciprocal gets a 10-year drill-down. | Unsupported conclusion |
| 9–17 | Non-reciprocal jurisdiction as a marker of recapture risk | Best-collateralized segment: 104% vs 65% for all others. | Unsupported conclusion |
| 8 | Failure cases support a jurisdiction-based charge | Bridgeway's five cases came from both reciprocal and non-reciprocal jurisdictions; four involved alleged or established fraud. | Unsupported conclusion |
| 12 | Level 3 risk bears on non-reciprocal reinsurance | Most collateral is funds withheld or modco on the cedent's books. | Unsupported conclusion |
| 6 | Recapitalization of 9.44 | Assumes a 400% target, certain recapture and no alternative to recapitalization; with no losses the cedent stays at about 211%. | Unsupported conclusion |
| 10 | Non-Reciprocal transactions are rarely publicly rated, whether captive, affiliate, or unaffiliated | We question the implied conclusion that rating should not matter. Those who are well-rated should benefit from such a rating. The ratings | Unsupported conclusion |

| Slide | Bridgeway's statement | Error/Comment | Finding |
|---|---|---|---|
| | | data date from 2024; current ratings may show a higher rated share. | |

## Part A: Errors in the data and arithmetic

We recognize the presentation was prepared to an ambitious timeline. Because it may inform a capital charge, its figures need to agree with one another, and in several places they do not. The errors below are not generally matters of interpretation; each can be verified against the slide cited. Several sit in the stylized example, which is the only quantitative illustration of the recapitalization amount the charge is meant to capture. A few straightforward corrections would make Bridgeway's exhibits a firmer basis for setting capital.

**Stylized example (Slides 5–6).**

1. *The cession is mislabeled.* Slide 5 describes "70% coinsurance" but computes retained RBC on a 58% cession, dividing 70 by 120 (reserves plus surplus). The retained RBC of 2.10 (42% × 5.00) rests on a base the presentation neither states nor justifies. On the 70% base it describes, retained RBC would be about 1.50, although RBC does not scale exactly in proportion to the business ceded, because of the covariance adjustment and components such as C-0 and C-4.
2. *New capital is overstated roughly eightfold.* Slide 6's chart label says the 400% ratio is restored "after 79.44 of new capital." The slide's own footnote shows 70 returns from the trust. New capital is 9.44 plus any losses. A reader relying on the chart, rather than the footnote, would overstate the recapitalization need by a factor of about 8.4.

**RBC treatment (Slides 4 and 13).**

4. *The presentation describes the same treatment two ways.* Slide 4 says alien insurance subsidiaries carry a 0% RBC charge with carrying value excluded from TAC. Slide 13 describes a "100% RBC charge." These mechanisms produce different ratio effects. A presentation addressing the RBC treatment of offshore affiliates should state which one applies.

**Exhibit text and data (Slides 9, 10, 12, 14, 15).**

5. *Slide 10's text contradicts its chart.* The text says rated reciprocal reserve credit is generally collateralized. The chart shows $141 billion of AA- exposure against $109 billion of collateral.
6. *Slide 15 contradicts Slide 9.* Slide 9 states that non-reciprocal reserve credit is fully collateralized. Slide 15 shows $3.2 billion of exposure against $0.4 billion of collateral in the 75–100% bucket. One of the two needs correcting.
7. *The headline total is not reconciled.* Slide 9 shows 2025 non-reciprocal credit of about $143 billion; Slide 15 shows $135.3 billion. The size of the segment under review should not depend on which slide is read.
8. *Slide 14's claim of full collateralization is contradicted by its own chart.* Slide 14 states that reciprocal reserve credit is generally fully collateralized. Its chart shows $1,201 billion of reciprocal exposure against $1,048 billion of collateral in 2025, or 87%. None of the eight concentration buckets is fully collateralized; coverage ranges from 65% to 95% (Appendix A4). The uncollateralized amount, $153 billion, exceeds the entire non-reciprocal segment of $135.3 billion. If the data understate reciprocal collateral because some forms of security are reported only for unauthorized cessions, the statement cannot be verified from these data, and it is certainly not supported by them.

## Part B: Data the presentation does not provide

A capital charge should rest on evidence the Working Group and stakeholders can examine. On the two points most central to the referral, the presentation offers conclusions without the underlying data. Sharing the cases and data behind the exhibits would let all stakeholders test the conclusions.

1. *The failure cases are not identified (Slide 8).* Bridgeway reviewed five life reinsurance failures but did not name them or give each reinsurer's domicile and reciprocal status. Without that detail, readers cannot test whether the failure experience bears on jurisdiction at all. We welcomed Bridgeway's offer on October 28 to discuss the cases, and we recognize its point that details of how such transactions play out are hard to obtain. Because the cases may inform a public standard, we would encourage Bridgeway to share them with the Working Group and all stakeholders.
2. *The Level 3 discussion concerns assets that cannot be located (Slide 12).* Bridgeway states that Level 3 assets supporting reinsurance cannot be identified in public data. The slide therefore documents an industry-wide trend and establishes nothing about non-reciprocal business. Placed in a presentation on that business, it could invite an inference the data cannot support.

## Part C: Conclusions the data do not support

We are grateful to Bridgeway for compiling these data, which are valuable in their own right. In each case below, we accept its figures as presented. Our concern is with some of the conclusions a reader may draw from them. Bridgeway itself cautioned on October 28 that its findings support further assessment but do not establish that any jurisdiction or affiliation category presents a specific risk. We agree, and the exhibits, read on their own terms, point the same way. On Bridgeway's own numbers, the segment singled out for a new charge is the one that needs it least.

**1. Jurisdiction as a marker of recapture risk.** The presentation's data show the non-reciprocal segment is the most fully collateralized part of the life reinsurance market. In 2025, its $135.3 billion of reserve credit and modco was backed by $140.4 billion of collateral, or 104% (Slide 15). Across all other counterparties, coverage was about 65% (Slide 16). Affiliated non-reciprocal cessions were collateralized at 106%, against 60% for affiliated U.S. NAIC filers and 55% for U.S. non-NAIC filers (Slide 13). A charge aimed at the best-secured segment, while leaving the least-secured untouched, cannot be explained by the data presented.

