Draft date: 8/13/24

2024 Summer National Meeting
Chicago, Illinois

FINANCIAL CONDITION (E) COMMITTEE
Thursday, August 15, 2024
8:00 – 9:00 a.m.
McCormick Place Convention Center—Grand Ballroom—Level 1

ROLL CALL

Nathan Houdek, Chair	Wisconsin	Mike Chaney	Mississippi
Michael Wise, Co-Vice Chair	South Carolina	Chlora Lindley-Myers	Missouri
Cassie Brown, Co-Vice Chair	Texas	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
Amy L. Beard	Indiana	Judith L. French	Ohio
Doug Ommen	Iowa	Elizabeth Kelleher Dwyer	Rhode Island
Vicki Schmidt	Kansas	Scott A. White	Virginia
Kevin P. Beagan	Massachusetts		

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

AGENDA

1. Consider Adoption of its Aug. 2, June 12, and Spring National Meeting Minutes—*Commissioner Nathan Houdek (WI)* — Attachment One

2. Consider Adoption of its Task Force and Working Group Reports —*Commissioner Nathan Houdek (WI)*
   A. Accounting Practices and Procedures (E) Task Force — Attachment Two
   B. Capital Adequacy (E) Task Force — Attachment Three
   C. Examination Oversight (E) Task Force — Attachment Four
   D. Financial Stability (E) Task Force — Attachment Five
   E. Receivership and Insolvency (E) Task Force — Attachment Six
   F. Reinsurance (E) Task Force — Attachment Seven
   G. Risk Retention Group (E) Task Force — Attachment Eight
   H. Valuation of Securities (E) Task Force — Attachment Nine
   I. Risk-Focused Surveillance (E) Working Group — Attachment Ten
   J. National Treatment and Coordination (E) Working Group — Attachment Eleven

3. Receive a Status Report from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group—*Philip Barlow (DC)*

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4. Receive a Status Report from the Valuation of Securities (E) Task Force
   —*Carrie Mears (IA)*

5. Expose a Draft Request for Proposal for Assistance with the Due Diligence Process of Rating Agencies — Attachment Twelve
   —*Commissioner Nathan Houdek (WI)*

6. Update on Revised Investment Framework and Related Documents — Attachment Thirteen
   —*Commissioner Nathan Houdek (WI)*

7. Hear a Federal Update from NAIC Staff on Basel III—*Tyler Dunne (NAIC) and Shana Oppenheim (NAIC)*

8. Hear a Presentation from BlackRock on Commercial Mortgages — Attachment Fourteen
   —*Dan Harnick (BlackRock) and Alex Symes (BlackRock)*

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

10. Adjournment

Draft: 8/8/24

Financial Condition (E) Committee
Virtual Meeting
August 2, 2024

The Financial Condition (E) Committee met Aug. 2, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair (TX); Michael Conway represented by Carol Matthews (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Kevin P. Beagan and Christopher Joyce (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by David Browning (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White represented by Dan Bumpus (VA).

1. Heard Comments Received on Proposal 2024-20 CR

Commissioner Houdek noted that the meeting was a follow-up to the Committee's June 12 meeting, during which the Committee discussed risk-based capital (RBC) proposal 2023-17-CR but did not adopt the proposal. Instead, the Committee received a different RBC proposal (2024-20-CR) and exposed it for comment until the end of July. Houdek stated that during this meeting, the Committee would consider comments received on proposal 2024-20-CR, including those from the Mississippi Insurance Department (Attachment A) and the Joint Property/Casualty (P/C) Trades (Attachment B), which represent a modified RBC proposal (2024-20-CR MOD).

A. Mississippi Insurance Department

Browning stated that Mississippi developed its comments prior to receiving responses from the Joint P/C Trades and NAIC staff to questions from Committee members, but Mississippi's concerns still exist. From a small state perspective, the impact on the domestic industry, since they have mostly small to medium-sized domestic insurers, the cost impact is a concern.

B. Joint P/C Trades

Steve Broadie (American Property Casualty Insurance Association—APCIA), speaking on behalf of the Joint P/C Trades, which includes the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA), summarized their comments on the exposure. Specifically, he stated the Joint P/C Trades appreciate the work that has gone into this project from state insurance regulators, NAIC staff, and industry. He stated their comments represent a modified proposal from their previous proposal (2024-20-CR) and the original NAIC proposal (2023-17-CR). The Joint P/C Trades modified proposal would continue to have climate-conditioned catalogs for 2040 and 2025, but those are only an option for companies to consider. Companies could also choose from a frequency-adjusted approach by increasing the frequency by 50% in one run and 10% in another run. He reiterated his appreciation to all for the extra work getting their proposal into its final order. Colleen Scheele (NAMIC) thanked everyone for working with Joint P/C Trades on this proposal.

C. South Carolina

Director Wise noted that he submitted a letter (Attachment C) to Committee members after the comment deadline, so it did not have a chance to make it in the materials. However, he wanted to summarize its highlights. He noted that it is always appropriate to review why regulation is being created before adoption since there are costs to new regulation. He stated that while some of the costs are minimized in the industry's modified proposal, there are still costs and potential impacts on the cost of capital. He stated that as an actuary, he might be sensitive to the use of data but noted that if everyone is not submitting the same thing and using the same methodology, then it is not an apples-to-apples approach. This is especially true when combined with the fact that we do not know what the future holds and that this proposed disclosure is being used for something it was not intended for. He noted the things not being accounted for in the proposed disclosure, including the short-term nature of the policy, changes in reinsurance, and the fact that the disclosure relies on non-insurance models. Finally, he noted that the proposal utilizes RBC and questioned if that was the appropriate tool given its stated purpose, which is to facilitate conversations with insurers regarding underwriting and business strategy.

Birny Birnbaum (Center for Economic Justice—CEJ) suggested that reliance on short-term forecasts is misguided, noting the results of insurers and the increase in prices and property insurance. He noted that insurers have failed to prepare for climate change despite the fact that the NAIC started working on that project in the early 2000s. He stated it makes no sense given we know climate change will dramatically affect the risks insurers face and disagreed with the perspective offered by South Carolina.

2. Adopted Proposal 2024-20-CR-MOD

Bumpus made a motion, seconded by Director Dwyer, to adopt the modified Joint P/C Trades proposal 2024-20-CR-MOD (Attachment). The motion passed, with South Carolina voting no.

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

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2024_2Summer/Attachment 1A-080224 E Minutes.docx

Attachment One

Draft: 7/1/24

Financial Condition (E) Committee
Virtual Meeting
June 12, 2024

The Financial Condition (E) Committee met June 12, 2024. The following Committee members participated: Nathan Houdek, Chair, and Amy Malm (WI); Michael Wise, Co-Vice Chair, represented by Will Davis (SC); Cassie Brown, Co-Vice Chair, and Jamie Walker (TX); Michael Conway (CO); Doug Ommen represented by Kim Cross (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Chlora Lindley-Myers represented by Debbie Doggett (MO); Mike Chaney (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Elizabeth Kelleher Dwyer (RI); and Scott A. White (VA). Also participating was Kathleen Birrane (MD).

1. Discussed a Proposed Change to RBC in 2023-17-CR—Climate Scenario Analysis

Commissioner Houdek stated that the purpose of the meeting is to consider a proposed change to risk-based capital (RBC) in proposal CR 2023-17-CR, as adopted by the Capital Adequacy (E) Task Force, and also consider an alternative proposal from the joint property/casualty (P/C) trade groups. Commissioner Houdek requested Commissioner Birrane, chair of the Solvency Workstream of the Climate and Resiliency (EX) Task Force, which developed the initial proposal adopted by the Capital Adequacy (E) Task Force, to provide background on the proposal.

Commissioner Birrane noted that the development of the RBC proposal has been part of a strategic initiative of the NAIC for the past three years, and work on the topic began in 2022. During that time, the Workstream held three public panels over the course of a year, which included, among other things, a thorough set of presentations from different international insurance regulators about how each of them viewed climate scenario analysis. The requirements from each of these nation-states have varied greatly, ranging from detailed and burdensome, such as the Bank of England's requirements, to more practical approaches using existing regulatory tools, such as Bermuda's requirements.

Based on the information presented, the Workstream received further education from NAIC staff on the topic, as they attempted to find a solution that met the Workstream members' suggested proposal characteristics. Distinct options were presented to the Workstream, and at the end of 2023, the Workstream exposed a directive to NAIC staff, which guided them to develop a proposal that would be presented to the Catastrophe Risk (E) Subgroup. The industry was invited to comment on the approach proposed, and it expressed concerns. As a result, the Workstream members requested the industry develop an alternative approach. Commissioner Birrane noted that regulators did adjust their proposal to address some of the industry's concerns. However, regulators are concerned that the industry proposal is a single stress test as opposed to a climate scenario analysis. Commissioner Birrane closed by noting that while the proposal was initiated by the Solvency Workstream, it has received large support from regulators within various RBC working groups that report to the Capital Adequacy (E) Task Force.

Commissioner Houdek thanked Commissioner Birrane for her leadership and hard work, and he also thanked the regulators involved for their work, which was demanding.

Elizabetta Russo (NAIC) summarized CR 2023-17-CR. Russo noted that it amends the catastrophe risk section of the RBC instructions and interrogatories. The purpose of the proposal is to collect information on how modeled

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losses (probable maximum losses—PMLs) for hurricanes and wildfires could change under a climate scenario of a moderate increase in greenhouse gas emissions trajectory (so-called RCP 4.5 or Equivalent SSP2) in 2040 and 2050 for the current book of business. This data collection is intended to be information only and not to revise the calculation of the catastrophe risk charge in the RBC formula. The proposal has been developed by the NAIC under the direction of the Solvency Workstream of the Climate and Resiliency (EX) Task Force after a comprehensive, two-year due diligence process. The proposal has a sunset clause of three years, after which regulators will decide whether to continue the collection of climate-conditioned PMLs via the RBC filing.

The proposal provides valuable data for regulators to engage with their domestic P/C insurers and discuss what climate risk means for their businesses. Climate-conditioned PMLs can then be compared to baseline PMLs that are currently disclosed for these perils in the annual RBC filing and to current policyholder surplus, hence aiding an effective discussion on how climate risk may impact business strategy, underwriting strategy, and reinsurance strategy. The climate conditioned PMLs are nothing new to the many insurers that are already obtaining these numbers from catastrophe (CAT) model vendors or reinsurance brokers. Russo noted that NAIC staff believe the calculation of climate-conditioned PMLs provide value to those insurers, especially the small regional writers with geographical concentration that may not have yet to begin to consider the impact of climate risk on their book of business and probably should. As part of the due diligence process, the NAIC and the sponsoring regulators of this proposal have engaged with climate scientists, insurers, CAT model vendors, reinsurers, and reinsurance brokers, as well as foreign insurance regulators that have developed their own guidance on climate scenarios. The driver behind this extensive engagement is to deliver a proposal that is methodologically sound, comprehensive, fit for regulatory purposes, and offers flexibility to insurers so they can present their own view of climate risk and control the costs of this exercise.

Shaveta Gupta (NAIC) explained how the costs could be controlled. Gupta noted that under CR 2023-17-CR, RBC filers can use climate-conditioned catalogs developed by their commercial CAT model vendors/brokers that have produced baseline PMLs, or they can translate the climate scenario into their own adjustment by starting with regional landfall frequency and its relevant impact to event footprint backed by the divergent views of climate science. Gupta noted that the trade groups will present their proposal, which represents one extreme stress test consisting of a 50% adjustment to limit the cost of the exercise for insurers and on the grounds of the limited capability of commercial CAT models and reinsurance brokers. The NAIC proposal CR 2023-17-CR does not want to pick one stress test/one adjustment. Gupta noted this choice belongs to the insurer, as well as how much money they are willing to invest in developing their own view of climate risk based on the value they give to this exercise.

Gupta said that from a capability point of view, NAIC staff have spoken to all the commercial CAT model vendors and to the main reinsurance brokers. The CAT model vendors told NAIC staff that their models for hurricanes and wildfires have climate-conditioned catalogs for future time horizons. In addition, the reinsurance brokers told the NAIC that they stand ready to assist insurers in articulating their own view of climate risk at a minimum cost to the insurer. Most of the cost is incurred by the broker, who can either license the catalog from the CAT model vendor and run the scenario for the clients, or the broker can collaborate with the client to articulate the client's view of risk. The insurer can also work with academia and other external and in-house climate specialists to produce their own view of climate risk. Gupta noted that NAIC staff reviewed many climate disclosure surveys and saw all these routes followed by insurers in quantifying the impact of climate change risk. However, NAIC staff have not seen the single "extreme" stress test of 50% used, which is being proposed by the trade groups. Because of the diversity of the U.S. market, insurers should be allowed to choose a different "realistic" view of how the regional impact of hurricanes and wildfires will be influenced by climate scenarios.

Director French indicated appreciation for the work that has gone into this before being presented to the Committee and the information already provided on the call. Director French stated that she had questions,

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particularly about the impact on smaller companies. She said that while she has received an explanation on this impact, she still has concerns and expressed a desire to keep the discussion going. She said she recognizes the need to do something, but noted she was not ready to say what that is and is interested in other thoughts about the value of continuing the discussion a little bit longer. Commissioner Chaney stated agreement with Director French.

Commissioner Brown stated appreciation for the summary, as well as conversations over the past few days, and highlighted the point made by NAIC staff, which is that the NAIC proposal does not focus on a single view of risk for the entire market but rather makes sure that insurers are considering climate risks for their particular book of business, and the goal is for regulators to better understand this point. Commissioner Brown asked if that was an accurate statement. Russo responded that she was spot on.

Commissioner Conway said he believes the Committee is working toward a June 30 deadline in order to get this up and running by year-end 2024. He asked if continuing the conversation would effectively delay implementation for a year. Dan Daveline (NAIC) said that it would delay implementation, and depending upon how long the conversation continued, it would likely push the effective date back to year-end 2025 due to deadlines from the annual statement software vendors. Commissioner Conway noted that they have carriers that are definitely building climate risk into their rates, which means that the Committee should consider the other side of that equation. He also noted that he was hesitant to wait another year to get this up and running, but maybe that conversation can occur after the Committee hears the industry's presentation.

2. Exposed RBC Proposal 2024-20-CR—Climate Stress Test

Steve Broadie (American Property Casualty Insurance Association—APCIA), spoke to the Committee on behalf of the joint P/C trade groups, which also include the National Association of Mutual Insurance Companies (NAMIC) and the Reinsurance Association of America (RAA). He stated appreciation for the Committee, NAIC staff, Commissioner Birrane, and the work completed so far, and he noted that it is unusual for the Committee to discuss an RBC proposal. In December 2023, he said the trade groups were surprised when the proposal was released, and they have been working diligently since then to address Commissioner Birrane's request to produce an alternative proposal. Broadie noted the description of 2023-17-CR states that the NAIC proposal, if compared side by side with existing RBC data, would provide an estimate of climate change for hurricanes and wildfires, and the information is intended to be used by domestic regulators during conversations with insurers that may have a greater degree of risk levels for these perils.

Broadie noted they have discussed this proposal with companies and CAT modelers, and they said this process would not produce meaningful data for conversations with insurers that have a higher degree of risk levels. It may be useful for other purposes but not for those conversations. He continued by saying that if option one of the proposal is used, it would be at a significant cost, both financially and by limiting staff resources that could be used in more productive climate risk assessments.

As a result, the trade groups developed an alternative that they believe will accomplish these goals more efficiently and at a significantly lower cost than the NAIC proposal. Under their proposal, insurers will run existing CAT models with a frequency increase of 50%, which approximates the effect of a two-degree centigrade increase in earth temperature over the 2040 and 2060 time periods. The PMLs produced by this run have the one in 50, 100, 250, and 500, scenarios, and are compared with the same PML data under the current RBC formula. Under the industry proposal, data could also be aggregated, but more importantly, regulators and companies could see the results of a large but plausible scenario. This would produce more comparable results between companies and would be far less expensive in both money and staff resources. He noted that they are not seeking to delay

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adoption for 2024 reporting and suggested that, if the Committee is open to this proposal, it be exposed for the next two weeks and then the Committee could take immediate action afterward.

Cate Paolino (NAMIC) noted that some of the problematic aspects of option one in the NAIC proposal are carried forward to option two in the NAIC proposal, such as the time horizon of 2040 and 2050 and the one-in-1,000-year requirement. She stated appreciation to the Committee for considering the relative utility of the two proposals, including cost-benefit, the improvement of dialogue, and making it useable for smaller insurers. Paul Martin (RAA) stated RAA's agreement with the APCIA and NAMIC and appreciated the Committee's time to hear industry concerns. Commissioner Chaney asked Broadie if any companies have run the climate stress test. Broadie was not sure but noted that it would not be difficult to do, as one of the APCIA member companies indicated it could be done in an afternoon.

Birny Birnbaum (Center for Economic Justice) stated his support for the NAIC proposal and noted the industry proposal was flawed for several reasons. First, it does not provide any basis for communication or discussion with the regulator. It is simply the application of a multiplier, and therefore, there is nothing in the proposal that forms the basis for a discussion of the company's climate risk with regulators, which defeats the very purpose of the exercise. Second, it will clearly result in a delay beyond this year. Third, it diminishes the importance of a climate risk scenario approach. He believes that it conveys the message of not wanting to put the time and resources into the proposal, which he believes is ridiculous. Birnbaum said that the industry has been fighting climate risk disclosure since 2003 when the NAIC first started its work on climate and until President Joe Biden was elected. He said this proposal continues the industry's reluctance to embrace the actual analysis of climate risk and respond accordingly. Birnbaum said the NAIC's failure to take action on this today will be fodder for more federal involvement in insurance regulation.

Commissioner White said that a recurring question is how flexible a company's approach can be. The proposal summarized by NAIC staff allows companies to use their own view of risk or the view of their CAT model vendors or reinsurance brokers. He asked for clarification on the flexibility allowed in the proposal summarized by NAIC staff. Gupta noted that the 50% adjustment in the industry proposal is something that could be used by a company under the NAIC proposal because it means that the company could choose the RCP 4.5 as their view of risk if they want.

Director French said she believes the specific flexibility noted in the NAIC proposal is not a practical option for smaller companies because it is still resource-intensive. She asked to hear from the industry on this point. Gupta noted that per industry comments earlier, that option can be run in an afternoon. Director French also asked for the industry to comment on the cost because she is hearing estimates of $50,000, which is not a meaningful cost for larger companies, but it would be for smaller- and medium-sized companies.

Paolino noted that even if the financial resources of the climate-conditioned catalog were not necessary, they still would require expertise to translate the model, which not all companies have at their disposal. Broadie noted that the industry proposal could be run in an afternoon, and he apologized if he misunderstood that the NAIC proposal could also run the same option in the same amount of time. He said he would be happy to discuss this with NAIC staff in the interim. Broadie reiterated that the industry is not seeking to delay this proposal past the 2024 adoption. The industry was given reason to believe that a brief exposure of their proposal, such as two weeks, would be workable if the Committee decided to have an immediate vote after an exposure.

Commissioner Conway agreed with Director French's concerns about being cognizant of cost and not requiring something unduly burdensome. He stated he did not think it was unduly burdensome if it is within the $50,000 range and, in particular, if the industry's approach can be utilized by a company under the NAIC's proposal. He

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asked for clarification if this could be done in two weeks. Daveline responded yes. He said the Committee often considers more controversial RBC proposals in early July, and historically, the Committee has adopted those proposals and sends a message to the Annual Statement software vendors that an RBC proposal has broad support, even though it's not officially adopted until adopted by the Plenary.

Commissioner Birrane suggested that whatever action the Committee takes, it would be helpful to have specific quantification, fiscal impact, and examples. There have been suggestions that this could cost $50,000 for a small company, but that is a vague statement. She asked the joint trades to provide concrete cost examples that Commissioners could rely on to present to companies.

Jeff Czajkowski (NAIC) noted that using the climate-condition catalogs would likely be the costliest option, but that is not definite because it depends on the relationship between the insurer and the model vendor. Based upon the conversations the NAIC has had with reinsurance brokers, the most flexible option is using a reinsurance broker because it has developed its own view of risk already, and implementing it would be a minimal cost, whether the companies are large, medium, or small. Birnbaum noted that if the foundation for option two can be the industry methodology, it is completely illogical to expect any insurer using the methodology would face exponentially higher costs than the industry has presented for its option. He also noted the most important application of this climate risk scenario is for small- and medium-sized companies, as they are not the most well-capitalized companies that one should worry about. He noted the companies that desperately need to be considered are in Louisiana and Florida, as well as some of the smaller mutuals in Iowa. He suggested considering these proposals as you would the cost of accounting or the cost of filing annual statements, as risk management should be a building block for what these companies do.

Commissioner Houdek said the Committee has three options. The first option is to adopt the climate scenario analysis before the Committee. The second option is to expose the industry proposal for a brief period, such as two weeks. The third option, which was suggested by Director French, is to delay the vote, allowing everyone more time to understand the issue and gather information.

Cross made a motion, seconded by Davis, to expose the industry proposal and adopt the additional time with a delay until year-end to understand the cost implications on the industry.

Commissioner Beard said she was supportive of a delay, and while a lot of work has gone into both proposals, she wants to make sure she understands everything; therefore, she was supportive of the proposal.