Bridgeway's caveat on unreported collateral limits the comparison with U.S. NAIC-filing reinsurers, which hold their own RBC. It does not apply to U.S. non-NAIC-filing captives ($290 billion of exposure, 58% collateralized, Slide 11) or to reciprocal-jurisdiction affiliates. Those structures carry the same recapitalization exposure illustrated on Slide 6 and fall outside the proposed charge.

We have also identified that comments in slide 10 are not like-for-like. It would be more balanced to recognize that the same comment can be made for non-reciprocal as reciprocal jurisdictions in that “Non-reciprocal transactions that are rated generally have reserve credit collateralized; transactions with no public rating are collateralized.”

**2. Growth.** Slide 17 cites growth of ~100% over five years. That figure takes 2020, the low point of the series, as its base. Over the full decade shown, non-reciprocal business grew 134% while the market grew 165%, and its share of life reserve credit and modco fell from 5.4% to 4.75%. Its share of the market is falling, not rising.

Slide 9 also presents the segment in isolation, on an axis that tops out at $140 billion. Bridgeway's own figures put total life reserve credit and modco at about $2.85 trillion, both in its August 13 presentation to the RBC Model Governance Task Force and on Slide 16 ($2,848.1 billion for 2025). Drawn on that scale, the 2025 non-reciprocal bar would reach under 5% of the chart's height ($135.3 billion ÷ $2,848.1 billion = 4.75%). The

remaining 95% of reserve credit, which is less fully collateralized (Part C.1), does not appear on the slide at all. A chart scaled to the segment, and not to the market, conveys a prominence the data do not support.

**3. Concentration.** Slide 17 presents counterparty concentration as a relatively new feature of non-reciprocal business. Slide 16, in the same presentation, states that the increase occurred across all jurisdictions. Counterparties exceeding 50% of a cedent's reserves accounted for 26% of non-reciprocal exposure in 2025, against 65% for reciprocal exposure and 51% for the market as a whole. Above 100% of cedent reserves, the figures are 50% of reciprocal exposure against 23% of non-reciprocal (Slide 14). The largest single reciprocal bucket, 200–500%, holds $400 billion, about three times the entire non-reciprocal segment. By count, 75 reciprocal relationships exceed 50% of the cedent's reserves, against 22 non-reciprocal. The number of concentrated non-reciprocal relationships fell from about 30 to about 22 over the decade. On Bridgeway's own measure, concentration is a market-wide feature, and the non-reciprocal segment shows less of it than either comparison group. We suggest the summary on Slide 17 be updated to match.

The presentation gives only the non-reciprocal segment a ten-year drill-down (Slide 15); reciprocal concentration appears only blended into the all-market view on Slide 16; a matching ten-year view of reciprocal business would make the comparison clearer. Both segments' figures are also overstated by Bridgeway's method. The numerator includes separate account business while the denominator is general account reserves only, and the above-500% bucket includes cedents whose general account reserves are fully ceded. That affects both segments alike and does not change the comparison.

**4. The failure record.** Bridgeway identified five life reinsurance failures over the last ten years (Slide 8). Four involved alleged or established fraud in which assets were misrepresented; the fifth involved investment losses during the global financial crisis, compounded by underpriced reinsurance and adverse insurance experience. No policyholder losses directly attributable to reinsurer default were identified. Bridgeway cautioned on October 28 that the small sample is evidence of potential failure mechanisms rather than a statistically reliable basis, and said the cases came from both reciprocal and non-reciprocal jurisdictions. The drivers it identifies, such as misrepresented assets, related-party concentration and collateral misuse, are features of individual companies and transactions rather than of their domicile. The cases do not show that failure tracks jurisdiction, and the presentation offers no analysis suggesting it does.

**5. Ratings.** In slide 10, the ratings data date from 2024, the latest available to Bridgeway, and do not reflect the current environment where there is much more value in well-rated companies. An update using current ratings would show whether the rated share of non-reciprocal business has grown since then. Having a strong rating correlates with reduced risk.

**6. Level 3 assets.** Most non-reciprocal collateral takes the form of funds withheld or modco (Slide 9). Those assets sit on the cedent's own balance sheet, under the cedent's auditor and its domestic regulator. The Lehman Brothers (Slide 12) comparison does not advance the argument either: its Level 3 assets were audited, and its failure was a liquidity run at a repo-funded broker-dealer, which has little in common with long-duration insurance liabilities.

One wording change would also help. In Slide 12, the term ‘Outside U.S. (re)insurance’ is set in bold and could be read as referring to reinsurance outside the United States. The example that follows, Lehman Brothers, is not an insurer, and the point has no bearing on reciprocal or non-reciprocal reinsurance.

**7. The recapitalization amount.** The 9.44 on Slide 6 is the new capital the cedent needs to restore its 400% ratio after a recapture. Three assumptions drive it, and none is identified as a choice:

- *The target ratio.* The example restores 400%, which is a management target, not a regulatory requirement. In Bridgeway's own example, a recapture with no losses leaves the cedent's ratio at about

211% (10.56 of capital against RBC of 5.00, both from Slide 6). The 9.44 is the cost of returning to its own target, not of meeting a regulatory minimum.

- *Certainty of recapture.* A factor that restores the full RBC transferred returns the cedent to 5.00, as if it had never ceded. That is equivalent to disallowing RBC credit for the business in scope. RBC can legitimately reflect severe tail events and need not be a probability-weighted expected loss, but C-1 factors for invested assets are calibrated to tail loss experience rather than assuming default. Treating recapture as certain excludes its likelihood altogether. Commenters including the American Academy of Actuaries describe forced life recaptures as historically rare.
- *Recapitalization as the only outcome.* Slide 7 notes that collateral can mitigate both counterparty and recapitalization risk, yet Slides 6 and 7 assume that on recapture the cedent must fund the full reserve and capital requirement itself. They do not consider the options a cedent ordinarily has: re-ceding or novating the block to a replacement reinsurer, drawing on trust assets or letters of credit, relying on assets it already holds under funds withheld or modco, calling on group capital, or claiming against the reinsurer's estate. Where a block can be re-placed, the cedent's cost is the difference in reinsurance terms, not the full recapitalization amount. A charge calibrated as though none of these routes exists will overstate the capital required. Replacement capacity also depends on the breadth of the market. A charge that raises the cost of reinsuring with non-reciprocal counterparties narrows the set of reinsurers able to take on a recaptured block, and so increases the recapitalization risk it is intended to address.

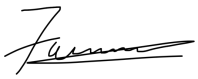
## Requests to the Working Group

Before the draft proposal is exposed, we respectfully ask that the Working Group or Bridgeway:

1. Issue a corrected version of the presentation that addresses the errors and conclusions identified in this letter, with the changes marked, and allow interested parties time to review it before it is relied on in the draft proposal.
2. Identify the five failure cases reviewed, with each reinsurer's domicile, jurisdiction status at the time of failure and collateral structure.
3. Show collateral coverage and counterparty concentration for reciprocal, non-reciprocal and U.S. counterparties on the same basis and scale, so the segments can be compared directly.
4. Post the methodology underlying the exhibits with the exposure materials, not only on request.
5. Expose Bridgeway's analysis for a formal comment period open to all stakeholders.

We share the Working Group's objective of ensuring that RBC reflects the risks returning to a cedent on recapture. We believe that objective is best served by assessing the characteristics of each transaction, namely collateral form and quality, the reinsurer's capitalization, and counterparty concentration, rather than the reinsurer's domicile, including the possibility that no additional charge is warranted. We would welcome the opportunity to discuss these comments with the Working Group and with Bridgeway.

Respectfully submitted,



Faramarz Romer

Chair

Cayman International Reinsurance Companies Association

## Appendix A: Calculations from Bridgeway's exhibits

All inputs are read from the data labels and footnotes of Bridgeway's slides. Values read from chart labels are subject to rounding in the original.

### A1. Collateral coverage by segment

| Segment | Year | Exposure ($B) | Collateral ($B) | Coverage | Slide |
|---|---|---|---|---|---|
| Non-reciprocal | 2025 | 135.3 | 140.4 | 104% | 15 (footnote) |
| All jurisdictions | 2025 | 2,848.1 | 1,911.2 | 67% | 16 (footnote) |
| All except non-reciprocal | 2025 | 2,712.8 | 1,770.8 | 65% | 16 less 15 |
| Reciprocal | 2024 | 1,015 | 900 | 89% | 10 |
| Non-reciprocal | 2024 | 115 | 117 | 102% | 10 |
| U.S. NAIC filers | 2024 | 1,129 | 509 | 45% | 11 |
| U.S. non-NAIC filers | 2024 | 290 | 168 | 58% | 11 |
| Affiliated, non-reciprocal | — | 92.2 | 97.3 | 106% | 13 |
| Affiliated, reciprocal | — | 555.6 | 514.7 | 93% | 13 |
| Affiliated, U.S. NAIC filers | — | 370.0 | 221.2 | 60% | 13 |
| Affiliated, U.S. non-NAIC filers | — | 288.0 | 159.5 | 55% | 13 |

### A2. Share of exposure in relationships above 50% of cedent reserves

Buckets summed: 50–75%, 75–100%, 100–200%, 200–500% and above 500%.

| Segment | Year | Buckets above 50% ($B) | Total ($B) | Share | Slide |
|---|---|---|---|---|---|
| Non-reciprocal | 2015 | 0.2 + 0.7 + 1.0 + 0.0 + 4.3 = 6.2 | 57.7 | 10.7% | 15 |
| Non-reciprocal | 2025 | 0.9 + 3.2 + 17.0 + 2.4 + 11.6 = 35.1 | 135.3 | 25.9% | 15 |
| Reciprocal | 2025 | 74 + 98 + 67 + 400 + 136 = 775 | 1,201 | 64.5% | 14 |
| All jurisdictions | 2015 | 118 + 24 + 119 + 114 + 93 = 468 | 1,075.4 | 43.5% | 16 |
| All jurisdictions | 2025 | 267 + 123 + 225 + 513 + 336 = 1,464 | 2,848.1 | 51.4% | 16 |

Non-reciprocal relationships above 50%, from Slide 15 labels: 2015 = 3 + 4 + 4 + 3 + 16 = 30; 2025 = 2 + 2 + 5 + 2 + 11 = 22.

### A3. Market share and growth

| Measure | 2015 | 2025 | Change |
|---|---|---|---|
| Non-reciprocal exposure ($B) | 57.7 | 135.3 | +134% |

| Measure | 2015 | 2025 | Change |
|---|---|---|---|
| All jurisdictions ($B) | 1,075.4 | 2,848.1 | +165% |
| Non-reciprocal share of total | 5.4% | 4.75% | −0.6 pts |

Slide 9 shows non-reciprocal credit of approximately $62 billion in 2020 and $143 billion in 2025, about +130% from the 2020 low. From 2021 (about $77 billion), growth is about +86%.

**A4. Reciprocal collateral coverage by concentration bucket, 2025 (Slide 14)**

| Bucket (% of cedent reserves) | Exposure ($B) | Collateral ($B) | Coverage | Uncollateralized ($B) |
|---|---|---|---|---|
| 0–10% | 101 | 87 | 86.1% | 14 |
| 10–25% | 180 | 166 | 92.2% | 14 |
| 25–50% | 145 | 116 | 80.0% | 29 |
| 50–75% | 74 | 57 | 77.0% | 17 |
| 75–100% | 98 | 93 | 94.9% | 5 |
| 100–200% | 67 | 63 | 94.0% | 4 |
| 200–500% | 400 | 377 | 94.3% | 23 |
| Above 500% | 136 | 89 | 65.4% | 47 |
| **Total** | **1,201** | **1,048** | **87.3%** | **153** |

For comparison, Slide 10 shows 2024 reciprocal exposure of $1,015 billion against $900 billion of collateral (88.7%, uncollateralized $115 billion). Non-reciprocal exposure in 2025 was $135.3 billion against $140.4 billion of collateral (103.8%).

Sources: actuary.info, Working Group comment grid.