Commissioner Conway stated he was not in support of a delay until the end of the year. He noted he would be supportive of option one to adopt the proposal before the Committee, as these conversations have been occurring since January, and there does not seem to be an excessive cost imposed on the industry. He said that if the Committee needs to decide how to make the NAIC proposal clear so that it encompasses the joint P/C trade groups' proposal, that makes sense and can be done between now and the Summer National Meeting. Commissioner Conway also noted that he was fine with exposing the joint P/C trade groups' proposal but not delaying until the end of the year and reiterated that insurance companies today are already building these risks into their rates; therefore, it does not make sense that the Committee would not also look at also understanding the impact on solvency.

Commissioner Houdek asked the Committee if it could have a slightly longer delay than two weeks to gather more information for questions that were raised by Committee members, but it would not need to be delayed until the end of the year. He suggested the end of July. Commissioner Houdek asked Cross if she would be willing to modify

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her motion to the end of July. Cross verified she would modify her motion to expose the industry proposal for a 48 day public comment period ending July 30.

Davis noted that he had heard several people suggest that another year of delay is not a good idea. He said he understood that a lot of work has gone into the proposal and asked if someone could provide a concise response on why the delay would be such a great harm.

Commissioner Chaney stated that giving the industry proposal more exposure time made sense to him.

Davis modified his second to indicate that he supported a motion to expose the industry proposal for a 48 day public comment period ending July 30.

Commissioner Houdek stated the exposure time would also include soliciting questions from Committee members and providing those responses to Committee members before the end of the exposure period.

The motion passed unanimously.

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

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Draft Pending Adoption

Draft: 3/25/24

Financial Condition (E) Committee
Phoenix, Arizona
March 18, 2024

The Financial Condition (E) Committee met in Phoenix, AZ, March 18, 2024. The following Committee members participated: Nathan Houdek, Chair and Amy Malm (WI); Michael Wise, Co-Vice Chair (SC); Cassie Brown, Co-Vice Chair, represented by Jamie Walker (TX); Michael Conway represented by Rolf Kaumann (CO); Doug Ommen represented by Carrie Mears (IA); Amy L. Beard and Roy Eft (IN); Vicki Schmidt (KS); Gary D. Anderson, John Turchi and Rachel Davison (MA); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Chaney represented by Mark Cooley (MS); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French and Dale Bruggeman (OH); Elizabeth Kelleher Dwyer represented by Ted Hurley and John Tudino (RI); and Scott A. White and Doug Stolte (VA). Also participating was: Philip Barlow (DC).

1. Adopted its 2023 Fall National Meeting Minutes

Eft made a motion, seconded by Walker, to adopt the Committee's Dec. 3, 2023, minutes (*see NAIC Proceedings – Fall 2023, 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 usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial). He reminded Committee members that after the Committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the 2024 Summer National Meeting as part of the Financial Condition (E) Committee 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 were any items that should be discussed further before being considered for adoption and sent to the members for consideration as part of the technical changes; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or workings groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Commissioner Houdek noted that the Financial Analysis (E) Working Group met March 15, Feb. 21, and Jan. 24 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met March 15 and Dec. 18, 2023, 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.

Kaumann made a motion, seconded by Walker, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment One); National Treatment and Coordination (E) Working Group (Attachment Two); and Risk-Focused Surveillance (E) Working Group (Attachment Three). The motion passed unanimously.

Draft Pending Adoption

3. Received an Update from the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

Barlow reported that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group heard an update from the American Academy of Actuaries (Academy) on its work toward developing a methodology for addressing collateralized loan obligations (CLOs). Currently, the Academy is developing a list of attributes that could be used to categorize and help determine a factor or methodology to produce an appropriate risk capital charge. Barlow noted this was the Academy's first step to determine if they can identify a few attributes that are useful. If the Academy cannot, a modeling approach may be required. The Academy will provide an update at the Summer National Meeting, and it hopes to have a proposal and methodology ready for presentation to the Working Group by the Fall National Meeting. Barlow stated he was pleased with the Academy's work thus far, as there seems to be a good deal of cooperation among various parties, including working with Eric Kolchinsky (NAIC) to understand the modeling approach it has used in the past, but also with other interested parties. Barlow stated he is also hopeful that the work being done will provide a pathway for a risk-based capital (RBC) approach for other types of structured securities.

Barlow reported on the residual investments project of the Working Group. In 2023, a compromise solution was developed to establish a 30% factor for 2023 and a 45% factor for 2024, but the Working Group left open the possibility of changing the factor if it was presented with a justification that supported a different factor. Barlow reported that the Working Group recently received a proposal from the Alternative Credit Council (ACC) through a report from Oliver Wyman that looked at residual tranches. Barlow noted that the ACC had been helpful in scheduling meetings with various members of the Working Group and other regulators to provide information about the report. Barlow stated that he and some Working Group members believe the report supports the 45% charge that was already established; however, the Working Group agreed to continue work on this to see that, with revisions, it could support something other than a 45% charge. It was exposed for 21 days, which may seem short, but the smaller comment period is to make sure that it can meet the Working Group's procedural requirements. He noted that the report makes clear that it is a small portion of the residual investments held by insurance companies, and a 45% charge may be too high, but those are currently a small portion of the assets, and the group currently only has one factor. The 45% factor still seems reasonable. Barlow stated that the Working Group also received a request to defer the decision to the 45% factor to allow time to review the Oliver Wyman report. Considering the Oliver Wyman report's content and the upcoming June 30 deadline for addressing it, Barlow said the Working Group doesn't need to consider the request. He noted that NAIC staff is putting together a report that summarizes the residual investment reporting from the 2023 annual statement. There will be reports on both the number of residual tranches and the impact of the 45% charge on individual companies. Reports will be produced both for the public and regulators only, with the latter including individual company data as opposed to just aggregate information. Barlow also noted the next work they will begin relates to types of funds.

4. Received an Update from the Valuation of Securities (E) Task Force

Mears reported that the Valuation of Securities (E) Task Force's key initiative related to the Committee's investment framework is the discretion proposal. As a reminder, the Task Force's most recent exposure of this proposal was at the 2023 Fall National Meeting, where comments were received. Then in January, those comments included additional constructive feedback that the Task Force hopes to consider incorporating into a final amendment. Mears reported that the update was not completed before this meeting, as the Task Force wanted to hear additional comments and consider those when developing a final amendment. During this national meeting, the Task Force discussed some of the thematic responses to the comments, as well as an NAIC staff recommendation for the comments that would be incorporated into the next revisions. Mears stated that they have clarified that this process would be utilized for individualized issues and not meant to be used for the broader asset class as there are already mechanisms in place for when those types of issues arise.

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Another initiative that will impact the Task Force is the current request from the Committee to the Executive (EX) Committee to draft a request for proposal (RFP) as the first step in establishing a broader due diligence process. Mears noted that the Task Force did receive some comments that suggested its work be paused while a due diligence process is developed. However, it will take quite a bit of time to work on some of the backend technical issues that would be used for communication purposes in this discretion proposal and, therefore, cannot be implemented immediately, so pausing is not appropriate. She noted that potentially, it would take one to two years before the process is in place, with multiple touchpoints along the way. Mears noted that during the Task Force meeting, interested parties were informed that a final draft of the proposal would be exposed in advance of the Summer National Meeting. Mears noted that the Task Force also received an update from Kolchinsky, who, as previously noted, is coordinating with the Academy as it works through its process and considers potential RBC factors for CLOs. She noted that some changes will need to be made to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) because it references a date for when CLO modeling will begin, and as announced at the 2023 Fall National Meeting, this work is not done and will not be in place under the original timeline because work is ongoing.

5. Received an Update from the Statutory Accounting Principles (E) Working Group related to the Principles-Based Bond Project

Bruggeman reported that all planned revisions to statutory accounting that incorporate a principles-based bond definition have been adopted by the Statutory Accounting Principles (E) Working Group. These revisions are effective Jan. 1, 2025, and include a number of highlights. First, *Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds* was adopted during the 2023 Summer National Meeting and includes the revised bond definition. This definition is explicit that all debt securities must represent a creditor relationship in substance, and not just legal form, to qualify as a bond under statutory accounting principles. The bond definition also includes required components for asset-backed security investments to qualify for reporting as bonds, preventing bond reporting when the substance of a securitization does not transform the investment to represent bond risk or bond cash flows. SSAP No. 26 also includes the accounting and reporting guidance for bond investments that qualify as issuer credit obligations, which generally reflect traditional bond investments.

Second, *SSAP No. 43—Asset-Backed Securities*, which was also adopted during the 2023 Summer National Meeting, includes the accounting and reporting guidance for investments that qualify as asset-backed securities and will be separately reported on a new Schedule D-1-2, with reporting lines to differentiate by the type of underlying collateral. For example, the categories divide between financial and non-financial asset-backed and include specific lines for CLOs and equity-backed asset-backed securities. Lastly and the most recent adoption is *SSAP No. 21R—Other Admitted Assets*, which was adopted March 16. This includes the accounting and reporting guidance for debt securities that do not qualify as bonds. Investments do not qualify because they do not reflect a creditor relationship in substance, or, for asset-backed securities, they lack substantive credit enhancement or meaningful cash flows. Debt securities that do not qualify as bonds will be reported on Schedule BA: Other Invested Assets with dedicated reporting lines. The revisions also include guidance for the accounting of residual interests, ensuring residuals follow the same guidance regardless of legal form. Residuals shall be reported at cost and subsequently accounted for: 1) at the lower amortized cost or fair value, with the amortized cost calculated under an allowable earned yield method; or 2) under the practical expedient method, which reflects a return of principal concept. The allowable earned yield method calculates the yield permitted to be recognized as interest income, with cash flows received in excess, reducing the amortized cost as a return of principal. The practical expedient permits all cash flows received to be taken as a reduction of the book/adjusted carrying value (BACV) as a return of principal. With this approach, cash flows received are not recognized as interest income until the residual has a BACV of zero. All other SSAPs are being revised to direct residuals to SSAP No. 21R.

Bruggeman noted that reporting revisions have also been adopted to reflect the new bond reporting schedules (separately between D-1-1 and D-1-2), as well as to incorporate more granular reporting lines for the type of

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underlying investment. These reporting revisions also capture more investment-related details to allow regulators to assess the underlying investment risk. The revisions to Schedule BA for debt securities that do not qualify as bonds are currently exposed and will be considered for adoption in May. Bruggeman noted that this project's success was from regulators and key industry representatives dedicatedly working and collaborating to improve accounting and reporting under a shared goal that regulators would have transparency to the investment risks held by insurers. With the adoption of the SSAP revisions to incorporate the principles-based bond definition and the reporting revisions also almost final (with the Schedule D revisions adopted and only Schedule BA pending adoption in May), the NAIC is working to offer a training program as soon as possible in 2024. Although various webinars and Insurance Summit sessions have been provided to educate on changes and topics as they were being discussed, the planned training program intends to provide comprehensive guidance addressing all key concepts reflected within the bond project.

Bruggeman concluded by stating that as with any large accounting concept change, regulators anticipate implementation questions and perhaps future clarification revisions. Regulators also anticipate inquiries on specific investment characteristics to assist in determining whether investments qualify as bonds. States are encouraged to submit questions or comments to NAIC staff for accumulation and future assessment. Commissioner Houdek stated his appreciation for all of the work in completing this project; it has been a big lift for many years for many people.

6. Received an Update on the Request to the Executive (EX) Committee

Commissioner Houdek said that included in the advanced materials was a letter from himself as chair of the Financial Condition (E) Committee to the Executive (EX) Committee. He explained that the letter was directed at the item in the framework that contemplates the NAIC implementing a strong due diligence framework in its retention and ongoing utilization of credit rating providers. The idea is to develop some quantitative and qualitative standards for credit rating providers (CRPs). Commissioner Houdek also explained that the goal was to begin the process of developing an RFP for the NAIC to hire a consultant to design and help the NAIC implement such due diligence framework for CRPs. He noted that the Executive (EX) Committee approved the request, so it will begin the process of developing the RFP in the near future. Mears stated her appreciation for the approval and noted that the Task Force was incredibly supportive of this work, and while completion won't happen quickly, she would appreciate input into the process including unsolicited feedback.

7. Heard Oral Comments on the Framework for Regulation of Insurer Investments and Related Documents

Commissioner Houdek stated for the last agenda item, the Committee would provide each of the listed presenters on the agenda up to five minutes to make initial observations on the investment framework documents that were exposed Feb. 15. This was intended to be a preview of these commentators' reactions and does not preclude in any way further formal comments either in writing or orally by the same parties.

A. ACLI

Carrie Haughawout (American Council of Life Insurers—ACLI) expressed the ACLI's compliments for the communication of comment reactions. The ACLI believes this will foster understanding and moves all parties toward agreement. She stated that the ACLI believes that transparency will continue to be key in advancing the approach. Haughawout noted that the ACLI continues to support the investment framework, the idea of the RFP, and noted that the work plan as envisioned makes a lot of sense. The ACLI, like others, feels strongly about the need to continue coordinating, and she noted that the previous updates during this meeting from the three chairs

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are a great start, but that sort of coordination work is going to continue to be necessary and critical to moving this framework forward, especially because the Committee has made it clear that it's not pausing existing work.

Haughawout suggested a recognized process of coordination—something to signal that the work is being coordinated. It would be helpful to have specific dialogue around what types of transparency, communication, or coordination tools are going to be used. She used the residual tranche issue as an example, where there is a need for to understand the broad impact of the different working groups. More specifically, something that shows that work is being done in coordination with the investment framework. She asked what the impact of that work is across all those workstreams. She suggested a cost benefit analysis be part of the process. She also noted that there was no additional commentary on the work that is occurring at the Life Actuarial (A) Task Force going forward.

B. Athene

Mike Consedine (Athene) thanked the Committee for its transparent process and explained that Athene supports the Committee's goal of developing a holistic and consistent approach to the regulation of insurer investments to account for the evolving life insurance sector and the critical need to remedy the retirement protection gap. He noted that Athene remains committed to respectful dialogue among regulators, industry peers, and other interested parties on these issues. Consedine stated that Athene believes the framework provides a thoughtful, comprehensive approach for addressing the most important challenges confronting U.S. insurance regulators amid a changing marketplace. Athene supports the framework's aim of modernizing investment risk oversight and creating a consistent approach in calculating C1 capital across a diverse set of asset classes and structures. This approach will add diversification and stability in insurer investment activities, which should be as agnostic to regulatory incentives as reasonably possible and will support a market that can meet the substantial demand for retirement income.

Consedine stated that Athene has two areas that should receive additional consideration from the Committee. The first is narrowing the concept of equal capital for equal risk, which Consedine noted Athene supports, but the revised draft framework now refers to "Equal Capital for Equal Tail Risk" instead. Athene agrees that tail risk is an important consideration for RBC, and it is a risk that is relevant for all asset classes, as well as for liability reserving practices. Consedine noted that the framework covers memo states that the drafting group members "are supportive of the concept of equal capital for equal risk which includes consideration of tail risk," which is the more appropriate language, as it does not inadvertently narrow the meaning of equal capital for equal risk. Additionally, there are varying views on what tail risk encompasses within the framework construct, so it would seem counterproductive to limit the application of equal capital to just tail risk without an official determination.

Consedine noted that Athene agrees that it is important for framework-related workstreams to move forward. One such workstream relates to the modeling of CLOs. The framework supports the overall utilization of credit rating providers while developing SVO due diligence, including an important challenge right function. SVO modeling could be a useful tool for supporting the due diligence of CRPs, the challenge right framework, benchmarking, and the SVO's role as an advisory body, but in line with the framework, it should not replace the use of CRPs in designations. Consedine also noted that the current RBC investment framework has several known inconsistencies in design. Athene believes that the integrity and stability of the framework fundamentally depends on a consistent allocation of roles and responsibilities in the determination of credit risk and capital charges. The NAIC should be moving toward more, not less, consistency in these processes, which means that the rating agencies should continue to be the primary arbiters of credit risk with regulators, and the SVO should perform oversight and analytical roles.

Consedine also noted Athene's appreciation for all the work done on the framework and the development of a work plan for moving forward. Athene is supportive of the work plan and believes an independent consultant will be a valuable resource to the NAIC as it builds out its due diligence function. Consedine closed by noting that Athene looks forward to participating in this open, respectful dialogue as they all work toward an important set of shared goals.

C. Anderson Insights

Christopher Anderson (Anderson Insights LLC) said he began following insurer investment issues when he worked for a major broker dealer during the development of RBC, asset valuation reserve (AVR), and interest maintenance reserve (IMR), and at a time when the NAIC appointed advisors to assist with technical work. Anderson stated that for the last 15 years, he has been an independent consultant for a wide variety of clients that are interested in these matters and has consulted with a handful of rating agencies but has never represented any of them. He noted his views being expressed are those as a chartered financial analyst.

Anderson noted that the Financial Condition (E) Committee has charged the Valuation of Securities (E) Task Force with evaluating the reliability of rating agency ratings but needs help from the Committee to do that efficiently. The Task Force is doing all it can with its available resources, but insurers own hundreds of thousands of bonds of many different varieties, so it is a significant challenge to determine which of eight rating agencies for which types of bonds provide ratings that the NAIC can reasonably rely on. Anderson suggested the Task Force was doing this bond by bond. A key screening tool the Task Force has is the yield of individual bonds. This is problematic, however, because credit risk is only one reason for higher spreads. The NAIC has also identified seven other reasons for higher returns, and they are deferral, event, liquidity, call, extension, currency, and leverage.

Anderson noted that casting too wide a net captures elements that make it more difficult to identify the actual ratings that require scrutiny. So far, too many bonds will be identified and then subjected to analysis. Ultimately at the end of the process what the NAIC will have to consider an opinion from the Securities Valuation Office (SVO), say BBB, facing off against an insurer that will have to defend the opinion by a rating agency for a higher rating, say an A-. At the end of the process somebody must decide which credit opinion is right and which one is wrong. Ultimately, insurance regulators have the unenviable responsibility for the integrity and fairness of this process.

Anderson stated that he supported the NAIC having discretion over the ratings it uses on a case-by-case basis. However, there is a much better way of identifying the specific types of ratings the NAIC may not want to rely on. This can be done by using hard, objective, standardized, supervised data. Such data does exist, but the Task Force will need assistance from the Committee to harness that data. The Securities and Exchange Commission (SEC) requires the rating agencies it regulates to publicly disclose nine attributes. The most important of these are historical performance measurement statistics which contain almost 40 tables of individual rating agency track records for the durability of their ratings, going back as far as 10 years. Anderson recommended using objective data to measure performance of the broadest range of securities all together and not one by one. As helpful as the SEC mandated public data is, if it is not sufficiently useful by itself, then the NAIC can combine that data with other data to provide hard evidence of performance. Anderson noted that at one time, the New York State insurance department once mined so much investment data that he believes it was the biggest user worldwide of Bloomberg data. He suggested that this task can be done, but data mining and artificial intelligence (AI) can greatly assist the Task Force in completing the charge the Committee has assigned to it, and the Committee can also help make that happen by providing data analytic resources.

As the NAIC assesses the reliability of rating agencies, it can use the same tools to assess the performance of the SVO. Of the nine disclosures required of rating agencies by the SEC, the SVO discloses only its organizational structure. Its annual report submitted to the Valuation of Securities (E) Task Force two days ago listed only the volume of securities it processed. This may be useful to the Internal Administration (EX1) Subcommittee for budgeting purposes, but it does not form a reasonable basis for assessing the reliability of its work. He asked how

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then can regulators assess the performance of the SVO. The same tools used for rating agencies can also be used for the SVO. Data reviews, data mining, and perhaps AI can help establish the actual track record of the SVO just as for the rating agencies. He said that everyone gets examined, including insurance companies by regulators. The NAIC examines departments of insurance every five years for accreditation, and the nationally recognized statistical rating organizations (NRSROs) are examined at least every year by the SEC and their foreign regulators as well. Anderson noted he was aware of only two outside examinations of the SVO in the last 30 years, so it is likely time for an examination.

Anderson stated one method used in the past was to select representative samples of SVO decisions and then to examine the actual credit files. He reinforced that this was just one element that can be used in an examination, but the SVO is so important to the NAIC that it makes sense to have hard measures and independent reviews of its performance. He summarized his points by saying that the Valuation of Securities (E) Task Force would benefit greatly if the Committee provided it with the resources to review and mine existing data to assist it in evaluating rating agencies. Similarly, the Committee could commission its own independent review of the performance of the SVO, and this will demonstrate how the SVO can be relied upon, and it might just identify ways its operations can be improved.

D. RRC

Edward Toy (Risk & Regulatory Consulting LLC—RRC) stated he wanted to focus on the future needs of regulators. He said that there had been a lot of change with insurance company investments and their investment practices over the years, which has been highlighted by the Macroprudential (E) Working Group and Financial Stability (E) Task Force and by Carrie Mears at the NAIC Insurance Summit. The information focused not on classes, other than vigilance on credit quality designations of bonds, and instead on collateral loans reported on Schedule BA and construction loans on Schedule B. He noted they took the bold step of not even discussing credit risk and instead focused on market volatility and liquidity. The market volatility includes discussion of increased interest rates given that time period, as well as unrealized losses on both derivatives and bond portfolios. This impacts liquidity planning for insurers, which would include asking companies questions on an exam about how they are focusing on cash flows and prepayment drops, for which no one has a response. Toy noted that after 10-12 years of a relatively benign market with low interest rates, insurance company risk management systems are up to task with the new volatility, especially considering that what is occurring today may be the new normal market. Toy ended by focusing on how RRC was incredibly supportive of the formation of a new working group that would include many regulators from the Financial Analysis (E) Working Group and other key members. He emphasized that the group should include regulators that are "boots on the ground" that experience the risk and encouraged the Committee to take steps to form such a group as soon as possible.