*By email to Dan Daveline (ddaveline@naic.org)*

November 12, 2026

The Honorable Nathan Houdek, Chair
The Honorable Michael T. Caljouw, Vice Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners

**Re: Comments on the Memorandum "Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions" (Oct. 26, 2026) and the Initial Draft Recapture Charge Proposal**

Dear Commissioner Houdek, Commissioner Caljouw and Members of the Committee:

Thank you for the opportunity to comment on the memorandum dated October 26, 2026, from the Financial Condition (E) Committee (the "Committee") to the Life Risk-Based Capital (E) Working Group (the "Working Group") of the National Association of Insurance Commissioners (the "NAIC") concerning reinsurance recapture risk for non-reciprocal jurisdictions (the "Memorandum").[1] I submit these comments on behalf of the Federation of Americans for Consumer Choice ("FACC") and a consortium of U.S. life and annuity insurers that cede business to reinsurers in non-reciprocal jurisdictions, including the Cayman Islands (the "Consortium"). Since the Memorandum was exposed, the Working Group has circulated, for discussion at the Fall National Meeting on November 15 and possible exposure, an initial draft proposal implementing the Memorandum (the "Draft Proposal"), together with an overview memorandum prepared by Bridgeway Analytics (the "Bridgeway Memorandum").[2][3] Because the Draft Proposal shows concretely how the Memorandum's instructions would operate, these comments address both.

[1] Memorandum from the Financial Condition (E) Committee to the Life Risk-Based Capital (E) Working Group, Reinsurance Recapture Risk for Non-Reciprocal Jurisdictions (Oct. 26, 2026), in Financial Condition (E) Committee call materials, https://content.naic.org/sites/default/files/call_materials/e-committee-agenda-materials.pdf.

[2] Bridgeway Analytics, Memorandum to the Financial Condition (E) Committee, Addressing Recapture Risk with Reinsurers from Non-Reciprocal Jurisdictions (Nov. 5, 2026), at 1–3 and Appendices III–IV, with the accompanying draft Life RBC proposal (Proposal 2026-17-L, LR016, Lines (17)–(21)) and draft Schedule S blanks proposal (anticipated effective date Annual 2027), circulated as Attachment G to the Life Risk-Based Capital (E) Working Group's Fall National Meeting materials, https://content.naic.org/sites/default/files/national_meeting/materials-lrbc-11-15-26.pdf.

[3] NAIC Life Risk-Based Capital (E) Working Group, notice to members, interested regulators and interested parties (Nov. 3–4, 2026) (meeting Sunday, Nov. 15, 2026, 11:00 a.m.–12:00 p.m. CT; questions requested by Nov. 11, 2026), https://content.naic.org/committees/e/life-risk-based-capital-wg.

*The Federation of Americans for Consumer Choice, Inc. (FACC) is a 501(c)6 non-profit organization incorporated in the state of Texas whose members are independent marketing organizations, agencies, and agents engaged in the distribution of fixed insurance and annuity products. FACC promotes public policy recognizing the value of guaranteed insurance solutions and preserving freedom of choice for consumers who seek products and services from independent agents representing multiple carriers and product options.*

FACC and the Consortium understand the Committee's objective: regulators should act proactively where a transaction leaves policyholders exposed, and the Actuarial Guideline LV ("AG 55") reviews reflect the scrutiny the system requires. Our concern is not with that objective but with the process by which the Committee has chosen to pursue it. The Memorandum prescribes both the remedy and its central actuarial assumption before the analysis has been done; it directs the Working Group to implement that result rather than to evaluate whether any change is warranted; and it is moving forward on an accelerated timetable, on the basis of confidential findings outside the governance framework the NAIC has recently adopted for changes to risk-based capital ("RBC").

This letter does not fully address the substantive issues with the Draft Proposal, which we believe are significant and contentious, including that it ties the outcome to domicile rather than to actual risk and would penalize sound transactions, tilt the market toward a few large groups and narrow the choices available to retirement savers. **Our primary focus here is narrower and more fundamental: a change of this magnitude cannot happen without following the NAIC's established practice.** We believe these are precisely the types of process concerns raised in the memorandum Commissioner Godfread has proposed to the Executive (EX) Committee, which the Risk-Based Capital Model Governance (EX) Task Force will consider on November 16, 2026.[4]

## 1. Consumer Choice and a Level Playing Field

As drafted, the proposal would bear heavily on the retirement savers who rely on fixed and fixed indexed annuities and on the independent agents who serve them. Reinsurance capacity from multiple well-supervised jurisdictions lets mid-sized and independent insurers compete with larger, vertically integrated groups. For consumers, that competition means more product options, more competitive guaranteed rates and better value. FACC's members, who sell these products face to face every day, are concerned that a charge applied selectively by jurisdiction would concentrate the market in a few carriers, narrow the products available through independent distribution and raise the cost of guaranteed retirement income. **We believe it is important to consider whether a capital requirement that affects market competition at this magnitude, without a corresponding finding of increased risk, could have unintended consequences for market structure and consumer choice.**

We recognize that market participants bring different perspectives to this discussion, including perspectives shaped by their respective business models. We respectfully encourage the Committee to evaluate these views within a consistent, evidence-based framework that considers the implications for insurers of all sizes, market competition, and ultimately consumers. The financial crisis taught that concentrating risk in a small number of very large institutions renders

[4] Memorandum from Commissioner Jon Godfread (ND), Chair of the Risk-Based Capital Model Governance (EX) Task Force, to Scott A. White (VA), Chair of the Executive (EX) Committee, Proposed Review of Governance for Material Financial Policy Initiatives (dated Nov. 16, 2026), Attachment Four to the Task Force's Fall National Meeting materials (agenda item 4), https://content.naic.org/sites/default/files/national_meeting/agenda-materials-for-rbc-mgtf-fnm_1.pdf.

the system less safe, not more. **A level playing field, on which any charge follows the risk a transaction actually presents rather than the domicile of the reinsurer, protects both policyholders and the competitive market that serves them.**

There is a further reason for caution. The state-based system derives its strength from proximity to the markets it supervises: state regulators see the companies, producers and policyholders in their markets at close range. The financial crisis demonstrated where concentration leads. When risk accumulates in a handful of very large influential institutions closely tied to the capital markets, the case for federal oversight follows, as it did when three insurance groups were designated as systemically important and placed under Federal Reserve supervision.[5] We encourage the Working Group to carefully consider whether the proposed approach could inadvertently accelerate market concentration among a smaller number of large financial institutions. Preserving a diverse and competitive insurance marketplace is an important strength of the state-based regulatory system and ultimately benefits American retirees.