E. MetLife

Francisco Paez (MetLife) thanked the Committee and the drafting group for conducting this process with exemplary transparency, including, in particular, providing detailed responses to each of the comment letters received. This allowed interested parties to better understand regulators' thought processes on these issues. He provided MetLife's brief reactions. First, the decision not to delay or pause any of the existing workstreams was a very welcome outcome. Paez noted that risk-taking continues to build in industry investment portfolios, and MetLife hopes that efforts are expedited to effectively prioritize the robustness of the industry over all secondary considerations. The enhanced coordination among work groups and task forces that are being adopted is a great step in expediting the implementation of much needed change.

Additionally, Paez said the repeated reference to tail risk as the key equalizer of capital is fundamental to MetLife, as it identified the big difference in a risk profile between subordinate structed products that have been behind the increase in risk and insurance investment portfolios versus other similarly rated and more common investment

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types. Focusing tail risk on subordinate structured products by property and modeling them when practical will substantially enhance the current approach and will help achieve its stated goal of reducing blind reliance on ratings. MetLife is incredibly grateful for the transparency in the process and for the Committee's resolve to expeditiously enhance the current investment regulatory framework to continue to preserve the long-term health of a critical industry in the phase of mounting risks. Resolute action in this area will demonstrate the NAIC's active leadership in standard setting and will also help address some of the concerns about industry trends that have recently been raised by the media and fellow regulatory authorities.

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

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2024 Summer National Meeting
Chicago, Illinois

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE
Wednesday, August 14, 2024
11:30 a.m. – 12:00 p.m. CDT

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met on Aug. 14, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted its proposed 2025 charges.

3. Adopted the report of the Statutory Accounting Principles (E) Working Group which met Aug. 13. During this meeting, the Working Group took the following action:
   A. Adopted its Spring National Meeting minutes.
   B. Adopted its May 15 minutes. During this meeting, the Working Group took the following action:
      i. Adopted support and sponsorship for the Schedule BA modified blanks proposal 2023-12BWG, which incorporates revisions for non-bond debt securities pursuant to the principles-based bond project effective Jan. 1, 2025. (Ref #2023-16)
      ii. Adopted revisions to *Statement of Statutory Accounting Principles (SSAP) No. 107—Risk-Sharing Provisions of the Affordable Care Act*, which removed the transitional reinsurance program and risk corridor disclosures, as both programs have expired. In addition, the roll-forward illustration in Exhibit B was revised to remove the portion for the transitional reinsurance program and the risk corridors program. (Ref #2014-13)
      iii. Exposed revisions to *Issue Paper No. 169: Principles-Based Bond Project*, detailing the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)

   C. Adopted the following clarifications to statutory accounting guidance:
      i. Adopted revisions to eliminate lingering references that imply that asset-backed securities (ABS), mortgage loans, or other Schedule BA: Other Long-Term Invested Assets items are permitted to be reported as cash equivalents or short-term investments. (Ref #2024-09)
      ii. Adopted, with modification, disclosures from Accounting Standards Update *(ASU) 2023-06, Disclosure Improvements* for unused commitments and lines of credit, disaggregated by short-term and long-term, and disclosure of cash flows from derivatives. The remaining disclosures related to repurchase and reverse repurchase agreements were added to agenda item 2024-04 for further consideration as part of that project. (Ref #2023-26)
      iii. Adopted, with modification, the leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*, modified to align with existing guidance and reject the practical expedient for private companies and not-for-profit entities. (Ref #2024-02)

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- iv. Adopted revisions to clarify that directly-held crypto assets are non-admitted assets and adopt the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets.* (Ref #2024-03)
- v. Adopted revisions that address transfers of assets when modifying intercompany pooling agreements and nullify *Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement.* (Ref #2022-12)
- vi. Adopted revisions that refer to *SSAP No. 21R—Other Admitted Assets* for the residual definition and accounting and reporting guidance. (Ref #2024-08)
- vii. Adopted editorial revisions to remove the "Revised" and "R," previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the *Accounting Practices and Procedures Manual* (AP&P Manual). (Ref #2024-14EP)
- viii. Adopted *Issue Paper No. 169, Principles-Based Bond Project*, which details the discussions and decisions underlying the principles-based bond project. (Ref #2019-21)

D. Exposed the following statutory accounting principle (SAP) concepts and clarifications to statutory accounting guidance for a public comment period ending Sept. 27, except for agenda items 2024-10 and 2024-15, which have a public comment period ending Nov. 8, and agenda item 2024-01, which has a public comment period ending Sept. 6.

- i. Exposure clarifies the guidance for debt securities issued by funds to clarify U.S. Securities and Exchange Commission (SEC) registration is a practical safe harbor and should not be utilized as a proxy for other debt securities issued by funds. Debt securities issued by funds must be classified in accordance with the issuer's primary purpose. (Ref #2024-01)
- ii. Exposure includes clarifications to the accounting guidance for *SSAP No. 93R—Investments in Tax Credit Structures* and *SSAP No. 94R—State and Federal Tax Credits*. (Ref #2024-18)
- iii. Exposure on the measurement method guidance, which specifies the process of transferring assets for cash between the general account and book-value separate accounts. (Ref #2024-10)
- iv. Re-exposed revisions to *SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance,* which incorporate guidance consistent with *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with interrelated contract features, such as experience rating refunds. Also exposed reference to A-791, paragraph 6, guidance for yearly renewable term contracts regarding the entirety of the contract. (Ref #2024-06)
- v. Exposed concept agenda item to consider new guidance for interest-rate hedging derivatives that do not qualify as accounting effective hedges under *SSAP No. 86—Derivatives* but are used for asset-liability management (ALM). (Ref #2024-15)
- vi. Exposed revisions to address debt security investments with derivative components that do not qualify as structured notes. The proposed guidance would require the separation of the derivatives from the debt security and be applicable to "credit repack" investments and any type of debt security with derivative wrappers or components. (Ref #2024-16)
- vii. Exposed revisions to reject, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures.* The exposure also proposes to remove one of the existing disclosures detailed within the ASU. (Ref #2024-11)

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viii. Exposed revisions to *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees to* update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to *Valuation Manual* (VM)-01. (Ref #2024-17)

ix. Re-exposed revisions to *Appendix A-791 Life and Health Reinsurance Agreements* (A-791) *to* remove the first sentence of the A-791, paragraph 2c's question and answer. (Ref #2024-05)

x. Exposed a new part to the reinsurance Schedule S in the life/fraternal and health annual statement blanks and Schedule F in the property/casualty (P/C) and title annual statement blanks to capture information on modified coinsurance (modco) and funds withheld. (Ref #2024-07)

xi. Exposed revisions to provide more reporting lines for collateral loans. (Ref #2023-28)

xii. Exposed a memorandum that details an overview and discussion of securities lending and repurchase/reverse repurchase agreements. (Ref #2024-04)

xiii. Exposed the *Current Expected Credit Losses (CECL) Issuer Paper* to document pre-CECL generally accepted accounting principles (U.S. GAAP) impairment guidance for historical purposes. (Ref #2023-24)

xiv. Exposed the *New Market Tax Credit Project Issue Paper* detailing the discussions and decisions underlying the new market tax credit project. (Ref #2022-14)

xv. Exposed agenda item to reject *ASU 2024-02, Codification Improvements* as not applicable to statutory accounting. (Ref #2024-19)

xvi. Exposed the *Bond Project Question-and-Answer Implementation Guide* (Q&A), which addresses topics in applying the principles-based bond definition. (Ref #2019-21)

E. Directed NAIC staff to defer action on Ref #2024-12: *SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures* to allow NAIC staff additional time to confer with interested parties.

F. Received updates on the following:

i. U.S. GAAP exposures, noting that items will be addressed during the normal maintenance process.

ii. *Valuation Manual* adoptions and updates were received, noting that no items were identified that require coordination under the NAIC Policy Statement on Coordination with the *Valuation Manual.*

iii. Interest Maintenance Reserve (IMR) Ad Hoc group activities, as well as an update on the group's discussions. This update identified that companies are not consistently reflecting negative IMR in cash flow testing (CFT). Information was also shared with the Life Actuarial (A) Task Force and chief financial regulators on examples of the correct, incorrect, and potential misreporting that have been noted to assist with the review of domiciliary companies.

iv. Bond Project Implementation. This update informed that an NAIC self-study educational program is available to all participants without a course fee for 2024.

v. International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities, including notice of the exposed application paper on climate risk.

4. Adopted the report of the Blanks (E) Working Group, which met Aug. 7, 2024. During this meeting, the Working Group took the following action:

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A. Adopted its May 23 minutes. During this meeting, the Working Group took the following action:
   i. Adopted its Feb. 21 minutes.
   ii. Adopted its editorial listing and the following proposals:
      a. 2023-12BWG Modified – Categorize debt securities on Schedule BA that do not qualify as bonds under *Statement of Statutory Accounting Principles* (*SSAP) No. 26R—Bonds* or *SSAP No. 43R—Loan-Backed and Structured Securities* and are captured in the scope of *SSAP No. 21R—Other Admitted Assets*.
      b. 2024-01BWG – Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (Statutory Accounting Principles [E] Working Group agenda item #2023-23).
      c. 2024-02BWG Modified – Remove categories from Schedule DA, Part 1, and Schedule E, Part 2, that should be reported on Schedule BA. Add clarifying instructions on what should be included in other short-term and other cash equivalent categories.
      d. 2024-03BWG Modified – Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included.
      e. 2024-04BWG – Add clarifying language to the *Valuation Manual* (VM)-20, Requirements for Principle-Based Reserves for Life Products, supplement in the life blank to include separate accounts where applicable.
      f. 2024-05BWG – Add language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors that have the discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory.
      g. 2024-06BWG – Property/casualty (P/C) changes: Limit the requirement to send qualification documentation to the board of directors only at the initial appointment and not annually thereafter. Title changes: Update the title instructions so they are more similar to the P/C instructions.
      h. 2024-07BWG – Update the illustration under Note 5S(A)—Investments for net negative (disallowed) interest maintenance reserve (IMR) to add a separate account breakout. Add a new general interrogatory for a company attestation for separate accounts.
      i. 2024-08BWG – Update the IMR and asset valuation reserve (AVR) instructions for specific allocation guidance for NAIC designation changes for debt securities (excluding loan-backed and structured securities [LBSS]), mortgage loans, and perpetual preferred stocks. (Statutory Accounting Principles [E] Working Group agenda items #2023-15 and #2023-29)
      j. 2024-09BWG Modified – Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral.
      k. 2024-10BWG Modified – Remove the *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act* disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for P/C) in the *Annual Statement Instructions*.
   iii. Deferred proposal 2024-11BWG – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years. The public comment period ends July 8.

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iv. Exposed one proposal with a public comment period ending July 8.

B. Adopted its editorial listing and the following proposals:
   i. 2024-11BWG Modified – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes that will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; AVR; Schedule BA, Parts 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.
   ii. 2024-12BWG Modified – Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2) Update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. (Reference: adopted proposal 2023-06BWG).

C. Received a Statutory Accounting Principles (E) Working Group memorandum regarding instructional changes to the AVR to allow collateral loans backed by mortgage loans to flow through AVR as an “Other Invested Asset with Underlying Characteristics of Mortgage Loans.”

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NATIONAL MEETING
SUMMER / CHICAGO 2024 NAIC

2024 Summer National Meeting
Chicago, Illinois

CAPITAL ADEQUACY (E) TASK FORCE
Wednesday, August 14, 2024
1:30 – 2:30 p.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met Aug. 14, 2024. During this meeting, the Task Force:

1. Adopted its June 28 and April 30 minutes. During these meetings, the Task Force took the following action:
   A. Adopted proposal 2024-09-CA (Underwriting Risk Investment Risk Factor).
   B. Adopted proposal 2024-13-CA (Receivable for Securities Factors).
   C. Adopted proposal 2024-15-L (Collateral Loans).
   D. Adopted proposal 2024-17-L (BA Mortgages Omitted AVR Line Factor).
   E. Adopted proposal 2024-12-H (Modified Health Care Receivable Factors).
   F. Adopted proposal 2024-14-P (PC Underwriting Line 1 Factors).
   G. Adopted the Risk-Based Capital Investment Risk and Evaluation (E) Working Group's June 25 meeting summary.
   H. Adopted proposal 2024-18-CA (Residual Factor for PC & Health).
   I. Adopted proposal 2024-04-L (TAC for Non-Admitted Affiliate).
   J. Adopted proposal 2024-05-L (BA Mortgages Omitted AVR Line).
   K. Adopted proposal 2024-08-CA (Column 12 Affiliated Investment).
   L. Adopted proposal 2024-10-P (PR019 Other Health Line).
   M. Adopted proposal 2024-11-P (2024 and 2025 Underwriting Risk Lines 4 and 8 Factors).
   N. Adopted proposal 2023-17-CR (Climate Scenario Analysis). However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting.
   O. Received updates from the Statutory Accounting Principles (E) Working Group on the potential revisions to Schedule BA collateral loans disclosures and reporting lines.
   P. Discussed proposal 2024-16-CA (Revised Preamble).
   Q. Discussed the possibility of establishing a new working group to evaluate the non-investment risk issues.
   R. Discussed and exposed a referral from the Statutory Accounting Principles (E) Working Group regarding the investment in tax credit structures.
   S. Forwarded a referral regarding the issue of asset concentration to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.
   T. Referred issues regarding geographic concentration to the Catastrophe Risk (E) Subgroup.

2. Adopted its Spring National Meeting minutes.

3. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met July 25. During this meeting, the Working Group took the following action:
   A. Adopted its June 24, June 6, and April 16 minutes, which included the following action:

i. Adopted its Feb. 22 minutes.
ii. Referred proposal 2024-09-CA to the Capital Adequacy (E) Task Force.
iii. Heard an update from the American Academy of Actuaries (Academy) on the health care receivables and H2 – Underwriting Risk review projects.
iv. Exposed a referral letter on pandemic risk to the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group.
v. Discussed the excessive growth charge.
vi. Exposed proposal 2024-12-H for a 30-day public comment period that ended May 16.
vii. Exposed proposal 2024-12-H (MOD) for a 14-day public comment period that ended June 20.
viii. Adopted proposal 2024-12-H (MOD) by e-vote.

B. Adopted the 2024 health risk-based capital (RBC) newsletter.
C. Adopted the 2023 health RBC statistics.
D. Received an update from the Academy on the H2 – Underwriting Risk review project.
E. Directed NAIC staff to forward a referral letter on pandemic risk to the Risk-Focused Surveillance (E) Working Group.
F. Adopted its 2024 working agenda.

4. Adopted the report of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, which met Aug. 14. During this meeting, the Working Group took the following action:
   A. Adopted its June 21, May 22, and April 12 minutes. During these meetings, the Working Group took the following action:
      i. Discussed a review of year-end 2023 data reported for residual tranches.
      ii. Heard a presentation from the NAIC's Structured Securities Group (SSG).
      iii. Discussed comment letters received on Oliver Wyman's residual tranche risk analysis.
      iv. Discussed comment letters received on a memorandum requesting additional feedback from industry stakeholders to substantiate their request for an additional one-year delay in implementing the 45% RBC factor for residual tranches.
      v. Discussed comment letters received on proposal 2024-19-I and other potential alternative proposals.
      vi. Discussed the American Council of Life Insurers' (ACLI's) survey data on residual ownerships by life insurers.
      vii. Voted to retain the original adoption of the 45% charge to be applied to all residuals.
   B. Adopted its Spring National Meeting minutes.
   C. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
   D. Heard an update from the Academy on a structured securities RBC project.
   E. Discussed referrals related to funds and discussed moving forward in considering RBC formula and instruction changes to reflect Securities Valuation Office (SVO)-assigned designations in U.S. Securities and Exchange Commission (SEC)-registered funds as well as to review and consider convergence with exposure aggregations for funds consistently with the Supplemental Investment Risk Interrogatory (SIRI).
   F. Adopted its 2024 working agenda

5. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Aug. 14 and took the following action:

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A. Adopted its June 18 and April 19 minutes. During these meetings, the Working Group took the following action:
   i. Adopted proposal 2024-15-L.
   ii. Adopted proposal 2024-17-L.
   iii. Adopted proposal 2024-04-L.
   iv. Adopted proposal 2024-05-L.
   v. Discussed covariance.
   vi. Discussed C-3 risk.
   vii. Discussed proposal 2024-03-L.
   viii. Discussed proposal 2024-07-L.
B. Adopted its Spring National Meeting minutes.
C. Received updates from its subgroups:
   i. Generator of Economic Scenarios (GOES) (E/A) Subgroup
   ii. Longevity Risk (E/A) Subgroup
   iii. Variable Annuities Capital and Reserve (E/A) Subgroup
D. Adopted the 2024 RBC newsletter.
E. Adopted its 2023 life RBC statistics.
F. Received a referral from the Statutory Accounting Principles (E) Working Group on investments in tax credit structures.
G. Discussed the Schedule BA proposal for non-bond debt securities.
H. Adopted its working agenda.

6. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup, which met in joint session Aug. 14. During this meeting, the Working Group and Subgroup took the following action:
   A. Adopted the Property and Casualty Risk-Based Capital (E) Working Group's June 17 and April 25 minutes. During these meetings, the Working Group took the following action:
      i. Adopted proposal 2023-14-P (Underwriting Risk Line 1 Factors), which it had exposed for a 30-day public comment period that ended May 25.
      ii. Adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8. However, the Financial Condition (E) Committee adopted proposal 2024-20-CR to replace the 2023-17-CR during its Aug. 2 meeting.
      iii. Adopted proposal 2024-10-P (Other Health Line), which it had exposed for a 30-day public comment period that ended April 16.
      iv. Adopted proposal 2024-11-P (Underwriting Risk Lines 4 & 8 Factors), which it had exposed for a 30-day public comment period that ended April 16.
      v. Discussed potential modifications in the RBC statistics.
      vi. Discussed the study of flood risk in the Catastrophe Risk (E) Subgroup.
      vii. Heard updates from the Academy on its current underwriting risk projects.
   B. Adopted the Catastrophe Risk (E) Subgroup's June 10 and April 23 minutes. During these meetings, the Subgroup took the following action:
      i. Adopted proposal 2023-17-CR (Climate Scenario Analysis), which it had re-exposed for a 22-day public comment period that ended April 8.

ii. Exposed a referral from the Capital Adequacy (E) Task Force regarding the geographic concentration issue.
iii. Discussed wildfire peril impact analysis.
iv. Discussed CoreLogic's wildfire model review.
v. Discussed the possibility of adding flood peril to the Rcat component.
vi. Heard an update regarding severe convective storm peril.

C. Adopted their Spring National Meeting minutes.
D. Adopted the 2024 property and casualty (P/C) RBC newsletter.
E. Discussed 2023 P/C RBC statistics.
F. Discussed their working agenda.
G. Discussed the geographic concentration issue.
H. Heard updates on the severe convective storm peril.
I. Discussed the wildfire peril impact analysis.
J. Discussed the CoreLogic wildfire model review.
K. Discussed the possibility of adding flood peril to the Rcat component.
L. Discussed how to handle flood peril with the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM).
M. Heard an update from the Academy on current and future research topics.

7. Adopted its working agenda with edits in the Risk-Based Capital Investment Risk and Evaluation (E) Working Group section.

8. Exposed its revised procedures document for a 30-day public comment period ending Sept. 13.

9. Exposed its 2025 proposed charges for a 30-day public comment period ending Sept. 13.

10. Exposed a memorandum to the Financial Condition (E) Committee regarding the request for a new working group for a 30-day public comment period ending Sept. 13.

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Draft: 8/6/24

Examination Oversight (E) Task Force
Virtual Meeting (*in lieu of meeting at the Summer National meeting*)
July 25, 2024

The Examination Oversight (E) Task Force met July 25, 2024. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Lori K. Wing-Heir represented by David Phifer (AK); Mark Fowler, represented by Blase Abreo (AL); Barbara D. Richardson represented by David Lee (AZ); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Rolf Kaumann and Carol Matthews (CO); Andrew N. Mais represented by Michael Shanahan (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Chad Mason (FL); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Jerry Ehlers and Roy Eft (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by James A. McCarthy (MA); Anita G. Fox represented by Judy Weaver (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Andrea Johnson (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Eli Snowbarger (OK); Michael Humphreys represented by Diana Sherman (PA); Carter Lawrence represented by Daniel Clements (TN); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Jennifer Blizzard (VA); Mike Kreidler represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its 2023 Fall National Meeting Minutes

Kaumann made a motion, seconded by Orth, to adopt the Task Force's Nov. 15, 2023, minutes (*see NAIC Proceedings – Fall 2023, Examination Oversight (E) Task Force*). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Electronic Workpaper (E) Working Group

Laura Clements provided the report of the Electronic Workpaper (E) Working Group. She said that the Working Group has not met in open session yet this year. However, it held a series of monthly virtual sessions through April to provide ongoing updates on the TeamMate+ Transition and cover emerging questions as states worked through implementation. She provided updated statistics related to the TeamMate+ transition and noted that the Working Group will begin developing best practices going forward as departments gain experience working in the application.

B. Financial Analysis Solvency Tools (E) Working Group

Chew provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met July 16 and adopted guidance in the *Financial Analysis Handbook* related to affiliated investment management services and agreements.

The Working Group exposed the following draft revisions for a 30-day public comment period ending Aug. 15:

- Guidance regarding Form A and disclaimer of affiliation applications.
- Guidance regarding the property/casualty (P/C) insurers catastrophe reinsurance program.

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- Guidance regarding the Own Risk and Solvency Assessment (ORSA) guidance related to Form F.
- Guidance regarding pricing and underwriting risks of health insurers.

The Working group also exposed revisions to the credit risk repository within the *Financial Analysis Handbook* for a 45-day public comment period ending Aug. 30.

C. <u>Financial Examiners Coordination (E) Working Group</u>

Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the group met on March 13 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.

D. <u>Information Technology (IT) Examination (E) Working Group</u>

Vang provided the report of the Information Technology (IT) Examination (E) Working Group. He said the Working Group met May 9 to discuss a referral from the Cybersecurity (H) Working Group that requested consideration of adding or revising the IT review guidance within the *Financial Condition Examiners Handbook* to better prioritize cybersecurity risks. The Working Group formed a Cybersecurity Drafting Group, which met June 17 and decided to use the new National Institute of Standards and Technology (NIST) Cybersecurity Framework (CSF) 2.0 to update handbook guidance. He said Exhibit C will be reviewed for areas that may be reduced or removed as a part of this project as well. NAIC staff have completed the initial gap analysis, and a Drafting Group meeting is scheduled for Aug. 5 to review and determine the next steps for drafting updated guidance.

Eft made a motion, seconded by Malm, to adopt the reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group, including its July 16 meeting minutes (Attachment One), the Financial Examiners Coordination (E) Working Group, and the Information Technology (IT) Examination (E) Working Group, including its May 9 minutes (Attachment Two).

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

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_2Summer/EOTF/EOTF Minutes 7.25.24 - Final.docx

2024 Summer National Meeting
Chicago, Illinois

FINANCIAL STABILITY (E) TASK FORCE
Tuesday, August 13, 2024
11:15 a.m. – 12:00 p.m.

Meeting Summary Report

The Financial Stability (E) Task Force met Aug. 13, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Received a Macroprudential (E) Working Group update.

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

4. Received an update on Financial Stability Oversight Council (FSOC) developments.

5. Received an international update, which included an update on the International Association of Insurance Supervisors (IAIS) Global Monitoring Exercise (GME). The GME includes the individual insurers monitoring exercise and the sector-wide monitoring exercise. Updates for other IAIS key initiatives were discussed, including cross-border reinsurance, level 3 assets, and climate risk.

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2024 Summer National Meeting
Chicago, Illinois

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE
Wednesday, August 14, 2024
11:00 a.m. – 12:00 p.m.

Meeting Summary Report

The Receivership and Insolvency (E) Task Force met Aug. 14, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted 2025 proposed charges for the Task Force and its Working Groups. The proposed charges do not contain any substantive changes.

3. Adopted the report of the Receivership Financial Analysis (E) Working Group, which met Aug. 14 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.

4. Adopted the report of the Receivership Law (E) Working Group, which met July 24. During this meeting, the Working Group took the following action:
   A. Heard an update on states' adoption of exemptions to stays and injunctions for Federal Home Loan Banks (FHLB) agreements in states' receivership laws. To date, 29 states have adopted exemptions.
   B. Heard a presentation on the results of litigation regarding the continuation of coverage and over-the-cap claims in the liquidation of Penn Treaty Network America Insurance Company. State insurance regulators are encouraged to review and consider amending their receivership laws, if necessary, to include Sections 501, 502, and 801 of the *Insurer Receivership Model Act* (#555) to avoid similar legal issues in future insolvencies.

5. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) Resolution Working Group is reviewing comments received on the public consultation of the revisions to Insurance Core Principle (ICP) 12 (Exit from the Market and Resolution) and ICP 16 (Enterprise Risk Management for Solvency Purposes) related to recovery and resolution. After receiving feedback from the IAIS Supervisory Material Review Task Force, the Resolution Working Group is expected to meet Sept. 11–12 in Basel, Switzerland, to review the draft response and prepare a report for its parent committee, the IAIS Policy Development Committee.

6. Heard an update on upcoming events of the International Association of Insurance Receivers (IAIR), which has scheduled a series of virtual events in September and October that are open for registration.

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7. Heard an update on the proposed federal American Privacy Rights Act (APRA) from the National Conference of Insurance Guaranty Funds (NCIGF).

8. Heard an update on the U.S. Court of Appeals for the Federal Circuit (DC Circuit) decision on Nevada Health CO-OP, an insurer in liquidation in Nevada.

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Draft: 8/3/24

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2024 Summer National Meeting*)
July 22, 2024

The Reinsurance (E) Task Force met July 22, 2024. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Ricardo Lara, Vice Chair, represented by Monica Macaluso (CA); Mark Fowler represented by Todrick Burks (AL); Lori K. Wing-Heier represented by David Phifer (AK); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Charles Santana (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Bryce Rawson (GA); Doug Ommen represented by Kim Cross and Kevin Clark (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Vicki Lloyd (KY); Timothy J. Temple represented by Melissa Gibson (LA); Kevin P. Beagan represented by Christopher Joyce (MA); Robert L. Carey represented by Robert Wake (ME); Grace Arnold represented by Fred Andersen (MN); Mike Chaney represented by Chad Bridges (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Chris Amory (NE); D.J. Bettencourt represented by Doug Bartlett (NH); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Don Gilbert (NM); Adrienne A. Harris represented by Martha Lees and Bob Kasinow (NY); Judith L. French represented by Cam Piatt (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); Jon Pike represented by Jake Garn (UT); Scott A. White represented by Doug Stolte (VA); and Nathan Houdek represented by Mark McNabb (WI).

1. <u>Adopted its Spring National Meeting Minutes</u>

Obusek made a motion, seconded by Kaumann, to adopt the Task Force's Feb. 26 minutes (*see NAIC Proceedings—Spring 2024, Reinsurance (E) Task Force*). The motion passed unanimously.

2. <u>Adopted its 2025 Proposed Charges</u>

Rehagen noted that the Task Force's 2025 proposed charges included minor revisions from 2024 to reflect the current duties of the Task Force and the Reinsurance Financial Analysis (E) Working Group.

Eft made a motion, seconded by Joyce, to adopt the 2025 proposed charges of the Task Force and the Reinsurance Financial Analysis (E) Working Group (Attachment One). The motion passed unanimously.

3. <u>Adopted the Report of the Reinsurance Financial Analysis (E) Working Group</u>

Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met June 27, May 13, and March 28 to approve several certified and reciprocal jurisdiction reinsurers for passporting.

Kaumann stated that the Working Group has now approved 85 reciprocal jurisdiction reinsurers and 41 certified reinsurers for passporting and that 49 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Wake, to adopt the report of the Reinsurance Financial Analysis (E) Working Group. The motion passed unanimously.

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4. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Wake stated that the Working Group last met Nov. 1, 2023, in regulator-to-regulator session, pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings, where the Working Group 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. He noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems and that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

5. Discussed Ongoing Projects at the NAIC That Affect Reinsurance

Rehagen stated that a project had been started in the Life Actuarial (A) Task Force that would require asset adequacy testing (AAT) to be performed using a cash flow testing methodology for life and annuity reinsurance transactions. He stated that this project was proposed by several state insurance regulators and recommends changes to the AAT methodology for the assets that support reinsurance transactions. He stated that this project was discussed publicly at the Life Actuarial (A) Task Force's June 20, Feb. 15, and Feb. 8 meetings and noted that there was substantial discussion during those meetings. Rehagen provided an opportunity for Task Force members, interested state insurance regulators, and other interested parties to provide comments on the project.

Andersen stated that the Life Actuarial (A) Task Force was scheduled to meet July 25 to conduct a detailed discussion of the comment letters received from the June 20 exposure.

Karalee Morell (Reinsurance Association of America—RAA) spoke on behalf of the RAA, Swiss Re, and Hannover Re. She stated that her group recognizes that there are valid regulatory concerns, and they are committed to working together to find appropriate solutions. She also stressed the importance of coordination between NAIC groups to ensure that there is no duplication of efforts. She stated that her group believes that the current proposals being considered would create some unnecessary obstacles that will negatively impact the insurance marketplace without addressing the regulator's fundamental concern. She noted that their belief is that the core regulator concern is collectability, not reserving levels; therefore, any solutions should be directly targeted at that issue. In addition, it is critically important that any action taken by the NAIC be consistent with the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement) or the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (UK Covered Agreement) and collateral treatment extended to reciprocal jurisdictions and reciprocal jurisdiction reinsurers under those agreements.

Brian Bayerle (American Council of Life Insurers—ACLI) stated that his group intends to work with the state insurance regulators to develop the necessary tools to assess and mitigate insurance risks while ensuring consumer access to life and retirement products. He noted that reinsurance remains a vital tool for proper risk management and that the NAIC effort should encourage the responsible use of reinsurance and make a great effort not to disrupt this critical marketplace. He stated that his group believes it is critical that the various work streams be coordinated at the NAIC and that industry wants to ensure whatever additional requirements arise out of these efforts are value added to the regulators' regulatory responsibilities and truly address these underlying concerns. He noted that they further want to seek coordination to avoid any duplicate work or contradictory requirements. He noted that it is critical that the state insurance regulators get the scope right to avoid unnecessary work that does not aid in their review of the companies. Specifically, it is necessary and appropriate, depending on the degree of additional work, that these requirements for AAT must be applied prospectively only. He stated that his group supports a disclosure-based framework that leverages the good work that companies are already doing when they enter a reinsurance transaction. Additionally, the ACLI encourages

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the NAIC to look closely at the proposed requirements and how they would align with existing requirements, such as the EU and UK Covered Agreements.

Patricia Matson (Risk and Regulatory Consulting—RRC) stated that her firm has been involved with many transactions that involve moving business offshore and noted that based on what they have seen firsthand, the amount of assets that back the policyholder obligations declined significantly. She noted that she strongly believes that there does need to be a solution to address the decline in assets and is in favor of requirements for the appointed actuary to directly assess the adequacy of the invested assets and reserves in order to make sure that the assets are sufficient to support the policyholder obligations even after a reinsurance transaction. She stated that she does not believe that evaluation of counterparty risk or disclosures alone is sufficient to address the issue. She noted that there are already many disclosures required as those transactions occur, and counterparty risk has to be evaluated by the actuary under existing standards and that despite those requirements that already exist, there are cases where assets after the transaction are not sufficient to cover the obligations to the customer under moderately adverse conditions.

Peter Gould (Unaffiliated) stated that he is a retiree and end user of insurance products and that he depends on annuity income for a substantial portion of his retirement income. He noted that there had been rapid developments and changes in the industry. He suggested that NAIC staff and state insurance regulators begin testing these proposed procedures on real-life data from companies that are currently or have previously failed or are in rehabilitation to help provide an early warning of these problems to fix so that policyholders will not be dependent on state guaranty associations. He stressed the importance of this project and the financial impact that a failure by a company could have on end users of these products.

Mark Tenney (Mathematical Finance Company) noted that his main comment relates to collectability. He stated that the International Monetary Fund's (IMF's) views are that Latin America and offshore islands currently have measures that restrict capital flows during crises, so if there is a financial crisis, the IMF supports these countries in limiting outflows of capital. He stated that if state insurance regulators are expecting that during a crisis there are going to be capital outflows from offshore. The IMF is expecting that to prevent those outflows, there will be a clash between two regulator groups. He stated that with Bermuda, for example, the private equity (PE) companies are very interested in alternative investments and noted that there is a large amount of Chinese money in the Cayman Islands and Bermuda. He noted that there may be more than $2 trillion of Chinese-related investment money that goes through variable interest entities, which are not allowed under Chinese law, and that at some point, the $2 trillion could simply disappear if a Chinese court ruled those investments were invalid. He further stated that if the reinsurers in Bermuda can purchase some investments related to that, and if it is cut off by China, then that money just disappears. Additionally, a reinsurance failure in these regions could impact efforts to try to get climate mitigation capital to flow to Latin America, and there is an estimate that they need $400 billion to $1.1 trillion per year of spending by Latin America, which is not currently happening. He noted that a large reinsurer failing would discredit the regulators in that region, which would disrupt these enormous climate flow payments that need to be made.

Jason Kehrberg (PolySystems), on behalf of the American Academy of Actuaries (Academy), stated that the Academy developed its comments to balance the view that the appointed actuary should be able to apply principles and judgment in their AAT and that they understand the need for regulators to provide additional guidance on AAT in certain situations, such as those outlined in the exposure. He recognized that reinsurance has proved to be an effective risk mitigation tool and believes that any changes to AAT requirements should avoid incentivizing insurance companies from implementing appropriate reinsurance solutions.

Jake Stultz (NAIC) stated that in 2023, the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies they regulate. He noted that the worksheet allows for more consistent and

Draft Pending Adoption

thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force's policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook.* He said that the work completed using the reinsurance worksheet will remain confidential. He requested that if anybody who had used the worksheet had any comments on the overall form or function, please provide those to him so they can be compiled and shared with the appropriate NAIC group.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its second year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers AAT for life insurers, but he noted that the Task Force's primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the EU Covered Agreement and UK Covered Agreement. He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

Stultz noted that the Valuation Analysis (E) Working Group sent two referrals to the Statutory Accounting Principles (E) Working Group at the 2023 Fall National Meeting, and as a result, a referral that summarizes both issues was then sent to the Task Force (Attachment Two). The first referral recommends that the Working Group remove a specific sentence from Appendix A-791, Section 2C, because it is unnecessary and is being misinterpreted. The second referral requests clarification on the evaluation of risk transfer on life reinsurance treaties. He stated that these referrals will be addressed by the Statutory Accounting Principles (E) Working Group over the next several months. Stultz noted that the Statutory Accounting Principles (E) Working Group is also working on a project that proposes to expand reporting of assets that are subject to a funds withheld or modified coinsurance (modco) arrangement and that an agenda item will be exposed at the Summer National Meeting.

Stultz stated that in 2023, there was an issue with Vesttoo, a reinsurance broker, where fraudulent letters of credit had been used for collateral purposes. He noted that several groups at the NAIC had discussed the issue and are continuing to monitor the situation and that the NAIC's current understanding is that all the letters of credit have been replaced. There have been several legal settlements between Vesttoo and the impacted companies.

Stultz noted that there were several bank failures in early 2023 that impacted reinsurance since some of these banks were approved on the List of Qualified U.S. Financial Institutions (QUSFI List). He stated that the *Credit for Reinsurance Model Law* (#785) allows a letter of credit to be used as collateral under Section 3 if the issuing bank meets the criteria of Section 4, which details the process for a bank to be reviewed and approved to be added to the QUSFI List. He stated that a drafting note in Model #785 also clarifies what needs to be done in situations when a financial institution loses its status as a QUSFI. As a result of the bank failures, the Valuation of Securities (E) Task Force adopted a minor revision to the *Purposes and Procedures Manual* (P&P Manual) that streamlines the process of removing troubled financial institutions from the QUSFI List. He stated that he is not aware of any issues with any banks at this time but that NAIC staff will continue to monitor any news about any banks on the QUSFI List.

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

/NAICSupportStaffHub/Member Meetings/E CMTE/RTF/2024SummerNM/Meeting/Minutes/0 ReinsuranceTFmin 07.22.2024.docx

Draft: 7/29/24

Risk Retention Group (E) Task Force
Virtual Meeting *(in lieu of meeting at the 2024 Summer National Meeting)*
July 24, 2024

The Risk Retention Group (E) Task Force met July 24, 2024. The following Task Force members participated: Kevin Gaffney, Chair, represented by Sandra Bigglestone (VT); Karima M. Woods, Vice Chair, represented by Sean O'Donnell (DC); Mark Fowler represented by Sheila Travis (AL); Vicki Schmidt represented by Tish Becker (KS); Sharon P. Clark represented by Russell Coy (KY); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Debbie Doggett (MO); Eric Dunning represented by Kristy Hadden (NE); Scott Kipper represented by Gennady Stolyarov (NV); Mike Causey represented by Lori Gorman (NC); Jon Godfread represented by Matt Fischer (ND); Michael Wise represented by Ryan Basnett (SC); and Cassie Brown represented by Leah Gillum (TX).

1. Discussed a Referral to the National Treatment and Coordination (E) Working Group

Bigglestone summarized that the Task Force developed the Uniform Risk Retention Group Registration Form to encourage uniformity among states. She indicated that the referral (Attachment___) drafted to the National Treatment and Coordination (E) Working Group considers the integration of the registration form into the electronic Uniform Certificate of Authority Application (UCAA) System. She stated that this would expedite the filing of registrations by risk retention groups (RRGs) by allowing them to submit the form to all states they desire to be registered, as opposed to filing a manual document separately in each state.

Doggett commented that the UCAA project is well underway and that she has not seen the registration form. She said she was not sure when it could be scoped into the project. Bigglestone commented that the registration form would be attached to the referral for consideration.

Hearing no further comments, Bigglestone said the referral would be sent, and an update would be provided at a subsequent meeting.

2. Adopted its 2025 Proposed Charges

Andy Daleo (NAIC) discussed a memorandum that included the Task Force's 2025 proposed charges. He noted that the proposed edits included: 1) clarifying the need for the Task Force to monitor other NAIC workstreams to ensure that RRGs remain in compliance with filing requirements; and 2) enhancing the language regarding the potential need to provide guidance to domiciliary and non-domiciliary states regarding RRGs.

O'Donnell made a motion, seconded by Orth, to adopt the Task Force's 2025 proposed charges (Attachment____). The motion passed unanimously.

3. Discussed Other Matters

Bigglestone provided updates on: 1) the *Privacy of Consumer Financial and Health Information Regulation* (#672) and its impact on RRGs; and 2) on referrals.

Bigglestone stated that throughout the first part of 2024, Model #672 leadership focused on understanding work status to ensure a proper transition of responsibilities. Following the Privacy Protections (H) Working Group's meeting at the Spring National Meeting, the Working Group held a public meeting during which it heard from a subject matter expert (SME) on the current privacy landscape. During a public call June 12, after hearing comments from interested parties, the Working Group adopted its path forward to revise the existing NAIC privacy model, Model #672, in the coming months.

Bigglestone said the first referral was sent to the Financial Regulation Standards and Accreditation (F) Committee regarding recommendations on the applicability of the group capital calculation (GCC) RRGs within the Part A accreditation standards. The referral explains the flexibility of exempting an RRG from GCC. During the 2024 Summer National Meeting, the Financial Regulation Standards and Accreditation (F) Committee will: 1) discuss clarification language that will be added to the Part A accreditation standards that indicates RRGs are subject to the GCC calculation, with consideration given to flexibility on its applicability; and 2) discuss clarification language that will be added regarding the inapplicability of liquidity stress testing (LST) to RRGs.

Bigglestone commented on a second referral sent to the Financial Analysis Solvency Tools (E) Working Group, which contained proposed language for inclusion within the *Financial Analysis Handbook* (Handbook) regarding the GCC for RRGs. She indicated that the Task Force will follow up on implementing this language into the Handbook.

Having no further business, the Risk Retention Group (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2024_Summer/RRGTF/RRGTF minutes July 25 2024

2024 Summer National Meeting
Chicago, Illinois

VALUATION OF SECURITIES (E) TASK FORCE
Tuesday, August 13, 2024
2:00 – 3:30 p.m.

Meeting Summary Report

The Valuation of Securities (E) Task Force met Aug. 13, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

   A. Adopted its June 18 and May 2 minutes. During these meetings, the Task Force took the following action: Adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to:
      i. Permit NAIC designations for short-term, asset-backed securities (ABS).
      ii. Add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1.
      iii. Change the effective date for the implementation of collateralized loan obligation (CLO) modeling to Dec. 31, 2025.
      iv. Clarify permitting insurers to self-assign an NAIC designation 6*.
      v. Make current the list of Securities of Valuation Office (SVO) processes.
      vi. Update U.S. government agency and other U.S. government obligation abbreviations.
   B. Exposed several P&P Manual amendments, including those to:
      i. Update the definition of an NAIC designation.
      ii. Authorize the procedures for the SVO's discretion over NAIC designations assigned through the filing exempt (FE) process.
      iii. Permit NAIC designations for short-term asset-backed securities (ABS).
   C. Heard an update on the proposed CLO modeling methodology.

3. Adopted its 2025 proposed charges.

4. Adopted a revised proposed amendment to the P&P Manual to update the definition of an NAIC designation. The Task Force had previously exposed the amendment for a 28-day public comment period that ended July 18.

5. Adopted a revised proposed amendment to the P&P Manual authorizing the procedures for the NAIC's discretion over NAIC designations assigned through the FE process. The Task Force had previously exposed the amendment for a 38-day public comment period that ended July 26.

6. Exposed a proposed amendment to the P&P Manual to require annual reviews of Regulatory Transactions for a 30-day public comment period ending Sept. 13.

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7. Exposed a proposed P&P Manual amendment to update the List of NAIC Credit Rating Providers (CRPs) for a 30-day public comment period ending Sept. 13.

8. Received a staff report on the projects of the Statutory Accounting Principles (E) Working Group.

9. Received a report from the SVO on filing with the SVO investments moving to Schedule BA in 2025 due to changes to Statement of *Statutory Accounting Principles (SSAP) No. 26—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*.