## 2. A Change of This Magnitude Requires the NAIC's Normal Process

By any measure, the change the Memorandum directs is a major one. The Bridgeway Memorandum applies the proposed charge to approximately $135 billion of non-reciprocal reserve credit, estimates a maximum potential "industry surplus shortfall of roughly $23 billion," and projects that 86 companies would be affected and 13 would fall within or near an RBC regulatory threshold.[6] The Draft Proposal and the accompanying blanks proposal both carry an anticipated effective date of Annual 2027.

Regulators and interested parties can reasonably disagree about whether, and how, RBC should address recapture risk. Whatever the answer, a change of this magnitude cannot happen without following the NAIC's established practice. Under that practice, a parent committee identifies a concern and refers it to the technical group with the relevant expertise; that group analyzes the issue, develops and tests options against data, exposes them for meaningful comment and makes a recommendation; and the parent committee then decides.

The NAIC has recently reinforced the standards that govern that practice. In December 2025, the Risk-Based Capital Model Governance (EX) Task Force (the "Governance Task Force") adopted Principles for RBC Requirements (the "Principles"), since incorporated in the revised RBC Preamble. **The Principles call for RBC changes that are material, transparent, grounded in "data-driven methodologies" and prioritized through regulatory judgment, and that "reflect measurable risks that can impact solvency, including the mitigating effects of risk**

[5] Financial Stability Oversight Council, Designations (American International Group, Inc., July 8, 2013; Prudential Financial, Inc., Sept. 19, 2013; MetLife, Inc., Dec. 18, 2014), https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/designations.

[6] See note 2 above.

**management."[7] As described below, the handling of the Memorandum has departed from that practice at each step.**

### 3. The Memorandum Predetermines the Result

The Memorandum directs the Working Group to implement a requirement approximating the capital a ceding insurer would need if it recaptured reserves ceded to non-reciprocal jurisdictions and specifies that this is "to be done without regard to the probability of recapture."[8] That instruction reverses the ordinary sequence. Rather than asking the Working Group whether a recapture charge is warranted and, if so, how it should be designed, the Memorandum supplies both the answer and its central assumption and leaves the Working Group to calculate the result.

**Whether the likelihood of recapture, collateral, reinsurer financial strength and contract terms should bear on any charge is precisely the kind of question the Working Group exists to examine, and one on which the Principles speak directly.** Commenters from across the industry and the actuarial profession, including the American Council of Life Insurers, Northwestern Mutual and the American Academy of Actuaries, have urged the Working Group to take a risk-based approach.[9] The Memorandum's instructions leave the Working Group no room to consider that view on its merits.

The remedy also does not match the evidence. AG 55 tests whether the reserves supporting ceded business are adequate; it does not measure capital, which lies outside the appointed actuary's responsibility. Where an AG 55 review identifies a reserve shortfall, the appropriate response is additional reserves or assets for that transaction, which domiciliary regulators can already require. A uniform capital charge on every non-reciprocal cession does not cure a reserve deficiency in any one of them.

The approach also stands in contrast to the standard the Governance Task Force has set for its own work: in describing how its priorities will be handed off to this Committee, **the Governance Task Force's work plan states that the handoff "should provide clear direction without prescribing the technical result."**[10]

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[7] Risk-Based Capital Model Governance (EX) Task Force, Principles for RBC Requirements (adopted Dec. 10, 2025), Principles 3, 4, 9, 10 and 11, https://content.naic.org/sites/default/files/inline-files/Dec%202025%20Adopted%20Principles.pdf; see also Risk-Based Capital Model Governance (EX) Task Force and Capital Adequacy (E) Task Force, Minutes (June 18, 2026) (adopting the revised RBC Preamble, which incorporates the Principles), in Risk-Based Capital Model Governance (EX) Task Force Minutes Packet, https://content.naic.org/sites/default/files/national_meeting/05-minutes-rbcmgtf.pdf.

[8] See note 1 above.

[9] See, e.g., the ACLI and Northwestern Mutual letters in the Oct. 6, 2026 call materials, https://content.naic.org/sites/default/files/call_materials/10-6-2026-meeting-agenda-materials.pdf; American Academy of Actuaries, comment letter to the Life Risk-Based Capital (E) Working Group (Sept. 2026), https://actuary.org/wp-content/uploads/2026/09/Life-Comment-RBC-Reinsurance-Recapture-Charge.pdf.

[10] Risk-Based Capital Model Governance (EX) Task Force, Proposed Work Plan for the Remainder of 2026 (rev. July 21, 2026), Attachment Two to the Task Force's Aug. 13, 2026 meeting materials, at 4, https://content.naic.org/sites/default/files/national_meeting/rbc-mgtf-agenda-materials_0.pdf.

The Draft Proposal shows the consequence. The Bridgeway Memorandum describes its own task as "effectively approximating the disallowance of an RBC credit" for these transactions.[11] The analysis, in other words, was framed to quantify an outcome the Memorandum had already selected, not to assess whether a charge is needed or how large the underlying risk is. We believe the scope of the analysis would benefit from further consideration by the Working Group of whether an additional charge is warranted, the likelihood of recapture, and the extent to which existing risk mitigants already address the underlying exposure.

## 4. The Review Has Been Accelerated and Is Not Transparent

The Memorandum rests largely on confidential AG 55 findings that interested parties cannot examine or test. The Memorandum's exposure period runs only 14 days, although the NAIC's own risk-based capital procedures contemplate an initial exposure of at least 30 days for structural changes,[12] and the Draft Proposal did not circulate until that period was already under way, shortening an already accelerated review further.

The sequencing of the work is also reversed. The blanks proposal that would collect the collateral data needed to calibrate any charge acknowledges that "sufficient data is not available to distinguish between collateralized and uncollateralized reinsurance exposures," yet it carries the same anticipated effective date as the charge itself, so that the factor would be set before the data exist to test it.[13]

The Principles require a process that provides for "clear, complete, and transparent communication and documentation of proposed and adopted updates, methodologies, and supporting rationale" and that relies on "data-driven methodologies."[14] **A shortened exposure of a predetermined result, supported by findings that interested parties cannot see and calibrated before the relevant data have been collected, does not meet those standards.**

An abrupt capital increase on sound, existing treaties can force restructurings, asset sales into illiquid markets, the withdrawal of products from the market, or the recapture events the charge is meant to guard against. Any new requirement should be tested for its impact before adoption and applied prospectively, with in-force arrangements either grandfathered or phased in over a reasonable period.