10. Received a staff report on the proposed CLO modeling methodology and the CLO Ad Hoc Working Group.

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Draft: 7/24/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
July 17, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met July 17, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Johanna Nickelson, Vice Chair (SD); Blase Abreo (AL); Michelle Lo (CA); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Jackie Obusek (NC); Tadd Wegner (NE); Pat Gosselin (NH); John Sirovetz (NJ); Mark McLeod (NY); Dwight Radel (OH); Eli Snowbarger (OK); Diana Sherman (PA); John Tudino (RI); Amy Garcia (TX); Jennifer Blizzard and Greg Chew (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Adopted its May 30 Minutes

The Working Group met May 30 and took the following action: 1) referred proposed guidance on affiliated investment management services to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group; 2) discussed a referral received from the Financial Analysis (E) Working Group on run-off insurers; and 3) received an update on the status of 2024 Peer Review Program sessions.

Chew made a motion, seconded by Obusek, to adopt the Working Group's May 30 minutes (Attachment 1). The motion passed unanimously.

2. Exposed Proposed Regulatory Review Guidance for Run-Off Insurers

Malm stated that in accordance with instructions received from the Working Group on its May 30 call, NAIC staff developed guidance for the Working Group to consider in response to a referral from the Financial Analysis (E) Working Group. The referral recommended additional best practices for monitoring insurers that have been placed in run-off status.

Bruce Jenson (NAIC) provided an overview of the guidance to incorporate the recommendations proposed by NAIC staff, which includes additions to both the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. Jenson stated that while both handbooks already include some guidance on customizing solvency monitoring activities for insurers in run-off status, staff propose edits to incorporate several best practices outlined in the referral. The best practices include new guidance on reviewing a company's run-off plan, assessing a company's record keeping, maintaining communications with other stakeholders, closely monitoring legal risks, monitoring IT system changes and employee retention, evaluating changes in liquidity and reserving risk, and closely monitoring reinsurance collections and disputes.

Malm asked for comments or questions on the proposed revisions. Broccoli stated that his department has found it beneficial to request a feasibility study be performed in support of the run-off status and for the department actuary to scrutinize the reasonableness of the study. Malm stated that she envisions this being part of the department's review of the run-off plan outlined in the proposed guidance.

Lo asked whether a run-off plan is required. Malm stated that NAIC handbooks cannot mandate requirements for companies but the proposed language indicates that a run-off plan should be received. Lo asked whether the plan for regulator communication with other stakeholders discussed in the guidance is expected to be written. Jenson stated that the communication plan is a best practice to encourage timely and effective communication with other stakeholders, but a formal written plan is not expected.

Weaver made a motion, seconded by Radel, to expose the proposed guidance for a 45-day public comment period ending Aug. 30. The motion passed unanimously.

3. Received an Update on the 2024 Peer Review Program Sessions

Malm stated that the Working Group is planning two additional Peer Review Program sessions for the remainder of 2024. The first is a financial exam session scheduled for the week of Aug. 26, which is already filled and underway. The second will be a financial analysis session scheduled for the week of Oct. 14, with the application period for the session opening in the coming weeks.

4. Discussed Other Matters

Malm asked if there were any other matters for discussion. Peter Gould asked if he could comment on the proposed run-off guidance. Gould stated that the recent issues at PHL Variable Insurance Company should be considered when developing the guidance. Gould stated that policyholders will likely be at risk of losing benefits and potentially running up against guaranty fund caps through the rehabilitation plan. As such, communication with policyholders and consumers should be a priority when a company is placed in run-off status.

Weaver stated that run-off plans and other details of financial regulation are often kept confidential to avoid a run-on-the-bank scenario when concerns are noted at a company. Therefore, it might not always be possible to notify or warn the public regarding regulatory efforts in this area. In addition, Weaver stated that this would be a market conduct or consumer protection initiative, as opposed to something financial regulators would take the lead on.

Gould thanked Weaver for this response and encouraged regulators to consider whether their concept of materiality should be altered when monitoring a company in run-off status due to the potential impact on policyholders. Malm thanked Gould for the verbal comments and encouraged the submission of written comments during the exposure period.

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

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Draft: 5/31/24

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
May 30, 2024

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee met May 30, 2024. The following Working Group members participated: Amy Malm, Chair (WI); Lindsay Crawford, Vice Chair (NE); Blase Abreo (AL); William Arfanis (CT); Nicole Crockett (FL); Daniel Mathis (IA); Cindy Andersen (IL); Stewart Guerin (LA); Dmitriy Valekha (MD); Judy Weaver (MI); Shannon Schmoeger (MO); Pat Gosselin (NH); Paul Lupo (NJ); Mark McLeod (NY); Jackie Obusek (NC); Dale Bruggeman (OH); Eli Snowbarger (OK); John Tudino (RI); Johanna Nickelson (SD); Brenda Talavera (TX); Malis Rasmussen (UT); Jennifer Blizzard (VA); and Steve Drutz and Tarik Subbagh (WA).

1. Referred Proposed *Financial Analysis Handbook* Additions to the to the Financial Analysis Solvency Tools (E) Working Group and Proposed *Financial Condition Examiners Handbook* Additions to the Financial Examiners Handbook (E) Technical Group

Malm stated that the first agenda item is to discuss the Working Group's efforts to develop guidance for state insurance regulator use in reviewing affiliated investment management services and agreements by insurers. This topic was originally referred to the Working Group by the Macroprudential (E) Working Group in 2022, which recommended additional regulatory guidance in this area. After discussing these topics broadly at the 2023 Summer National Meeting, the Working Group formed an Affiliated Investment Management Agreement Drafting Group to discuss the issue further and propose guidance for the full Working Group to consider.

The Drafting Group comprises state insurance regulators from Connecticut, Florida, Iowa, Maryland, Michigan, Missouri, Nebraska, Ohio, Oklahoma, Pennsylvania, Texas, Virginia, and Wisconsin. The Drafting Group met several times in late 2023 and early 2024 to discuss the referral and develop guidance. Proposed additions to the NAIC's *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* were presented to the Working Group during its March 16 meeting, where they were exposed for a 45-day public comment period ending April 30.

One comment letter was received from America's Health Insurance Plans (AHIP) during the exposure period. Tom Finnell (AHIP) summarized the recommendations made in the comment letter, which suggested removing language encouraging the financial analyst to obtain and review all investment management agreements in place at all insurers. Mike Monahan (American Council of Life Insurers—ACLI) stated his agreement with AHIP's comments.

Bruce Jenson (NAIC) stated that the Drafting Group agreed with the comment and proposed revisions to this language in the updated draft to address the concerns raised. The revisions encourage the financial analyst to verify that all investment management agreements required to be filed with the department have been filed and to consider requesting other agreements that have not been filed. Finnell stated that the updated language adequately addressed AHIP's concerns.

Arfanis made a motion, seconded by Mathis, to refer the proposed *Financial Analysis Handbook* revisions to the Financial Analysis Solvency Tools (E) Working Group and the proposed *Financial Condition Examiners Handbook* revisions to the Financial Examiners Handbook (E) Technical Group for consideration of adoption. The motion passed unanimously.

2. Discussed a Referral from the Financial Analysis (E) Working Group

Draft Pending Adoption

Malm stated that the second agenda item is to discuss a referral recently received from the Financial Analysis (E) Working Group. This group meets annually to discuss potentially troubled insurers and insurance groups, as well as industry trends and issues that might warrant communication and coordination with other NAIC groups. As a result of these discussions, some best practices related to monitoring insurers that have been placed in run-off were referred to the Working Group for its consideration. The referral notes that although some guidance on monitoring run-off insurers already exists in NAIC handbooks, there could be an opportunity to enhance such guidance by considering the sound practices highlighted in the referral.

Finnell asked how the Working Group intends to incorporate the sound practices highlighted in the referral into NAIC handbooks. Malm stated that the Working Group could either ask for volunteers to form a drafting group to address the referral or NAIC staff could be directed to draft proposed revisions for consideration. Malm asked about the Working Group members' preference for addressing the referral. Weaver stated a preference for directing staff to draft proposed revisions for the Working Group's consideration. Malm agreed and directed staff to proceed in this area.

3. <u>Received an Update on the 2024 Peer Review Program Sessions</u>

Malm stated that the Working Group is moving ahead with planning for two additional Peer Review Program sessions for the remainder of 2024. The first will be a financial exam session scheduled for the week of Aug. 26, and the second will be a financial analysis session scheduled for the week of Oct. 14. The financial exam session has already been filled through applicants deferred from previous sessions but the application period for the financial analysis session will open in the coming weeks.

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

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NATIONAL MEETING
SUMMER / CHICAGO 2024 NAIC

Virtual Meeting
(in lieu of meeting at the 2024 Summer National Meeting)

National Treatment and Coordination (E) Working Group
Wednesday, July 24, 2024
2:00 – 3:00 p.m. ET / 1:00 p.m. – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

Meeting Summary Report

The National Treatment and Coordination (E) Working Group met July 24, 2024. During this meeting, the Working Group:

1. Adopted proposal 2024-02 (Expansion Application, Form 2 -General Information) Modifications to include the addition of Doing Business As and address information for multiple expansion states. Move agent for appointment information to the jurisdiction attachment section of the electronic application.

2. Adopted proposal 2024-03 (Form 8 Questionnaire) relocated questions 14-23 to the business plan.

3. Adopted proposal 2024-04 (Narrative) added new sections to the narrative that were previously captured on Form 8, questionnaire and made all sections required in the electronic application.

4. Exposed proposal 2024-05 NAIC's *Company Licensing Best Practices Handbook*

5. Heard updates on Phase II of the UCAA Rewrite Project.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

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

TO: Interested Regulators & Interested Parties of the Financial Condition (E) Committee

DATE: August 2, 2024

RE: Request for Comments on the Draft Request for Proposal

At the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed its *Framework for Regulation of Insurer Investments – A Holistic Review* document. Included in that framework is the recommendation that the NAIC engage a consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs). At the 2024 Spring National Meeting, the Executive (EX) Committee approved the Committee to engage in the development of a request for proposal (RFP).

The Committee, with the assistance of state insurance regulators from the Valuation of Securities (E) Task Force, and its Investment Framework Drafting Group, both chaired by Carrie Mears (IA), have developed a first draft of such an RFP. Such an initial draft was necessary to facilitate further discussion and development of a final RFP, but at this time, the Committee would like to engage all interested parties on this RFP. To that end, the Committee intends this to be a fully transparent and constructive process. The RFP document proposed to be exposed is a *draft* document. ***This is not a release of the RFP for bid nor a solicitation of RFP responses.***

We recognize there is not an "out of box" product to be delivered in response to this RFP. We anticipate that our selection of a consultant will be predicated upon experience in providing solutions for similar quantitative and qualitative issues rather than providing the solution in response to the RFP. Therefore, the RFP is drafted as such to welcome proposals from many parties.

We acknowledge this RFP could be improved to ensure the best possible response outcome. As a result, we are exposing this draft RFP for 60 days to obtain feedback on the following:

CRP Due Diligence and Objectives
(1) Are all objectives clear and understood? Do any need to be refined?
(2) Are there additional objectives we should consider that are not included here?
(3) Are there objectives that interested parties feel should be excluded, and why?

RFP Response Requirements
(1) Are all requirements clear and understood? Do any need to be refined?
(2) What additional response requirements could be included to ensure the best receipt of material for selection purposes?
(3) Are there response requirements that interested parties feel should be excluded, and why?

Selection Process and Assessment Criteria
(1) Is the selection process clear and understood?

Other

(1) Any other feedback that would aid in improving the RFP.

Please direct comments to Dan Daveline (ddaveline@naic.org) by 10/14/2024. Comments are welcome from all interested parties, including industry, CRPs, and potential respondents to the RFP.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

August 2, 2024

RFP #XXXX | Credit Rating Provider Due Diligence

In 2023, the National Association of Insurance Commissioners' (NAIC) Financial Condition (E) Committee introduced a Framework for Regulation of Insurer Investments – A Holistic Review that was revised and exposed for comment at the 2024 Spring National Meeting. The Executive Summary of the framework is as follows:

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.
- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.
- At the most basic level, the question has arisen – what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?
- The historical focus of the Securities Valuation Office (SVO) has been on risk assessment of individual securities, with filing exempt securities (FE) blindly reliant on credit rating providers (CRPs) for designations.
- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics.
- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.
- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.
- The framework provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.
- The framework also provides high-level guidelines for considering consistency of capital across assets as the investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

Currently, risk-based capital charges that support the capital framework to identify weakly capitalized insurers, rely upon NAIC Designations as the measure of investment risk, for assets reported as bonds, as well as limited risk assessment for non-bond holdings. NAIC Designations are either provided directly by the SVO for filed securities or, for the majority of insurer investments, by a direct translation of a credit rating from a CRP for those securities that are exempt from

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filing (FE). There are currently no criteria for becoming a CRP beyond being an U.S. Securities and Exchange Commission (SEC) registered NRSRO and under its regulatory authority, the SEC is unable to opine on the quality of NRSRO methodologies and ratings. As such, the NAIC "blindly" relies on the CRP ratings. There is no mechanism for overall due diligence around CRP usage, no process to assess the reasonability of a CRP's ratings, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Based on this Framework, the NAIC is planning several workstreams to address the issues identified. Specific to this Request for Proposal (RFP), the NAIC is looking for detailed technical recommendations that would aid in its objectives to:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.

- At the conclusion of this the project that will result from this RFP there should be a quantitative and qualitative due diligence analytical framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).

At this time, the NAIC is soliciting proposals from qualified third-party firms for the development of a "Credit Rating Provider (CRP) Due Diligence Framework", and detailed quantitative and qualitative analysis that supports the full development and implementation of the framework that can be repeated periodically by regulators and staff.

A clarification and question and answer session will be held at **TBD pm Central Time, Month Day, Year.** Firms interested in submitting a proposal are encouraged to attend this WebEx session. Please click (link) to register.

Firms intending to respond to this RFP are asked to submit an email indicating their intent to bid and Point of Contact details by **5pm Central Time, Day, Month, Year**, via email to Jim Woody at Proposals@naic.org.

To receive consideration, final proposals must be sent electronically to Proposals@naic.org no later than **5pm Central Time, Day, Month, Year**.

Proposals must address each item described within the RFP Response Requirements: 1| Respondent Company Overview, 2|Detailed RFP Response / Proposal, 3| Additional Required Documentation , and 4| Additional Instructions.

RFP | Schedule

	RFP released
	Clarification & Q&A Session register here
	Vendor intent to Bid due to Proposals@naic.org
	Vendor RFP questions due to Proposals@naic.org
	NAIC responses to vendor questions
	Vendor submissions due by 5pm CT to Proposals@naic.org
	Vendor Interviews, if needed
	Projected Vendor Selection and RFP Award*
	Projected Project Start

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

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Selection Criteria

The RFP Selection Committee will base the vendor selection on criteria including:

- Completeness and quality of the proposal
- Experience with similar projects and the credit ratings process
- Professional reputation of the firm and qualifications of individuals assigned to this project
- Proposed project timeline and cost
- Analytical alignment of the proposed framework to the NAIC's financial solvency objectives.

The NAIC reserves the right to reject any or all proposals, request new proposals or request additional information. The NAIC reserves the right to further negotiate with any or all bidders.

Questions

Proposal-related questions should be submitted to Proposals@naic.org by **5pm Central Time, Day, Month XX, Year**. Answers to each question submitted will be posted on the NAIC RFP website by **Day, Month, Year**.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

Respectfully,

James Woody, Chief Financial Officer, National Association of Insurance Commissioners

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC)

Request for Proposal- #(number)

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Credit Rating Provider Due Diligence Framework

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Background Information

About the NAIC

The National Association of Insurance Commissioners (NAIC) is a 501(c) (3) not-for-profit organization.

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

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Role of the VOSTF

The NAIC has determined that assessing the risk of an insurance company's investments is a good starting point for assessing that insurer's financial solvency risk over its investments. CreditInvestment risk is one of the NAICs branded risk classifications monitored by state solvency regulators and which includes considering the credit quality for bond type securities. The Valuation of Securities (E) Task Force (VOSTF) formulates the NAIC's policies for securities that can be assigned the NAIC's measure of investment risk, an NAIC Designations. The Task Force's polices are documented and published in the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). The NAIC has assigned the Securities Valuation Office (SVO) and Structured Securities Group (SSG) the responsibility of carrying out the policies of the VOS/TF and assigned the Task Force with the responsibility to oversee of the operations of these NAIC departments. The SVO and SSG, when referred to jointly, are called the Investment Analysis Office (IAO).

SVO and SSG

The SVO and SSG are staffed by investment professionals whose careers have been dedicated to investment analysis. The analysis staff in these departments typically have over 25-years of investment experience, all have a bachelor's degree, 84% have an MBA, roughly a third are chartered financial analysts (CFA) or have some other advanced level certification or degree, and two-thirds have prior work experience at rating agencies.

The SVO conducts credit quality and investment risk assessments of securities owned by state-regulated insurance companies through insurer submissions of investment documents into the NAIC's VISION application and performs other functions such as: the administration of the filing exemption process (the NAIC's automated process for translating credit rating provider ratings into an NAIC Designation), compilation and publication of the SVO List of Investment Securities (a data set of all NAIC Designations published in the NAIC's AVS+ application), list of credit ratings eligible for translation, the list of funds eligible to receive NAIC Designations, the list of qualified

U.S. financial institutions that can issue letters of credit for reinsurance purposes, assessment of derivative counterparties, the list of sovereign NAIC Designation equivalents, and any other process mandated in the P&P Manual.

The SSG assesses the credit quality and investment risks in securitizations and other complex financially engineered securities through the utilization and oversight of external financial modeling vendors. Typically, these are residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), mortgage reference securities and, beginning in 2025, collateralized loan obligations (CLOs).

NAIC | Mission Statement

The mission of the NAIC is to assist the state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient, and cost-effective manner, consistent with the wishes of its members:

- *Protect the public interest;*
- *Promote competitive markets;*
- *Facilitate the fair and equitable treatment of insurance consumers;*
- *Promote the reliability, solvency, and financial solidity of insurance institutions; and*
- *Support and improve state regulation of insurance.*

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Current CRP Review Criteria and Crediting Rating Use

The Use of Credit Ratings of NRSROS in NAIC Processes

Providing Credit Rating Services to the NAIC

The NAIC uses credit ratings for a number of regulatory purposes, including, to administer the filing exempt rule. Any rating organization that has been designated a Nationally Recognized Statistical Rating Organization (NRSRO) by the U.S. Securities and Exchange Commission (SEC) and which continues to be subject to federal regulation, may apply to provide Credit Rating Services to the NAIC for the classes of credit ratings for which it is registered as an NRSRO.

Policy and Legal Disclosure Pertaining to the NAIC Credit Rating Provider (CRP) List

The NAIC uses publicly available credit ratings, when available, as one component of the services it provides to state insurance regulators concerned with financial solvency monitoring of insurance company investments.

The NAIC acts solely as a private consumer of credit ratings. The sole NAIC objective in obtaining and using credit ratings is to conserve limited regulatory resources; e.g., the resources of the SVO. The VOS/TF has established the procedure specified in this section solely to ensure that the NAIC can avail itself of credit rating opinions.

The NAIC does not select, approve or certify NRSROs or other rating organizations or distinguish among them for any public or policy purpose whatsoever. Nor does the NAIC endorse the credit rating or analytical product of any CRP or rating organization or distinguish between CRPs or rating organizations for any specific public purpose. The NAIC disclaims any authority to regulate CRPs or rating organizations.

NAIC Designations

NAIC Designations are proprietary symbols of the NAIC. The SVO, the SSG and, under certain circumstances, insurers, produce NAIC Designations for insurer-owned securities using the policies, procedures or methodologies adopted by the VOSTF in the P&P Manual. NAIC Designations are produced for statutory accounting, reporting, state investment laws and other purposes identified in the NAIC Financial Regulation Standards and Accreditation Program and/or other NAIC developed regulatory guidance embodied in state law. They must be considered in the context of their appropriateness and consistency of use in the NAIC Policy Statement and Financial Regulation Standards (SFRS) and other NAIC guidance.

NAIC Designations represent opinions of gradations of the likelihood of an insurer's timely receipt of an investment's full principal and expected interest ("investment risk"). Where appropriate for a given investment, NAIC Designations and Designation Categories shall reflect "tail risk" and/or loss given default, the position of the specific liability in the issuer's capital structure, and all other risks, except for volatility/interest rate, prepayment, extension or liquidity risk. NAIC Designations shall be identified by the NAIC 1 through NAIC 6 symbols (as

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modified by NAIC Designation Categories) which indicate the highest quality (least risk) to the lowest quality (greatest risk), respectively.

Investment risk is the likelihood that an insurer will receive full and timely principal and expected interest. It differs from "credit risk" which focuses on the ability of an issuer to make payments in accordance with contractual terms. Credit risk is, at times, too narrow a concept for NAIC purposes. For example, the performance component of a principal protected security (PPS) may produce no return and, therefore, the PPS could pay no interest with no event of default by the issuer. As such, focusing solely on credit risk could limit the SVO's ability to assess the risk of the performance component of a principal protected security or on potential risks posed by other investment types.