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[11] See note 2 above. [12] NAIC, Risk-Based Capital Procedures (providing that the initial exposure of a structural change should be at least 30 days unless a shorter exposure is approved), https://content.naic.org/sites/default/files/rbc_procedures07242023.pdf. [13] See note 2 above.

[12] NAIC, Risk-Based Capital Procedures (providing that the initial exposure of a structural change should be at least 30 days unless a shorter exposure is approved), https://content.naic.org/sites/default/files/rbc_procedures07242023.pdf. [13] See note 2 above.

[13] See note 2 above.

[14] Principles for RBC Requirements, Principles 9 and 10.

## 5. The Matter Should Proceed Through the NAIC's Governance Framework

The NAIC created the Governance Task Force in 2025, reporting to the Executive (EX) Committee, to bring consistency and discipline to changes in RBC. Among its charges is to "[c]reate a process for analyzing both retrospective and future adjustments to RBC, incorporating regular reviews of RBC outcomes and ensuring future adjustments are made in alignment with guiding principles." The Chair of this Committee serves as a Co-Vice Chair of the Governance Task Force, and its Vice Chair is a member.[15] **A predetermined charge that would affect dozens of companies and billions of dollars of capital is precisely the kind of adjustment that process exists to govern.** Referring the Memorandum to the Governance Task Force before further work proceeds would allow the NAIC to confirm that the proposed charge, its design and its timetable are consistent with the Principles it has adopted.

Commissioner Godfread has also put forward, as one of two options the Governance Task Force exposed for comment, a commissioner-level Financial Policy Steering Committee, outside the ordinary Financial Condition (E) Committee structure and likely reporting to or operating under the Executive (EX) Committee, for major solvency initiatives that cross organizational lines or require clear commissioner-level policy direction. Under that proposal, the steering body would "[d]efine the policy objective, scope, and key fence posts before substantial technical work begins" and would "[c]onduct policy-level review before exposure of major or controversial proposals when appropriate."[16] The matters eligible for elevation would include "a change to RBC architecture" and "a material policy choice that technical analysis cannot resolve."[17] The Memorandum presents such a choice.

We recognize that the steering committee proposal contemplates that non-reciprocal jurisdiction reinsurance work already in active development would remain within the Committee's processes. That approach, however, presupposes that the work will proceed through those processes in the ordinary course, consistent with Commissioner Godfread's emphasis that any steering body would operate "through the existing NAIC charge, referral, exposure, and approval process."[18] **A directive that fixes the outcome before the technical work begins is not the ordinary course, and it presents the kind of policy choice that would benefit from commissioner-level review.**

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[15] Executive (EX) Committee, Minutes (Mar. 25, 2025) (adopting the 2025 charges of the Risk-Based Capital Model Governance (EX) Task Force), https://content.naic.org/sites/default/files/national_meeting/02_Minutes-EXCmte_0.pdf; see also the Task Force's roll call for its Aug. 13, 2026 meeting, https://content.naic.org/sites/default/files/national_meeting/rbc-mgtf-agenda-materials_0.pdf.

[16] Proposed Work Plan for the Remainder of 2026, cited above, at 4–5; Risk-Based Capital Model Governance (EX) Task Force, Minutes (Aug. 13, 2026) (exposing the proposed steering structures for comment through Sept. 13, 2026), https://content.naic.org/sites/default/files/national_meeting/05-minutes-rbcmgtf.pdf.

[17] Minutes (Aug. 13, 2026), cited above.

[18] Id.

## 6. Areas Where Additional Data and Analysis Would Strengthen the Proposal

We respectfully offer the following observations on areas where additional data and analysis would strengthen the Draft Proposal.

- **The $23 billion figure is a formula output, not an observed shortfall.** The Bridgeway Memorandum's "industry surplus shortfall of roughly $23 billion" is the product of the 3.8% factor, the industry's average company action level RBC ratio of about 443% and approximately $135 billion of non-reciprocal reserve credit. It assumes that each company's current RBC ratio is its required level, and the memorandum itself states the estimate "does not account for overcollateralization," represents a "maximum potential impact," and relies on collateral data that insurers "are not reporting … consistently."[19] It describes a worst case under the Memorandum's assumptions, not a gap regulators have found.
- **A flat 3.8% factor exceeds the analysis for the business most affected.** The Bridgeway Memorandum's implied charges range from 3.1% to 9.2% by line of business. For annuity-focused companies, which we understand account for much of the reinsurance in question, the implied charge is 3.1%, and the memorandum notes that reasonable assumptions could produce charges of 50% to 100% of those values.[20] A single industry-wide factor of 3.8% is driven up by accident and health results and overstates the analysis for annuity business. Nor does the factor distinguish among the assets supporting the ceded reserves: a treaty backed by liquid, highly rated public bonds carries the same charge as one backed by private credit or affiliated investments, even though the Memorandum's own stated concern is higher-risk assets.
- **The Draft Proposal is, in effect, a 103.8% collateral requirement, and it disregards collateral the NAIC's own models accept.** Collateral is recognized only up to 103.8% of the ceded amount, so the charge falls to zero only for transactions that post at least that level of "Permitted Collateral." Yet the draft blanks instructions would exclude letters of credit from qualified U.S. financial institutions, which the Credit for Reinsurance Model Law and Regulation expressly permit, together with assets admitted under a permitted practice approved by the ceding insurer's own domiciliary regulator.[21] Collateral that state law and state regulators have already accepted should not be treated as worthless for capital purposes. The design is also internally inconsistent. Because the 3.8% factor is expressed at the company action level, a company at the industry's average company action level RBC ratio of about 443% would need capital of roughly 16.8% of its non-reciprocal reserve credit to maintain that ratio, yet collateral of just 3.8% above reserves eliminates the charge entirely. This relationship raises an important question about whether the proposed framework functions primarily as a collateral requirement rather than a measure of recapture risk. We

[19] See note 2 above.

[20] See note 2 above.

[21] See note 2 above.

believe this distinction warrants further examination. On the Bridgeway Memorandum's own figures, about $5 billion of additional collateral would cure the "$23 billion" shortfall.