NAIC Designation Category – Means and refers to 20 more granular delineations of investment risk in the NAIC 1 through NAIC 6 investment risk scale used by the VOS/TF to relate investment risk in insurer-owned securities to a risk-based capital factor assigned by the NAIC Capital Adequacy (E) Task Force. Each delineation of investment risk is represented by a letter (a Modifier) which modifies the NAIC Designation grade to indicate a more granular measure of investment risk within the NAIC Designation grade. The more granular delineations of investment risk are distributed as follows: 7 for the NAIC 1 Designation grade indicated by the letters A through G; 3 delineations each for each of the NAIC Designation grades NAIC 2, NAIC 3, NAIC 4 and NAIC 5 indicated by the letters A, B and C and 1 delineation for NAIC Designation grade NAIC 6. The NAIC Designation Category framework is shown in the P&P Manual. All Modifiers roll up into the respective NAIC Designation grade as they are a subset of them.

NAIC Designation	+	NAIC Designation Modifier	=	NAIC Designation Category
1		A		1.A
1		B		1.B
1		C		1.C
1		D		1.D
1		E		1.E
1		F		1.F
1		G		1.G
2		A		2.A
2		B		2.B
2		C		2.C
3		A		3.A
3		B		3.B
3		C		3.C
4		A		4.A
4		B		4.B
4		C		4.C
5		A		5.A
5		B		5.B
5		C		5.C
6				6

An objective of the VOS/TF is to support regulators in the assessment of the financial ability of an insurer to maintain financial solvency, through the making of policy concerning insurer investment risk and the identification and sharing of pertinent information with other relevant

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regulators and regulatory groups responsible for the NAIC's regulatory framework.

NAIC Policy on the use of Credit Ratings of NRSROS

Procedure to Become an NAIC Credit Rating Provider

An NRSRO that wishes to provide Credit Rating Services to the NAIC may indicate its interest by sending a letter to the Chair of the VOS/TF with a copy to the Director of the SVO, in which it:

- Indicates an interest in providing Credit Rating Services to the NAIC.
- Confirms that it is currently an NRSRO subject to regulation by the SEC.
- Provides a chart relating its credit rating symbols to NAIC Designations.
- Indicates that the NRSRO agrees to enter into a legally binding agreement under which the NRSRO will:
  - Provide Credit Rating Services to the NAIC at no cost;
  - Reimburse the NAIC for all costs associated with: integration of its data feed into NAIC systems, subsequent changes to NAIC systems to accommodate changes in the NRSRO's systems and changes to NAIC systems as a result of the termination of Credit Rating Services by the NRSRO;
  - Give written notice 6 months prior to terminating Credit Rating Services; and
  - Agree not to claim in marketing literature that the provision of Credit Rating Services indicates NAIC approval or endorsement of the NRSRO, its products or services.

When directed to do so by the VOS/TF, the SVO shall add the name of the NRSRO (thereafter described as a Credit Rating Provider (CRP)) to the NAIC Credit Rating Provider List in the publication of the P&P Manual that follows the execution of an agreement between the NAIC and the NRSRO.

Regulatory Significance – Filing Exempt Rule

Adding the name of an NRSRO to the Credit Rating Provider List indicates that insurance companies must use the credit ratings assigned by that NRSRO, if any, when determining the NAIC Designation equivalent for a security to be reported under the filing exempt rule. Only those NAIC CRP ratings that meet the definition below may be translated into NAIC Designations under the filing exempt rule. Securities assigned ratings by NAIC CRPs that do not meet the definition below, shall be filed with the SVO. The translation of a NAIC CRP rating into an NAIC Designation is conducted in accordance with the procedures described in the P&P Manual.

Definition – Credit Ratings Eligible for Translation to NAIC Designations

As disclosed below, the NAIC may determine that the rated security or investment is of a type that is not eligible to be reported on Schedule D or that the NAIC determines is not appropriate for NRSRO credit ratings to be used to determine the regulatory treatment of a specific asset class, as specified in the P&P Manual.

The credit rating of the CRP to which this section and the NAIC Credit Rating Provider List refers to is the (a) credit rating assigned by the NAIC CRP; (b) by application of a CRP's proprietary long-term obligation ratings scale and methodology; to (c) securities.

Credit ratings of a NAIC CRP that meet this definition are entitled to a presumption of convertibility to the equivalent NAIC Designation published in the NAIC Credit Rating Provider List except that the presumption of convertibility is subject to the following limitations:

- Those rating activities or markets in which the entity has NAIC CRP status.
- Securities with monitored NAIC CRP ratings that:
    - Are monitored at least annually by the CRP that issued the rating;
    - Are assigned to a specific issue that must be specifically identified;
    - Apply to securities where the issuer promises to repay principal and interest or dividends;
    - Convey an opinion as to the likelihood of payment of both principal and interest/dividends due from the issuer to the holders of the security; or
    - Are structured to pay only principal or only interest/dividends, if the monitored NAIC CRP rating addresses the likelihood of payment of either the principal, in the case of a security structured to pay only principal or the interest/dividends, in the case of security structured to pay only interest/dividends (an "Eligible NAIC CRP Rating").

Special Rating Systems

Unless otherwise specifically approved by the VOS/TF special rating systems of any CRP, rating agency or rating organization shall not be entitled to a presumption of convertibility. Nevertheless, an SVO analyst assessing a security that has been assigned such a rating by any rating organization, including a CRP, may consider the information imparted by that rating or a related research report as one factor in determining an NAIC Designation

List OF NAIC Credit Rating Provider

The CRPs that provide Credit Rating Services to the NAIC are (listed alphabetically):

- A.M. Best Rating Services, Inc. (A.M. Best) – For credit ratings issued to insurance companies; corporate issuers and issuers of asset-backed securities.
- DBRS, Inc. (DBRS Morningstar) – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Egan-Jones Ratings Co. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies and corporate issuers.
- Fitch Ratings, Inc. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- HR Ratings de Mexico, S.A. de C.V. – For credit ratings issued to financial institutions, brokers, or dealers; corporate issuers and issuers of government securities, municipal securities, or securities issued by a foreign government.

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- Kroll Bond Rating Agency, LLC. – For credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- Moody's Investors Service, Inc. for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.
- S&P Global Ratings, for credit ratings issued to financial institutions, brokers, or dealers; insurance companies; corporate issuers; issuers of asset-backed securities and issuers of government securities, municipal securities, or securities issued by a foreign government.

The Credit Rating Providers identified above include those of its affiliates that the credit rating provider identified to the U.S. Securities and Exchange Commission (SEC) as part of its Form NRSRO Application as a separate legal entity or a separately identifiable department or division of the credit rating provider that determines credit ratings that are credit ratings of the credit rating provider and which the SEC treats as a credit rating issued by the credit rating provider for purposes of Section 15E of the Exchange Act and the SEC's rules thereunder. The full list of CRP ratings eligible for translation to an NAIC Designation can be found on the SVO's webpage: NAIC – Credit Ratings Eligible for Translation to NAIC Designations.

CRP Credit Rating Equivalent to NAIC Designations and NAIC Designation Categories (agencies listed in order as they appear in the P&P Manual)

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			Credit Rating Providers (*) (Pursuant to the guidance in this Manual; particularly, Part One, "The Use of Credit Ratings of NRSROs in NAIC Processes," "Filing Exemptions," "Policies Applicable to Specific Asset Classes," and Part Three, "Procedure Applicable to Filing Exempt (FE) Securities and Private Letter (PL) Rating Securities")							
NAIC Designation	**NAIC Designation Modifier**	**NAIC Designation Category**	**Moody's Investors Service, Inc.**	**S&P Global Ratings**	**Fitch Ratings, Inc.**	**DBRS, Inc. (DBRS Morningstar)**	**A.M. Best Rating Services, Inc.**	**Kroll Bond Rating Agency, LLC**	**Egan-Jones Ratings Co.**	**HR Ratings de Mexico, S.A. de C.V.**
1	**A**	**1.A**	Aaa	AAA	AAApre, AAA	AAA, Pfd-1 (high)	aaa	AAA	AAA	HR AAA (G)
1	**B**	**1.B**	Aa1	AA+	AA+	AA (high), Pfd-1	aa+	AA+	AA+	HR AA+ (G)
1	**C**	**1.C**	Aa2	AA	AA	AA, Pfd-1 (low)	aa	AA	AA	HR AA (G)
1	**D**	**1.D**	Aa3	AA-	AA-	AA (low), Pfd-1	aa-	AA-	AA-	HR AA- (G)
1	**E**	**1.E**	A1	A+	A+	A (high)	a+	A+	A+	HR A+ (G)
1	**F**	**1.F**	A2	A	A	A	a	A	A	HR A (G)
1	**G**	**1.G**	A3	A-	A-	A (low)	a-	A-	A-	HR A- (G)
2	**A**	**2.A**	Baa1	BBB+	BBB+	BBB (high), Pfd-2 (high)	bbb+	BBB+	BBB+	HR BBB+ (G)
2	**B**	**2.B**	Baa2	BBB	BBB	BBB, Pfd-2	bbb	BBB	BBB	HR BBB (G)
2	**C**	**2.C**	Baa3	BBB-	BBB-	BBB (low), Pfd-2 (low)	bbb-	BBB-	BBB-	HR BBB- (G)
3	**A**	**3.A**	Ba1	BB+	BB+	BB (high), Pfd-3 (high)	bb+	BB+	BB+	HR BB+ (G)
3	**B**	**3.B**	Ba2	BB	BB	BB, Pfd-3	bb	BB	BB	HR BB (G)
3	**C**	**3.C**	Ba3	BB-	BB-	BB (low), Pfd-3 (low)	bb-	BB-	BB-	HR BB- (G)
4	**A**	**4.A**	B1	B+	B+	B (high), Pfd-4 (high)	b+	B+	B+	HR B+ (G)
4	**B**	**4.B**	B2	B	B	B, Pfd-4	b	B	B	HR B (G)
4	**C**	**4.C**	B3	B-	B-	B (low), Pfd-4 (low)	b-	B-	B-	HR B- (G)
5	**A**	**5.A**	Caa1	CCC+	CCC+	CCC (high), Pfd-5 (high)	ccc+	CCC+	CCC+	HR C+ (G)
5	**B**	**5.B**	Caa2	CCC	CCC	CCC, Pfd-5	ccc	CCC	CCC	HR C (G)
5	**C**	**5.C**	Caa3	CCC-	CCC-	CCC (low), Pfd-5 (low)	ccc-	CCC-	CCC-	HR C- (G)
6		**6**	Ca	CC	CC	CC (high)	cc	CC	CC	HR D (G)
6		**6**	C	C	C	CC	c	C	C	
6		**6**		D	DDD	CC (low)	d	D	D	
6		**6**			DD	C (high)				
6		**6**			D	C				
6		**6**				C (low)				
6		**6**				D				

Note: * This is a listing of only the "generic" Credit Rating Provider (CRP) rating symbols. CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (https://www.naic.org/svo.htm) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations. The SVO does not currently translate short-term security ratings as part of its Compilation and Publication of the SVO List of Investment Securities incorporated into the NAIC's AVS+ product.

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Credit Rating Provider Due Diligence Objectives

Vision and Objectives

Specific to the project that will result from this Request for Proposal (RFP), the NAIC is looking for detailed quantitative and qualitative technical recommendations that would address its objectives around CRP Due Diligence:

- Reduce/eliminate "blind" reliance on CRP ratings but retain overall utilization of CRPs ratings with the implementation of a strong due diligence framework. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance.
- At the completion of work for this project there should be a quantitative and qualitative due diligence framework design and implementation plan that will permit the SVO to primarily focus on the on-going administration of this holistic due diligence process around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use in assigning NAIC designations).
- Retain ability within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, under well-documented and governed parameters. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

Quantitative and qualitative analysis, both initial and ongoing, should be applied to all CRPs and CRP applicants consistently and equally. State regulators and the NAIC are agnostic to the credit rating providers used in the NAIC Designation process, subject to the due diligence framework as established.

The request also includes some aspects of other components of our framework, when impactful to the objectives above. This includes recommendations of how to best utilize and enhance the structured asset modeling capabilities of the SVO and for recommended governance and oversight of the SVO's operations (i.e. the production and oversight of NAIC designations.)

This project should be delivered in two phases. Phase 1 deliverables include recommendations and considerations on how to accomplish the objectives, with consideration to the questions below, and Phase 2 Deliverables will include development of the recommendations into an actionable framework for the NAIC to implement and maintain.

Quantitative Analysis

Currently, NRSROs applying to be a CRP provide their own mapping of NRSRO ratings to corresponding NAIC Designations. The NAIC would like to be able to utilize data in order to validate this mapping and/or establish its own mapping. A key objective is that ratings performance is shown to be representative of those used specifically for NAIC Designations (rather than all ratings issued by an NRSRO, if not otherwise representative of those used for NAIC Designations). For that purpose:

- What analytical approach should be used to compare each rating agency's rating methodology for a given security type, or sector/industry, or more broadly, to use those ratings to assign NAIC Designations.

- How should jointly-rated securities (rated by more than one rating agency) and single-rated securities be analyzed? Should they be analyzed differently?
- Should public credit ratings and a private credit ratings be distinguished for quantitative analysis purposes.
- What is the scope of the assessment, i.e. at a rating agency level, or at an asset-class, sector or other specified basis?
- How should the analysis consider economic or financial market conditions over the periods covered, particularly periods of extreme distress for credit such as the Global Financial Crisis, dotcom bubble, junk bond crash, S&L crisis, OPEC oil embargo, or any other major bond market distress event?
- To what extent can the NAIC rely on market usage of ratings to act as a validating tool, and how does that apply to private ratings that are not issued publicly?
- How would the analysis demonstrate that the credit ratings can be used as a proxy for an NAIC Designations?
- How should new investment types, emerging asset classes without quantifiable history, newly established NRSROs, etc. be considered when applying the ultimate framework?

Sources of Data

- What specific fields and definitions would you need from the CRP applicant, the frequency of the observations and the elapsed time period in years or date ranges
- Are NRSRO filings with the U.S. Securities and Exchange Commission sufficient for this analysis and how?
- Could this analysis be best performed utilizing the NAIC's own data and if so, how that should be accomplished most effectively?
- The NAIC's Structured Securities Group ("SSG") has modeling capabilities, both current and planned, meant to assess the growing structured securities market. How should those capabilities be used to monitor the rating agency ratings on structured securities? What enhancements that can be made to those capabilities to further utilize them effectively?
- What other sources of data would be most beneficial to this process? Preference should be given to data that is most easily obtained.

Other Considerations for CRP Qualifications

- What procedures and policies should be implemented to facilitate periodic,and transparent discussions between the NAIC, regulators and CRPs regarding NAIC's use of ratings, as a consumer, in its regulatory framework, including emerging investments & methodologies, questions NAIC may have on existing investments, discussions the CRPs wish to have with the NAIC, etc? Additionally, what safeguards should be put in place to ensure that the NAIC does not violate the Credit Rating Agency Reform Act?
- What is the overarching process for how the NAIC should implement a review process? Initial application, renewal application (what time frame), upon certain triggers such as SEC Violations or other legal actions?
- What are the qualifications that a rating agency should possess to be an input into the NAIC designation process, and how the NAIC should assess those qualifications?

  - What should disqualify a rating agency from being a CRP to the NAIC?
- What are any actual, potential or potentially perceived conflicts of interest that should disqualify a rating agency from being a CRP to the NAIC, including measurable items such as material relationships with insurers or their ownership entity. How should conflicts of interest be defined for this purpose and how should they be disclosed to the NAIC?
- SEC Violations or other legal actions and how to assess.
  - If a CRP was to be disqualified based on criteria established, what steps should it take to remediate this at a firm, asset-class, sector or other level.

Ongoing review

- Define an examination process state regulators can utilize to provide oversight of the SVO in its implementation of this framework, its own production of designations and its usage of individualized challenges to CRP ratings in the designation process.
- Define an examination process state regulators can utilize to provide oversight of the SSG in its implementation of this framework, its own production of modeling-based designations (both internally and outsourced), including model governance and validation.

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RFP Response Requirements

Required Sections and Information

Respondents to this RFP are asked to include the following sections and information in their submitted proposals:

• | Respondent Company Overview

- Concise description and overview of the company and its history.
- Outline of services the company offers, as it relates to requirements outlined in this RFP.
- A brief history and description of any work carried out for NAIC or any NRSRO in the last ten (10) years.
- A brief history and description of delivery of projects of this or similar type.
- A description of the company’s familiarity with the state-based insurance regulatory framework and the role of the NAIC, including the Securities Valuation Office.
- A description of the company’s familiarity with NAIC designations and how they are utilized in the regulatory framework, including for purposes of applying risk-based capital charges to insures to identify weakly capitalized companies.
- A description of the company’s knowledge of credit ratings and credit rating agencies, including measurements of performance and default studies, or a description of the company’s access to such information.
- A detailed description of the capabilities and experience of the company to perform the requirements of the project contemplated by this RFP, including experience evaluating data in a complex environment
- Details of the point of contact who will facilitate this project, their biography, experience, and contact information.
- Biographies of key personnel to be assigned to this project, including their role and specific experience and expertise.
- Detailed description of three to five similar engagements completed, noting projection duration and total cost, and a client reference for each.
- Disclose in detail any actual, potential or potentially perceived conflicts of interest of your firm or anyone working on this initiative may have analyzing rating agencies, issuers of securities with ratings (public or private) or investors in securities with ratings (public or private). Note it is recognized that these types of relationships will normally occur in concert with the familiarity and expertise this initiative requires, and that any actual, potential, or potentially perceived conflicts of interest will not automatically disqualify your firm or anyone working on this initiative.
- Any other information that the respondent feels relevant / useful as it pertains to the requirements outlined in this RFP.

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• | Detailed RFP Response / Proposal

Respondents should prepare a detailed RFP response / proposal that addresses the objectives of the preceding section, including:

- A detailed narrative on how you anticipate approaching this project*
- What methodology(ies) you will utilize
- What data sources you will utilize
- What resources you will require from the NAIC, SVO and regulators
- Any initial conclusions or recommendations regarding the outcome of this project

*The first item above (approach to project) is considered the most important aspect of the respondent's proposal. Please consider this in your proposal as well as how the approach incorporates the methodology and data sources.

Project Plans

Project plans for completion of the analysis outlined in this RFP, that include, to a reasonable amount of detail:

- Key tasks, activities, milestones, and deliverables.
- Relevant timelines, schedules, and input / decision points.
- Any critical assumptions and / or dependencies.

Acceptable formats for the project plans include MS Project and MS Excel.

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Analysis Approach

Additional detail and relevant supporting information on the proposed software or analytical tools and processes to be used within the development of the CRP Due Diligence framework and how they relate to and impact the proposed Project Plan, Resource Plan, and Budget and Contingency Plans.

Resources Plan

Detailed resource plans to deliver the CRP Due Diligence framework, as outlined in this RFP, that include, to a reasonable amount of detail:

- Resources (both vendor and NAIC) required.
- Hours per week, by resource (both vendor and NAIC).
- Location (on-shore, off-shore) of vendor resources.
- Rates (costs per hour) of vendor resources.

The resources plans should align to the project plans (in terms of key activities, milestones, and deliverables) and the fee schedule / pricing information.

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Fee Schedule and Pricing Information

Detailed fee schedules, total projected budgets, and other pricing information for phase, including assumptions on:

- Additional Expenses (e.g., travel, lodging, meals, etc.)
- Technology costs (e.g., hardware, software licensing, etc.) to set up and maintain the CRP Due Diligence framework .
- Key Milestones and Deliverables (and how they relate to payment phasing).
- Recommended financial contingency provisions.

The NAIC will consider both fixed-fee and “time and materials” bids for development of the CRP Due Diligence framework.

Project Management

A detailed explanation of the project management tools, processes, and approaches to be used on the project, including:

- How vendor resources will integrate with NAIC resources.
- A communication plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how key stakeholders will be engaged and kept updated on progress to date, hours / budget vs. plan, issues, and input and decisions needed, etc.
- A change management plan (including key tasks, activities, milestones, resources needed, etc.) for the project explaining how effective change will be delivered across all stakeholders to ensure the long-term success of the modernized CRP Due Diligence framework.
- Project governance considerations.
- A project risk assessment and risk management plan.

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• | Additional Required Documentation

Respondents must provide the following information as part of their proposal:

- W-9 Form.
- Certificate of Insurance for Worker's Compensation.
- Certificate of Insurance for Professional Liability.
- Certificate of Insurance for Cybersecurity.
- Signed NAIC Conflict of Interest Form (see Appendix 1).
- Vendor Standard Terms and Conditions (if you do not agree to, or if they vary from the NAIC Standard Terms and Conditions, see Appendix 2).

• | Additional Instructions

- Please reference RFP-XXXX on all parts of the proposal.
- Please ensure you have provided the following Point of Contact Information:

  – NAME

  – COMPANY

  – EMAIL

  – PHONE

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RFP XXXX | Proposal Submission and Provisional Timeline

Proposal Submission

Proposals must be received by 5pm Central time on May 15, 2024, via email to Jim Woody at Proposals@naic.org.

RFP Provisional Timeline

	ACTIVITY	DATE
1	NAIC Issuance of RFP	
2	NAIC public posting of RFP on website + press release	
3	NAIC hosted project clarification & Q&A Session register here	
4	Vendor intent to Bid due to Proposals@naic.org [7]	
5	Vendor RFP questions due to Proposals@naic.org [8]	
6	NAIC responses to vendor questions [9]	
7	Vendor proposal submissions due to Proposals@naic.org	
8	NAIC notice of selection for vendor interview [10]	
9	Vendor Interviews	
10	NAIC issuance of award to the selected vendor - projected	
	Projected Project Start Date	

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The NAIC reserves the right to change or alter timing and activities as appropriate.

* NAIC's Executive Committee has the final authority to direct contract execution for the selected vendor.