- **The scope is inconsistent with its stated purpose.** The Draft Proposal charges transactions with unauthorized reinsurers whose supporting assets are held by the U.S. ceding insurer under funds withheld or modified coinsurance and are subject to U.S. investment law, while exempting reinsurers in Reciprocal Jurisdictions, which may post no collateral at all.[22] A framework under which a fully funded, overcollateralized funds-withheld treaty carries a charge, but an uncollateralized cession to a Reciprocal Jurisdiction reinsurer does not, raises the question whether the framework is measuring recapture risk.
- **The data needed to calibrate the charge do not yet exist.** The accompanying blanks proposal acknowledges that the current Schedule S "does not separately identify collateral" and that "sufficient data is not available to distinguish between collateralized and uncollateralized reinsurance exposures." Both proposals carry an anticipated effective date of Annual 2027.[23] The reporting should come first, and any factor should be calibrated on the resulting data.
- **The charge could inadvertently increase recapture risk.** By the Bridgeway Memorandum's own estimate, 86 companies would be affected and 13 would fall near or below the company action level, before any finding that their transactions are deficient.[24] A company pushed toward an action level by the charge alone would have to restore its ratio quickly, by recapturing treaties, selling assets into potentially weak markets or withdrawing products. Those are the very events the Memorandum describes as the risk. We are concerned that an additional capital requirement could inadvertently increase the likelihood of the very recapture events the proposal seeks to prevent. We respectfully encourage the Committee to allow the Working Group to evaluate these potential consequences through a quantitative impact study before moving forward.

## 7. <u>The Working Group's Own Data Point to a Targeted Remedy</u>

The analysis presented to the Working Group on October 28th found that reserve credit for non-reciprocal transactions "is generally 100% collateralized as required by the Model Law" and "is mostly Funds Withheld and Modco and overcollateralized," that four of the five life reinsurance failures identified over the past decade "involved alleged or established fraud, in which assets were misrepresented," and that the growth in concentrated transactions has occurred "across all jurisdictions."[25] Those findings point to specific, measurable risks: asset quality and valuation,

[22] See note 2 above. [23] See note 2 above.

[23] See note 2 above.

[24] See note 2 above.

[25] Bridgeway Analytics presentation, slides 8, 9, 14, 16 and 17, in Life Risk-Based Capital (E) Working Group, Oct. 28, 2026 call materials, https://content.naic.org/sites/default/files/call_materials/10-28-2026-meeting-agenda-materials.pdf.

governance, counterparty concentration and any gap between collateral and total asset requirements. Each can be assessed transaction by transaction, and domiciliary regulators already have the tools to act where AG 55 has identified concerns. By the Memorandum's own account, about 30% of the ceding insurers reviewed did not raise concerns; a blanket charge would fall on them equally.

**8. <u>Jurisdiction Is Not a Proxy for Risk</u>**

Lastly, recapture risk exists wherever a ceding insurer relies on a reinsurer, regardless of its domiciliary jurisdiction. The most significant recent failure of a reinsurer supporting U.S. annuity business, 777 Re, was domiciled in a Reciprocal Jurisdiction that the Draft Proposal would exclude.[26] We believe jurisdictional classifications should be considered alongside a transaction-specific assessment of the underlying risks and available protections. Northwestern Mutual made the point well, urging the NAIC to "focus on underlying economic risks rather than rely exclusively on jurisdictional classifications."[27] **If a recapture charge is warranted, it should apply on a consistent, risk-based basis to cessions to reinsurers in every jurisdiction, whatever the reinsurer's domicile.**

* * *

We appreciate the considerable work that the Committee, Working Group, NAIC staff, and interested parties have undertaken to evaluate these complex issues. We share the objective of ensuring that the U.S. insurance regulatory framework appropriately identifies and addresses risks to policyholders.

On behalf of FACC and the Consortium, we respectfully ask that the Committee take one of the following actions:

1. Refer the Memorandum to the Governance Task Force for its evaluation before any further work is done on this matter;
2. Revise the Memorandum to provide the Working Group with full discretion to consider likelihood, collateral, reinsurer financial strength and contract terms, including the conclusion that no additional charge is needed where protections are sufficient; or

[26] U.S. Attorney's Office, S.D.N.Y., Founder and Former CEO of 777 Partners Pleads Guilty to $500 Million Fraud Scheme (Oct. 15, 2026), https://www.justice.gov/usao-sdny/pr/founder-and-former-ceo-777-partners-pleads-guilty-500-million-fraud-scheme; Insurance Journal (Oct. 19, 2026), https://www.insurancejournal.com/magazines/mag-features/2026/10/19/889124.htm.

[27] Life Risk-Based Capital (E) Working Group, Oct. 6, 2026 call materials, including comment letters from the American Council of Life Insurers and Northwestern Mutual (Sept. 23, 2026), https://content.naic.org/sites/default/files/call_materials/10-6-2026-meeting-agenda-materials.pdf.





3. Refer the Memorandum to the type of commissioner-led Financial Policy Steering Committee described in the memorandum Commissioner Godfread has proposed to the Executive (EX) Committee.

In addition, as the Draft Proposal moves forward, we believe the following steps would help ensure a transparent process consistent with the NAIC's established practice:

- Publish an aggregated, anonymized summary of the AG 55 findings and data on which the Memorandum relies;
- Sequence the work so that the Schedule S reporting changes are adopted, and at least one year of collateral data is reported, before any factor is calibrated or adopted, supported by a quantitative impact study that includes the effect on product availability, pricing and competition in the retail annuity market;
- Calibrate any factor by line of business, reflect the quality and liquidity of the assets supporting the ceded reserves, and recognize all collateral that the Credit for Reinsurance Model Law and Regulation and domiciliary regulators already accept, including qualifying letters of credit and assets admitted under a permitted practice;
- Base any calibration only on data and analysis exposed through the Committee's and the Working Group's processes; and
- Apply any charge that is adopted consistently, on a risk-based basis, to cessions in every jurisdiction.

FACC and the Consortium appreciate the Committee's and Working Group's continued attention to these important issues and the opportunity to participate in this discussion. We recognize the complexity of the issues under consideration and share the NAIC's commitment to strong, effective, and risk-based solvency regulation. We hope these comments will be helpful as the Committee and Working Group continue their evaluation, and we welcome the opportunity to engage constructively with regulators and other interested parties in developing an approach that protects policyholders while preserving a competitive insurance marketplace.