Point of Contact

Any questions regarding the requirements outlined in the RFP should be directed to Proposals@naic.org by Month, Day, Year.

Questions related to any other matter should be directed to NAIC Chief Financial Officer Jim Woody at JWoody@naic.org, who is the NAIC point-of-contact for this RFP.

[7] Potential respondents are asked to submit an email indicating their intent to bid by Month, Day, Year, mail to Jim Woody at Proposals@naic.org.

[8] Each respondent is asked to send a single set of questions (vs. multiple sets of questions) related to RFP and response requirements.

[9] Submitted questions will be anonymized and responses to all questions will be posted to the NAIC website.

[10] The NAIC reserves the right to interview a limited number of bidders based on its evaluation of the submitted proposals. Submission of a proposal does not guarantee an interview.

Selection Process and Assessment Criteria

Selection Process

A committee including NAIC senior leadership has been designated to review the proposals, interview selected bidders, and, if appropriate, select a vendor to complete the scope of work outlined in this RFP.

This committee will also conduct regular progress meetings with the selected firm during the development and demonstration of the Proof of Concept, and during the Mobilization Planning phase.

Assessment Criteria

The following factors will be considered in making the vendor selection:

- Knowledge and understanding of NAIC systems, processes, and organization.
- Knowledge of the specific requirements and ability to understand the project.
- Experience with similar projects.
- Qualifications of staff dedicated to project.
- Professional reputation of the firm.
- Proposed project costs and timelines.
- Quality of project plans.
- Completeness of proposal.
- Proven ability to provide the identified deliverables on time and within budget.

Presentations

Based on responses, NAIC reserves the right to request a presentation of the RFP response and demonstration of capabilities included in the RFP response document.

Presentations are currently scheduled to take place from Month, Day through Month, Day, Year.

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Conflicts of Interest

The NAIC recognizes that, given the broad scope of this project, any vendor with the experience reasonably necessary to produce the work may have certain conflicts of interest based upon past associations with regulators or industry participants.

These conflicts of interest will not automatically disqualify the vendor, but the vendor must have verifiable policies and procedures in place designed in compliance with established industry standards to address conflict-of-interest issues that may arise.

All relevant items must be approved prior to contract execution by NAIC's Acting Chief Executive Officer/COO/CLO.

NAIC Reserved Rights

The submission of a proposal does not guarantee an interview with the selection committee or a demonstration of capabilities to the committee.

The NAIC reserves the right to reject any or all proposals, request new proposals, or request additional information.

NAIC also reserves the right to further negotiate with any or all bidders.

The NAIC also reserves the right not to award a contract for this project.

Reasons for not awarding a contract could include, but are not limited to:

- Lack of acceptable proposals.
- An inability to come to terms with a vendor.
- A finding that insufficient funds are available to proceed.

The NAIC also reserves the right to redirect the project as is deemed advisable.

The NAIC also reserves the right to cancel this RFP at the direction of its membership.

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APPENDICES

Appendix 1	NAIC Conflict of Interest Form
Appendix 2	NAIC Standard Terms and Conditions

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Appendix 1 | NAIC Conflict of Interest Form

Any Entity that desires to contract with the NAIC must complete this form, including suppliers, consultants and purchasers of goods or services. All potential conflicts must be disclosed and approved before contract execution.

CERTIFICATION

- ____________(*"Entity"*) did not provide gifts, favors, membership points or any other benefits to any employee or representative of the NAIC to affect the bidding and selection process for this contract.
- *Entity* did not and will not receive gifts, favors, membership points or any other benefits from any employee or representative of the NAIC in connection with the negotiation or implementation of this contract.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not former NAIC employees unless disclosed below.
- *Entity* owners, principals and employees negotiating or implementing this contract on behalf of *Entity* are not immediate family members of NAIC employees unless disclosed below.

The signatory below is a duly authorized representative of Entity and hereby certifies to the authenticity and veracity of this disclosure.

________________________________ ____________
Authorized Entity Signature *Date*

____
Print Name & Company Name

DISCLOSURE

DISCLOSURE OF POTENTIAL CONFLICT

....
....
....

________________________________ ____________
NAIC CEO or COO *Date*

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Appendix 2 | NAIC Standard Terms and Conditions

STANDARD TERMS AND CONDITIONS

for

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS PURCHASE ORDERS FOR SERVICES

As used herein, "Seller" means the person, firm, or corporation to whom this Purchase Order is issued; "Buyer" means the National Association of Insurance Commissioners, a nonprofit Delaware corporation.

1. **Acceptance of Terms and Conditions.** Seller agrees to perform the services ("Services") described in any purchase order ("Purchase Order") in accordance with these Terms and Conditions. Upon acceptance of a Purchase Order or upon commencement of Services, Seller shall be bound by these Terms and Conditions and all provisions set forth on the face of any applicable Purchase Order, whether Seller signs or otherwise acknowledges these Terms & Conditions or the Purchase Order, unless Seller objects to such Terms and Conditions in writing prior to commencing Services.

2. **Revocable.** This writing does not constitute a firm offer and may be revoked at any time prior to acceptance.

3. **No modification.** No agreement or other understanding in any way altering the terms, prices or conditions of the applicable Purchase Order or these Terms and Conditions shall be binding upon Buyer unless made in writing and signed by Buyer's duly authorized representative.

4. **Termination.** Buyer may immediately terminate the Purchase Order upon written notice to Seller if Seller fails to perform or otherwise breaches these Terms and Conditions, files a petition in bankruptcy, becomes insolvent, or dissolves. Buyer may terminate the Purchase Order for any other reason upon thirty (30) days' written notice to Seller. Upon receipt of notice of termination, Seller shall cease to provide Goods and/or perform Services pursuant to the Purchase Order. In the event of termination, Buyer shall be liable to Seller only for those Services satisfactorily performed before the date of termination, less appropriate offsets. Buyer shall not be subject to any charges or other fees as a result of such cancellation. Seller may terminate this Agreement upon written notice to Buyer if Buyer fails to pay Seller within sixty (60) days after Seller notified Buyer in writing that payment is past due and that it intends to terminate the Purchase Order.

5. **Warranty of Services.** Seller represents and warrants that all Services shall be completed in a professional, workmanlike manner, with the degree of skill and care that is required by current, good, and sound professional procedures. Further, Seller warrants that the Services shall be completed in accordance with applicable specifications. Seller represents and warrants that the performance of Services hereunder will not conflict with or be prohibited in any way by any other agreement or statutory restriction to which Seller isbound.

6. **Seller's Indemnification.** Seller shall indemnify, hold harmless, and at Buyer's request, defend Buyer, its officers, directors, agents and employees, against all claims, liabilities, damages, losses and expenses, including attorneys' fees and costs of suit arising out of or in any way connected with any claim by a third party against Buyer alleging that the Services infringe a patent, copyright, trademark, trade secret or other proprietary right of third party. Seller shall not settle any such suit or claim without Buyer's prior written consent. Seller shall also indemnify and hold harmless Buyer from any injury to person or property arising out of or caused by Seller's performance of the Purchase Order. Seller agrees to pay or reimburse all costs that may be incurred by Buyer in enforcing this indemnity provision, including attorneys' fees.

7. **Compliance with Laws.** Seller shall comply with all laws and regulations of federal, state and local governments, including without limitation, laws and regulations dealing with fair labor standards, civil rights, and public contracts. Seller further warrants that all Services performed pursuant to the Purchase Order have been produced or performed in compliance with such laws and regulations and Seller agrees to indemnify Buyer for any liability resulting from such noncompliance by theSeller.

8. **Price.** The price to be paid by the Buyer shall be the price contained in Seller's bid and/or the price stated on the face of the Purchase Order whichever is less. Seller represents the price contained in Seller's bid is no higher than Seller's current prices on orders by others for similar products or services under similar or like conditions and methods of purchase.

9. **Invoices.** Seller shall submit invoices on each Purchase Order after each delivery. Buyer shall not be charged sales tax and shall furnish a tax exemption certificate upon request. Discounts will be taken from the date of acceptance of services or date the invoice is received by Buyer whichever is later. Buyer shall retain the right of offset.

10. **Force Majeure.** Buyer shall not be liable for any failure to perform including failure to: (1) accept performance of Services, or, (2) take delivery of the Goods as provided if caused by circumstances beyond Buyer's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

    Seller shall not be liable for any failure to perform including failure to: (1) provide Services, or (2) deliver Goods as provided if caused by circumstances beyond Seller's control which make such performance commercially impractical including, but not limited to, acts of God, fire, flood, acts of war, government action, accident, labor difficulties or shortage, or the inability to obtain materials, equipment or transportation.

11. **Insurance.** Seller shall be solely responsible for maintaining adequate auto, workers' compensation, unemployment compensation, disability, liability and other applicable insurance, as is required by law or as is the common practice in Seller's trade or business, whichever affords greater coverage. Seller shall carry Comprehensive General Liability coverage and Umbrella or Excess Liability coverage with minimum limits of $1,000,000 per occurrence and $2,000,000 in the aggregate for property damage and bodily injury. Upon request, Seller shall provide Buyer with certificates of insurance evidencing adequate coverage naming the Buyer as additional insured.

12. **Limitation of Liability.** IN NO EVENT SHALL BUYER BE LIABLE TO SELLER OR SELLER'S AGENTS, OR ANY THIRD PARTY FOR ANY INCIDENTAL, INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES ARISING OUT OF, OR IN CONNECTION WITH, THIS AGREEMENT, WHETHER OR NOT BUYER WAS ADVISED OF THE POSSIBILITY OF SUCH DAMAGE.

13. **Confidentiality.** In the event Seller gains written or oral confidential information of or from the Buyer, Seller agrees not to reveal to anyone or make use of such knowledge and information at any time for any purposes except as necessary in the course and scope of provision of Goods or performance of Services specified hereunder. Upon termination of the Purchase Order, Seller agrees to deliver to Buyer all such confidential information or work product belonging to Buyer.

14. **Assignability.** Seller shall not assign or subcontract this Purchase Order or any of its rights or obligations hereunder without the prior written consent of Buyer. Any assignment or transfer without such written consent shall be null and void.

15. **Publicity.** Seller shall not use Buyer's name in any form or attribution in connection with any solicitation, publicity, advertising, endorsement, or other promotion.

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16. **Survivability.** Any obligations and duties, which by their nature extend beyond the expiration or termination of this Purchase Order shall survive the expiration or termination hereof.

17. **Choice of Law.** This Purchase Order shall be construed in accordance with, and disputes shall be governed by, the laws of the State of Missouri.

18. **Severability.** If any provision of this Purchase Order shall be deemed to be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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Do you agree to the NAIC Terms & Conditions? Please sign one.

YES	______________________Signature	__________________Date
NO	______________________Signature	__________________Date
If NO,	Please provide your Terms and Conditions of Services if you do not agree to the NAIC Terms & Conditions attached.	

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

To: Interested Parties of the Financial Condition (E) Committee

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

DATE: August 2, 2024

RE: Response to Written Comments on Holistic Framework on Insurers Investments & Workplan

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On February 15, 2024, the Financial Condition (E) Committee exposed a revised draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review,* along with a proposed Workplan and regulators responses to the previous comments submitted by interested parties. The following sets forth regulators responses to comments received on the February 15 exposure which were submitted April 8.

General Comments-Comments Not in Response to a Specific Recommendation in the Framework

Commentor	Comments
The Lease-Backed Securities WG	The Lease-Backed Securities Working Group, is fully in support of the NAIC engaging an outside consultant to design and help implement a new process under which the NAIC develops a strong due diligence program over the ongoing use of credit rating providers (CRPs) in accordance with the principals laid out in the E Committee Framework -- a Holistic Approach. Over the past few years, we have followed the many discussions regarding the NAIC's desire to improve their oversight and monitoring of CRP ratings, with a particular focus on the ratings of private placement securities. Much of the discussion has been based on repeated suggestions from the SVO that there is a quality difference between the ratings of public and private placement securities (or between the larger agencies that typically rate the large public transaction and the smaller ratings providers who frequently rate private placements) and that because "private" securities do not have the same "market validation and transparency" of publicly-rated securities, there are potential hidden risks in the "private" market.
Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance.	
ACLI	The American Council of Life Insurers (ACLI) appreciates the exposure of holistic investment framework documents and we applaud the work that you and your fellow members and staff have put into this project to date. In particular, the Memo to Interested Parties (Memo) was especially useful in understanding the thought process that went into making the workplan and framework updates, and as one of our members noted, the

	transparency included in that document is exemplary. Overall, ACLI supports the concept of a holistic approach to regulating insurer investments and we continue to do so. As the committee works on items related to action items four and five, we appreciate the regulators already transparent process, and look forward to participating in the process further regarding the conceptual centralized investment support and an investment focused work group. When reviewing the changes to the framework document, our members generally thought the updates were thoughtful and appropriate. We appreciated the clarification that the purpose of the framework is for regulators to best achieve their duties to oversee the insurance industry they regulate. Additionally, we agree and understand that the broad goal of regulators is to ensure company solvency as a part of consumer protection. We also understand that other impacts of the regulatory requirements, such as impacts to the market, are secondary to consumer protection. To be clear, we positively viewed the framework as an indication that there are other impacts to consider if regulatory requirements change and the NAIC was to take a broader view than just solvency. We further appreciate the call out to coordination and believe that coordination and transparency will be key.
Regulators Response: Comments in support	
American Investment Council	As noted in our October 9, 2023 comment letter, AIC members believe the Investment Framework and E Committee's receptiveness to meeting with stakeholders on the Investment Framework represents a positive development in the NAIC's ongoing efforts to modernize the regulation and supervision of insurer investments. There is a clear need for a holistic, top-down approach to evaluating regulators' concerns with the existing regulatory framework and coordinating any resulting workstreams. Given the precedential value and knock-on effects, it is critical that any potential changes to the US regulatory framework for insurer investments be carefully considered and implemented through an open and deliberative process. Such initiatives should include processes to identify state insurance regulators' specific concerns and assess whether those concerns are valid. In this regard, we were happy to hear the NAIC's recent announcement that it will delay implementation of its collateralized loan obligation ("CLO") modeling initiative until year-end 2025 to allow time for the American Academy of Actuaries ("Academy") to complete its foundational work on a new RBC framework for all asset-backed securities (including the Academy's assessment of whether individual CLO modeling is necessary or appropriate). We are similarly hopeful that E Committee's work to develop a due diligence framework for credit rating providers ("CRP") and address the NAIC's concerns with respect to "blind reliance" on CRPs will include methodical discussions related to the specific concerns that state insurance regulators have with respect to the current regime and an evaluation of all potential paths forward.
Regulators Response: Comments in support	
Met Life	First, and as expressed in our oral remarks during the March 18 meeting, MetLife wishes to express our gratitude to the Committee for conducting this process with exemplary transparency. We are confident that such an approach can only lead to more robust outcomes for our industry. We also want to reiterate our full support for the Committee's resolve to continue with all its current initiatives without pause or delay. Risks continue to

	build in industry investment portfolios, and stakeholders in the media and fellow regulatory bodies have taken note. We are confident that your continued resolute action in this area will exemplify the NAIC's active leadership in insurance standard setting and address any stakeholder concerns.
Athene	We continue to strongly support the Framework's aims of modernizing investment risk oversight and creating a consistent approach in calculating C1 capital across a diverse set of asset classes and structures. Insurer solvency is paramount, and we believe that a principles-based, RBC framework that is built on consistency and data-driven analysis will promote insurer solvency, while also providing stability to insurers' investment activities and fostering a vibrant life insurance market that meets the needs of US consumers.
Regulators Response: Comments in support	

<u>**Section I-Proposed Framework to Modernize the SVO**</u>

#1-Reduce/Eliminate "Blind" Reliance on CRPs but Retain Overall Utilization of CRPs with Due Diligence Framework (utilize an external consultant/resource to design and implement)

Commentor	**Comments**
Anderson Insights	**Assessing CRPs** A question posed by the Committee is what "analytical or performance criteria" can be used to produce "meaningful and consistent" measures of the nine CRPs for the many sectors and types of assets for which they produce credit ratings. A secondary question is how ratings of various asset types map across the different CRPs. Given the hundreds of thousands of debt instruments that insurers invest in it would take a very large number of analyses of individual securities to come up with reliable and demonstrable patterns of acceptable -- or unacceptable -- performance of each CRP for every asset type. Case-by-case determinations could be attempted. CRPs could be evaluated by comparing the ratings of one CRP against those of another. This is difficult given the fact that ratings are costly so many issues do not carry multiple ratings. Even so there is then the task of determining which opinions of the future will turn out to be "right". Another way would be for the NAIC itself to derive its own opinion of the likelihood of the realization of promised payments in the future and compare that to the opinion of the CRP. This is certainly being considered by the Valuation of Securities Task Force for specific instances. Given the hundreds of thousands of individual securities owned by insurers it would be quite difficult to analyze enough securities in order to develop patterns and actionable conclusions. Even then, these would simply be "opinions that are inherently subjective." **The Analytical Way to Evaluate Performance** The examination of the actual track records of the CRPs is probably the best way to measure the accuracy of their ratings. It is much easier to develop robust evaluations by comparing past projections to actual experience than to compare one projection against another. It would be logical and most productive for the RFP being develop by the Committee, then, to focus on the ability of consultants to use performance data to determine which opinions for which CRPs for which sectors have been more or less reliable. **The SEC mandates the annual publication of detailed performance data for all of the rating agencies it regulates. This, and perhaps the NAIC's own extensive historic data, could be helpful. For even more revealing results, however, the consultant would need to have access and the technical ability to combine and mine multiple databases. This could even include data as detailed as the characteristics of many individual**

	securities. Such analyses would not only provide hard data concerning historic performance of each CRP by asset sector but it would also facilitate the mapping of ratings. If ratings can be categorized by security type then the performance of like security types can be compared from one CRP to others which would provide a reasonable basis for comparing ratings. Initially such a system could assess and map CRP ratings, but ideally the consultant would build a system that the NAIC itself could use to provide regular updates even though this may pose certain challenges. Other Tools for Evaluating CRPs -- And the SVO Itself Quantitative analyses may be the best and most efficient way to identify potential issues with CRPs but the NAIC and its consultants should also be aware of and utilize many of the other elements that the SEC has required for many years to allow the public to make its own determinations of the amount of reliance they decide to place on the rating agencies. These include: • Public disclosure of rating methodologies and procedures used to determine credit ratings • Preparation of rating rationales explaining how the methodologies were applied for each rating (with no distinction between public and private offerings) • Policies to prevent misuse of material non-public information • Code of ethics • Disclosure of and policies to address and manage conflicts of interest • Qualifications of credit analysts and credit analyst supervisors • Information regarding designated compliance officer • Limits on the authority of rating agencies to act in the capacity of NRSROs only for assets in the five asset classes for which they were specifically registered with the SEC • Published Administrative Proceeding Orders which provide details concerning specific compliance issues for the individual rating agencies and • The annual report of the SEC's Office of Credit Ratings which "…summarizes the findings from our annual examinations and also provides information about NRSROs, their credit ratings businesses, and the industry more broadly." These are based on examinations to determine whether NRSROs were complying with their published procedures. Even as the NAIC uses these tools and others "to eliminate blind reliance on CRPs" it can use similar tools to evaluate the most important credit rating provider of all -- the Securities Valuation Office. An essential function of regulators is to conduct independent examinations of insurers. Departments of insurance themselves are examined every five years by the NAIC so all accredited members can have confidence that others are meeting the high standards of the NAIC. Of course the SEC conducts its own detailed annual examinations of all NRSROs and the financial statements of all public companies are audited. In this context it would be extraordinary for the NAIC not to commission periodic independent examinations of the SVO to provide the substantiation for its reliance on this key resource. Disclosures that are similar to some of those provided by all of the CRPs recognized by the NAIC could be required by the SVO itself. The SVO presently prepares none of the disclosures listed above. The most revealing would be "performance measurement statistics consisting of transition and default rates for each class"1 prepared by all of the NRSROs. Instead the SVO releases a two or three page "Annual Report from the SVO on Year-End Carry-Over Filings." This may be useful to EX-1 for budgeting and planning purposes but it provides no indication or insights into the actual quality of the work done by the office; just its volume. **An independent review of carefully sampled credit files would also provide a basis for justifying the substantial reliance the NAIC and**