Respectfully submitted,



Kim O'Brien
CEO

# Macroprudential Risk Dashboard Overview

**Bob Kasinow (NY), MWG Chair**
**Presentation to E Committee**
**November 17, 2026**

# Macroprudential Risk Dashboard

- **Provides an aggregate view of risk for the U.S. insurance industry**
  - Addresses International and Federal inquiries regarding the U.S. approach to macroprudential supervision
  - Use in IMF/FSAP reviews
  - Use in IAIS/TJA reviews, alignment with ICP 24
  - Demonstrate U.S. insurer macroprudential supervision to FSOC.

# Macroprudential Risk Dashboard

- **Use by state regulators**
  - State regulators may wish to review the industry-wide risk drivers to determine if the same or similar risks are impacting their individual regulated entities
  - The risks identified in the Macroprudential Risk Summary Report may assist with the risk assessment components of financial analysis and completion of risk matrices during risk-focused examinations.

# Macroprudential Risk Dashboard

- **Components**

  - The public Macroprudential Risk Summary Report
    - To be issued annually, ideally at Summer National Meetings
    - Contains 8 risk categories
    - Provides a narrative of the key risk indicators used to arrive at the overall risk assessment level of each of the eight categories.

  - Excel based risk dashboard
    - The regulator only dashboard contains the details of each of the key risk indicators
    - May be used by the states to assist in financial analysis and risk-focused exams.

# Macro Risk Dashboard

- Macroprudential Risk Summary Report
- The eight risk categories
- The report provides more context around each of the categories

**Risk Assessment Scale/Legend**

| | |
|---|---|
| | High |
| | Moderate-High |
| | Moderate-Low |
| | Low |

**Trend Scale (**Trend of the risk**)**

| | |
|---|---|
| Significant Increase |  |
| Increase |  |
| Stable |  |
| Decrease |  |
| Significant Decrease |  |

| Risk Category | Trend | Summary of Assessment |
|---|---|---|
| **Macroeconomic** |  | The U.S. economy is strong based on traditional indicators. This is tempered by U.S. Sovereign rating agency downgrades and USD/FX volatility. |
| **Interconnectedness** |  | FABN issuance and Life Cross-border reinsurance activity continues an upward trend, while most other transmission channels of interconnectedness remain stable. |
| **Capital Adequacy** |  | Life and PC sectors remain very well capitalized with stable outlooks. However, the Health sector has experienced some capital deterioration and has a negative outlook by credit rating agencies. |
| **Underwriting & Profitability** |  | Life and PC sectors are profitable. However, Health experienced a significant decrease in net income and a profit margin. Nat Cat and LTC risks were also key risk drivers. |
| **Credit** |  | Private Credit, structured securities, and offshore life reinsurance exposure are the drivers of the Mod-high assessment. |
| **Market** |  | Common equity holdings increased, while private equity and other indicators remain stable. Level 3 assets are significant but remain stable. |
| **Liquidity** |  | PC and Life liquidity ratios and cash flows improved. Cash, ST investments and U.S. Gov allocations remain increased. Health cash flow and liquid assets have modestly declined. |
| **Emerging/Other** |  | Heightened monitoring of private credit, cross border reinsurance, AI and cyber continues and may overlap with other risk categories. |

RE: Background Memo – Insurance Company Owned Life Insurance (ICOLI or COLI)
Date: November 5, 2026

This memo intends to provide background information on insurance company owned life insurance (ICOLI). The Statutory Accounting Principles (E) Working Group (SAPWG) exposed an agenda item at the 2026 Summer National Meeting to reassess the reporting and disclosure of ICOLI products and sent a referral to the Capital Adequacy (E) Task Force (CATF) to assess the need for an RBC charge to account for any investment risk embedded in ICOLI policies. This memo provides further background on this topic.

- ICOLI is a type of life insurance product that insurance companies purchase that is underwritten on the lives of employees of the insurer, but for which the benefits of the policy inure to the insurer. These can be written as fully guaranteed general account products or as variable life insurance with premiums allocated to various types of underlying investments. These products are used as a tax-advantaged way to fund key employee risk and certain employee benefits offered by the insurance company to its employees.

- Statutory accounting allows the realizable value to be recorded as an admitted asset but does not treat ICOLI as an invested asset, despite the investment risk contained within some of the products. With this reporting, the amount is excluded from RBC for life entities (which are the largest ICOLI investors) and assessed a nominal RBC charge for other types of insurers.

- Concerns with ICOLI treatment were previously raised in 2018, as it was identified that some policies were being structured primarily as investment products, with a minimal death benefit to qualify within the statutory definition of "life insurance." At that time, revisions were incorporated to require the internal revenue code (IRC) §7702 criteria for determining whether a product qualifies as life insurance and disclosures were added to identify the types of investments supporting ICOLI products.

- Since 2018, there has been a significant increase in the use of these products and an increase in the use of Schedule BA-type investment vehicles, such as equity funds, to support them. ICOLI assets make up a significant portion of surplus assets at individual companies (with some companies reporting over 50%, to as much as 100% of surplus). It has also been observed that the marketing of ICOLI products has featured them as a way for insurers to invest in private markets without holding RBC.

- Regulators have raised concerns dating back to 2018 that ICOLI premiums could be invested into underlying investment products that would expose the insurer to investment risk and circumvent RBC requirements that would otherwise apply.

- The new agenda item requested comments on whether ICOLI amounts should be captured as invested assets for financial reporting. A referral was also sent to the CATF to request initial feedback on the proposal and assessment of RBC factors.

- Both SAPWG and CATF are expected to discuss the ICOLI project during the Fall National Meeting, and a verbal update of those discussions will be provided to the Financial Condition (E) Committee.

**Aggregate Data Increase – Amounts in Millions:**

*The amount of CSV in investment vehicles has more than doubled in 4 years since 2021:*

| | 2025 | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|
| Life | $29,557 | $23,066 | $15,152 | $16,415 | $14,336 |
| Property/Casualty | $9,223 | $6,508 | $6,262 | $8,232 | $2,460 |
| Health | $1,831 | $1,731 | $1,400 | $1,247 | $1,194 |
| **Total** | **$40,611** | **$31,305** | **$22,814** | **$25,894** | **$17,990** |
| % Change from P/Y | 29.73% | 37.22% | (11.90%) | 43.93% | |