	departments of insurance place on the SVO. In addition to conducting an independent review of the SVO there is a need on an ongoing bases for greater clarity concerning how regulators themselves can assess the quality of the analytical work of the SVO. As a part of the current review consideration should be given to explicitly charging an entity composed of regulators with oversight responsibilities. Of course the SVO staff has its own technical abilities and is a trusted advisor to regulators serving within the NAIC but it should be clear that in all instances it is the regulators themselves, considering this advice, who have the ultimate decision-making authority in all instances. In other words there should be no ambiguity as to whether staff is required to follow the directions of regulators. **To put this into effect the group responsible for SVO performance would need to have procedures in place to fulfil its responsibilities, perhaps relying to some degree on the types of reports recommended above. An outside consultant could assist in developing appropriate continuing procedures.** The group would also need to have clear authority over SVO management in analytic, but not necessarily administrative, matters. This would mean that a presumably small group of regulators would have visibility and input into the formal performance assessments of at least the top two levels of SVO management. Presently the VOS/TF sets forth requirements of the SVO in the Purposes and Procedures Manual but it has no explicit power to motivate or assess actual performance of the leadership of the SVO. This could be addressed effectively as a part of the current review process and would enhance effectiveness. **“Different Standards for Public Versus Private Ratings”** It seems to be widely assumed within the NAIC that private placements deserve special attention. It is said that they lack “the market validation and transparency of public ratings” and that insurers may “rating shop.” In the interest of “making the most effective use of regulatory resources,” both of these assumptions deserve examination either prior to or during a consulting engagement. Any consultant or advisor to the NAIC on this matter should have real world experience and actual market knowledge. The assumption that publics have greater “market validation” and “transparency” is suspect. The fact is that public bond offerings may have advance “road shows” to acquaint investors with an issuer in general terms and there are some “investor days” and earnings calls. Even so, the information available to the general market pales in comparison to what is available to the offerees of private placements. For publics it is not unusual to have extremely limited time to review actual offering documents before being expected to enter orders. Investors entering large orders quickly after announcements are favored in their allocations so often they must act very rapidly in order to receive preferential allocations of the bonds they seek. The contrast with privates is stark. Investors have access to a depth of information inaccessible in public transactions. They, their attorneys and credit experts review offering terms and documents in detail. They can and do demand access, detail and concessions to meet their needs. All of this is overseen by senior management and credit committees. Of course it is true that “the market” sees publics, but that is superficial compared to what is the actual practice for privates and there is no “take it or leave it” for privates either. **As to the contention that insurers “ratings shop” for privates it is important to note that the decision to retain one rating agency or another is a matter for the issuer**, working with the dealer for privates exactly as it is for publics. The SEC has identical requirements for the two types of issues and in any event the selection of a rating agency by the issuer

	is done for many reasons. Obviously the rating agency must have appropriate methodologies and a staff trained in the asset type. A rating agency may be sidelined because it has a backlog that would delay the rating or its prices may be uncompetitive for various reasons. An often-overlooked fact is that rating agencies add another set of eyes in the investment process. Their observations during the rating process can be invaluable even for insurers that have their own large and experienced investment staffs. The market perception that one rating offers more expertise and valuable insights is another reason a rating agency might be preferred. In short, the idea that there is "rating shopping" rather than "shopping for rating agencies" is no different for publics and privates. It is important to remember that the central objective of this draft framework is to determine what ratings can and cannot be relied upon. Ratings that are not up to standard or are unreliable should be weeded out for publics and privates alike as the work of the Committee reaches fruition. There is also substantial evidence that there are significant performance differences between publics and privates. It has been well established that privates actually perform better, not worse, than publics and have for a very long time. This is substantiated by work of the Society of Actuaries and academic researchers. These facts, too, should be considered when allocating scarce resources so as not to allocate a disproportionate amount of effort where it is not warranted. Another concern may be that within assets structured as bonds there could be provisions that regulators believe may not actually require issuers to make payments ("risk of non-payment for reasons other than credit"). Addressing this concern was the specific objective of SAPWG's bond project. On 1/1/2025 insurers themselves will be explicitly responsible for properly classifying assets that do not conform to the SSAPs. Consider how much easier this will be for insurers to make these important decisions when they have had in-depth access to the exact terms and provisions of a private placement. They will be much better informed and positioned to fulfill their obligations. Private placements are already being subjected to special scrutiny. Each year insurers are required to submit detailed and lengthy rating agency "rating rationales" for many thousands of privates for review by the SVO. Given that the SVO only provides Designations for less than 4,000 new filings a year3 it is reasonable to ask if adding many thousands more is an effective use of resources. Justification for all of this might become clear if the SVO can demonstrate that its analysis of all of this material has produced actionable results. If not, then sampling or elimination of this requirement should be considered. This is especially true in light of the fact that NRSROs are accountable for producing all of their rationales to exactly the same standards for both publics and privates. In summary, the reasons given that privates may deserve special attention may not survive scrutiny by those familiar with actual market practices. Careful consideration should be given to what degree of resources should be devoted to private placements.

Regulators Response: First major comment; the RFP will consider utilizing processes and data as already exist (e.g. the SEC) as well as how to better utilize data held by the NAIC itself via normal course filings. The potential to use data mining procedures should be a consideration as well and will be incorporated into the RFP.

Second major comment; the NAIC Financial Condition (E) Committee will discuss and determine whether it wants to recommend to the Executive (EX) Committee that the NAIC commit to an annual examination, and possible public publication, from an independent party on SVO experience on its own designations. The RFP will

incorporate this component as well, seeking recommendations on how to best implement this oversight process of the SVO. Third major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process. Fourth major comment; regulators agree regarding the qualifications of the desired consultant	
Lease-Backed Securities WG	The Committee suggests that "the process may want to consider different standards for public versus private ratings, given the market validation and transparency of public ratings….." However, some of the most thorough studies on the credit performance of private-placement securities in insurance company portfolios are those conducted over a 29-year period by the American Society of Actuaries [see Appendix I]. These studies show that insurance company private placement securities have consistently had better credit performance than the broad public markets by a significant margin -- both in terms of rates of default (or the broader category used in the study of "Credit Risk Event"-- see Appendix) and loss-given-default. Lastly, in response to the comment in the memorandum regarding "ratings-shopping" by investors (e.g. obtaining the highest public or private rating by selecting the weakest methodology), it is worth pointing out to regulators that it is the issuer of the bond, not the investor, who selects the rating agency or agencies for the issue. Many factors may influence that decision by the issuer: pricing is certainly one factor, but so is timing, relative expertise with the product type, appropriate methodology, etc., etc. But perhaps the most important factor, for both public and private issues, is the credibility or 'market acceptance' of the ratings provider. This credibility is essential to ensure that the issuer can successfully place the bonds. And as we indicated above, it is really y in the public markets, not the private markets, that investors are forced to "buy" a rating. Finally, it goes without saying that the firm engaged through the RFP process should be somebody not only familiar with the NAIC organizational structure and current principles and practices, but also with a broad exposure to, and knowledge of, capital markets: Assessing the impact of any changes made to current practices on insurers' ability to successfully access capital markets - - both in terms of availability and pricing of investments -- will be a key part of any recommendations coming out of this study.
Regulators Response: The observation that private ratings may need to have special considerations is related to the lack of transparency of those ratings to the broader market, as well as the common approach of a single rating. Regulators do not assert a performance difference between private and public investments, but rather recognize we may not be able to rely on customary mechanisms such as comparability and market validation in any assessment of performance. Second major comment; the comment suggests that a Due Diligence Framework should consider the issuer of the bond, not the investor, who selects the rating agency. Regulators recognize this structure; however, there are an increasing number of insurers who structure and purchase investments through affiliates in a coordinated process. Third comment; regulators agree regarding the qualifications of the desired consultant.	

Bridgeway Analytics	**Addressing regulators' concerns over the "blind" reliance on agency ratings** Between the ongoing Valuation of Securities (E) Task Force workstream to design a process that would extend NAIC staff discretion over agency ranting-based Designations and the posted petition for the development of a request for proposal (RFP) to engage a consultant who would help the NAIC develop a due diligence program over the ongoing use of agency ratings (Attachment Eleven), regulators have made clear their determination to address concerns with "blind" reliance on agency ratings. Related to both initiatives, we encourage regulators to consider cost-effective and transparent mechanisms that are attainable relatively easily and quickly, recognizing that, while helpful, they are not a substitute for more comprehensive mechanisms that might involve longer-term efforts. Our reports, Overseeing Designations and the Prudent Use of Agency Ratings and Investment Risk Oversight, articulate a spectrum of mechanisms with varying costs and timelines. Independence, which the Framework references, and precision must be balanced. On one end of the spectrum, systems and models can be developed at the standards set by rating agencies, which is not in the spirit of the Framework's intent, given the costs. On the other end, regulators can place the onus on insurers to defend their use of agency ratings in business applications beyond regulatory compliance, demonstrating their genuine belief that the risk assessment is prudent and accurate, and avoiding flagrant misuse of ratings. This mechanism very much aligns with Principle (6) of the Workplan: *The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.* By requiring insurers to use agency ratings in business applications beyond regulatory compliance and otherwise disclose differences between credit risk measures used in their internal processes and Designations used for regulatory purposes, regulators will be provided transparency on the degree to which Designations are credible.1 Confidentiality considerations might require the data to be reported publicly on an aggregated basis but available to regulators individually. As stated above, while not a substitute for more comprehensive governance mechanisms, disclosure requirements can be implemented relatively quickly since they do not rely on the NAIC to develop new methodologies or onboard new tools or personnel.
Regulators Response: Constructive comments are always encouraged and helpful; these suggestions will be considered in the framing of the RFP and future actions taken by the regulators.	
Structured Finance Association	The SFA's membership represents most, if not all, sectors of the securitization industry that will be impacted by the final RFP. Importantly, any advocacy efforts undertaken by SFA must be based on the consensus of its broad membership. As such, any feedback provided by SFA regarding the RFP will represent a thoughtful compromise position of our industry membership. SFA believes that early engagement in the RFP drafting process between the NAIC and industry would be helpful. The opportunity to receive feedback from our CRP members, which each have unique approaches to the ratings process and bespoke methodologies, would seem especially useful. A collaborative approach should result in a more comprehensive RFP that ultimately generates a more meaningful analysis.

	A. By design, CRPs are large organizations with diverse operations and extensive global relationships. If a consulting firm carries ratings from certain CRPs, or is a subsidiary of a firm that is rated by one or more CRPs, how will the SVO view this in terms of independence. B. Many consulting firms have a global presence, with their mandates cutting across industries. Will consulting firms be required to disclose all direct or indirect mandates at CRPs? If CRP mandates do exist, will information walls within a consulting firm be considered a mitigating factor? C. Will the criteria for determining independence also consider whether a consultant is on a rotational basis for certain mandates at a CRP, such as financial auditing? D. Will individuals at the independent consultant or the NAIC with prior CRP experience be viewed as potentially conflicted or will that be looked upon favorably? E. Which working group or task force within the NAIC will ensure the true independence of the consultant? Will the independent consultant have to attest to their independence prior to receiving a mandate? If the due diligence process will be continuous, will the independent consultant also periodically be evaluated for independence? F. Regardless of the criteria chosen to determine independence, will they be shared with the industry for comment before being made final? Equally as important as establishing independence will be confirming that a consultant has the technical prowess and relevant experience to prepare a due diligence framework for evaluating CRPs. For both criteria, members have questioned which specific benchmarks the SVO will reference to determine whether a consultant is qualified. Given the evolving nature of the structured finance market, our members have inquired if the RFP will require the due diligence framework to have an "initial" phase as well as an "ongoing" phase, the latter being used for a) newly emerging asset classes and b) ongoing reviews of CRP performance. Members have also inquired if the RFP/due diligence framework will make available an appeal process for CRPs that are not deemed to be acceptable for either phase. In designing the due diligence framework, given the acknowledgement by the NAIC that there are potential differences in transparency between public and private ratings, does the NAIC anticipate SFA Response to "Response to Written Comments on Holistic Framework on Insurers Investments" April 5, 2024 Page 4 creating separate processes and standards for evaluating CRPs as it relates to private versus public ratings? Members have also inquired about how the results of the due diligence process will be applied. Does the SVO anticipate mandating the independent consultant to perform a firmwide assessment of each CRP where, after assessment, the ratings from that CRP will or will not be eligible regardless of sector? Or will the due diligence process be performed on an asset-class, sector, or other specified basis, where certain ratings from a specific CRP may be eligible while other ratings from the same CRP may not? If some or all of a CRP's ratings are deemed ineligible, how often will that decision be reevaluated? Members have inquired as to the amount of time the independent consultant will have to respond to the RFP and, once returned, how the work product will be validated and which working group or task force of the NAIC will conduct the review. The current language references the "[Drafting] Committee to consider". Given the decision will impact regulators in all states, will the Drafting Committee elicit input from state regulators as well as other resources (internal or external)? Members have asked for clarification as to

	the expected frequency of CRP reviews to be conducted by the independent consultant. Some questions include: a. Will the due diligence be conducted periodically to capture changes in CRP performance? b. Would the independent consultant develop a framework for periodic monitoring and the objective measures on which it will be based? c. Will such a framework consider new asset classes or material changes in methodologies that may render past performance moot? Regardless, will such work be conducted by independent consultants once the recommendation is implemented, or would that fall on NAIC staff? iv. The third bullet point of Action Item #2 states: “The Committee would expose this communication for industry comment, including encouraging CRPs to comment.”

Regulators Response: First major comment supportive of developing an RFP publicly with opportunity to comment, which is what was communicated up to and at the 2024 Spring National Meeting. With respect to each of the comments the following is noted:

A. To be clear, the intent of the RFP is to select a consultant that will assist the NAIC in designing a due diligence framework. The NAIC will develop the RFP through a public process, therefore requesting input from credit rating agencies, members of the industry and other impacted parties. While it’s possible the consultant could be a public firm that is rated by one of the agencies, , selection of the consultant will consider this and any mitigating circumstances in the selection process.
B. Consultants will be asked to disclose conflicts of interest and selection of the consultant will consider this and any mitigating circumstances in the selection process. The existence of mandates/relationships will not automatically preclude a consultant from being selected.
C. It’s not clear to us how a consultant that is asked to develop a framework that performs financial auditing will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
D. Its not clear to us how an independent consultant that is asked to develop a framework with prior CRP experience will represent a conflict, however, the existence of mandates/relationships will not automatically preclude a consultant from being selected
E. Selection of an NAIC consultant will be made by the Executive Committee after receiving a recommendation from NAIC corporate, which includes NAIC employees and a limited number of state insurance regulators from Committee leadership. The recommendation will be made based upon perceived independence given the work of developing a framework and how that may conflict with the duties assigned to the consultant.
F. Criteria will not be shared with the industry unless it’s part of the RFP finalized publicly.

Second major comment; note that with respect to initial and ongoing work, the NAIC only anticipates this consultant being utilized to draft an initial Due Diligence process; the regulators themselves will implement the process designed by the consultant.

Third major comment; to reiterate, the RFP will be developed publicly. In addition, at this point the regulators have not determined if the Due Diligence process should be different for public vs private ratings, and while it’s possible that it could be different for different asset classes, that is not anticipated at this time. No decisions have been made regarding if some or all of the CRPs ratings are deemed ineligible, however a result such as that would be expected to occur as a result of decisions by the Valuation of Securities Task Force and E Committee based on the implementation of the process, and not the development of the Due Diligence process.

Fourth major comment; as previously noted by the Committee, the RFP will initially be drafted by regulators and the proposal will then proceed through a public process with an opportunity to comment and potential modifications made to the proposed RFP. To clarify, this is to develop a Due Diligence process, which will not involve implementation of the process. **Other comments** a. This has yet to be determined and is dependent upon the Due Diligence process drafted. b. This has yet to be determined and is dependent upon the Due Diligence process drafted. c. This has yet to be determined and is dependent upon the Due Diligence process drafted.

#2-Retain Ability within the SVO to Perform Individualized Credit Assessments and Regulatory Discretion When Needed under Well Documented Parameters (ideally rarely used)

Commentor	Comments
No comments received	

#3-Enhance SVOs Portfolio Risk Analytics Capabilities through tools and personnel which would be company specific and industry wide. Increase staffing to include analysts with investment actuarial and risk management backgrounds.

Commentor	Comments
Bridgeway Analytics	**The buildout of a CIE function** As explained by regulators, the recommendation would invest in risk analytics tools and corresponding personnel, which could perform company-specific, industry-wide, and macroprudential analysis and build a broader and holistic policy advisory function. We view the capabilities of forming independent opinions on risk and policy as critical to the holistic goals of the Framework. The function should consider resources that have a deep understanding of the interconnected elements of statutory accounting and RBC that are often challenged by the nature of needed subject expertise, which is often siloed. Action Item #4 under the Workplan, which addresses this recommendation, lists examples of initial related discussion points. We are encouraged by the initiative and suggest this Action Item also consider lessons learned from how other rulemaking bodies structured their supervisory and policy/regulatory processes, including expensive regulatory initiatives, such as CCAR and Solvency II, that can provide important guidance on governance and the effectiveness of various mechanisms.
Regulators Response: These comments are in support, and include constructive feedback regulators can consider.	
RRC	We believe that while credit risk that is represented in Bond portfolios is material, the regulatory needs there are incremental. Our greater concern lies in credit risk that exists in other parts of the insurance industry's invested assets, and in other aspects of investment risk. We have, at different times, highlighted two specific examples where we see exposure to credit risk outside of Bond holdings. The insurance industry's exposure to Mortgage Loans that are reported on Schedule B has grown significantly in recent years. Most of that growth has been within Life insurance companies, but there has also been material increases in exposure among other insurer types. The type and tenor of Mortgage Loans have also changed. At many

	insurance companies this has expanded to increasing amounts of direct exposure to Residential Mortgage Loans and to Construction Loans. Growth in Commercial Mortgage Loans, which consists primarily of non-amortizing bullet loans, is creating Memo 2 additional risk due to changes in markets in recent years in the Office and Retail sectors. Investments in Collateral Loans that are reported on Schedule BA have increased materially in the industry and represent a significant percentage of assets at some insurance companies. Collateral Loans are treated as fixed income instruments with a fixed income-like Risk-Based Capital factor. But the underlying assets supporting those Collateral Loans and the strategies behind them are varied. Beyond the issue of exposure to credit risk, we are concerned about significant increases in exposure to market volatility and liquidity risk. What tools and support are available to regulators to understand and assess these risks within insurance companies? Whether it is in Bonds reported on Schedule D or in other parts of the investment portfolio, the investment portfolios are more vulnerable to changes in markets and are less liquid than they were a few years ago. The significant increase in interest rates in 2022 that continues today had a substantial negative impact on the fair value of the portfolios. With the relative calm in the markets from 2008 to 2020 that prevailed along with low interest rates, it is possible that insurance company risk management systems are not sufficient to cover this increased level of market volatility. Liquidity policies and liquidity stress testing regimes may not fully take into account fair values that in many cases are significantly below carrying value. Market volatility and liquidity risk are potentially impacted by asset concentrations in illiquid, more complex and less transparent asset classes. The Investment Framework Workplan includes six Action Items as next steps. Based on our comments in this letter, there are two Action Items that we strongly endorse and encourage expedited consideration. Action Item #5 proposes the formation of a new regulatory working group that would also support the Financial Analysis Working Group, the Valuation Analysis Working Group and other working groups. Incorporating the views of regulators that have a firsthand view into actual changes in insurance company portfolios and investment practices, and concerns on how this could impact the ability of those companies to meet policyholder claims would be extremely valuable in the discussion and in the development of regulatory priorities. We encourage the E Committee to move on this Action Item quickly. Action Item #4 proposes the formation of centralized investment expertise with a focus on expertise that may not currently be sufficient within the NAIC. Risk-Focused Analysis and Risk-Focused Examinations encourage regulators to recognize where the risk is and where it is going, not just where it has been. It is important to not just review where past problems or issues were, but to look at prospective risks, i.e., where the next problem or issue may be. We understand that this requires discussion and the engagement of specialized resources that may not currently be available and therefore will take time to develop. We recommend that this effort begin quickly. This should include an agreed upon timeline so that regulators and other stakeholders have a clear view of the goals and progress toward those goals.

Regulators Response: Members agree that the risk analysis capabilities contemplated in the Framework should be broader than just bonds and credit risk. With respect to the Workplan, Members agree that action item #5 is important, but does not plan on forming such a group until the members have greater availability to take on this work (e.g. after this workplan is finalized). Members also agree with respect to action item #4 and the need for that to be forward looking, however, the NAIC will need to hire additional staff to take this on which could take

some time to put into place considering the NAIC budgeting process and hiring process. The suggestion of a timeline and roadmap is a helpful suggestion in moving forward.

#4-Enhance Structured Asset Modeling Capabilities in line with #3 and in support of CRP due diligence function (inclusive of model governance and validation of key parameters).

Commentor	**Comments**
Athene	The Framework envisions continued utilization of CRPs, together with the development of a strong SVO due diligence function. A strong SVO due diligence function will complement the role of CRPs, by focusing on broader risk analysis and not replicating their capabilities. We believe the SVO's CLO modeling tool is best suited for due diligence, benchmarking, and advisory functions. This avoids inefficiency, leverages market mechanisms, and allows assessing the tool's effectiveness before potentially impacting capital parity by replacing CRPs for CLO designation purposes. We understand the question of the appropriate uses for the SVO's CLO modeling methodology will be addressed at the technical work stream level as the methodology is further developed, and we will continue to provide our input into those discussions.
Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Technical comments regarding the CLO modeling project should be referred to the VOSTF. We appreciate your willingness to do so as noted in your letter.	

#5-Build Out a Broad Policy Advisory Function that can recommend future policy changes. If needed, hire key external consultants to be on retainer. This would be akin to the use of the AAA of similar for RBC and reserving.

Commentor	**Comments**
No comments received	

#6-Establish a Broad Investment Working Group under E Committee that acts in an advisory capacity to various investment items (similar to FAWG/VAWG) including 1) review of bond reporting under new principles-based bond definition 2) challenges to individual designations provided by CRPs; 3) review of work provided by external consultants.

Commentor	Comments
No comments received	

#7-Rename the SVO and VOSTF to better reflect the groups beyond securities valuation (Establish a Broad Investment Working Group under E Committee. Empower SVO to utilize tools and analysis to raise issues to other groups. Reduce the size of VOSTF.

Commentor	**Comments**
No comments received	

<u>Section II-Risk-Based Capital for Investments</u>

1-Changes in RBC factors should consider market impacts and consistency across asset classes. Should be a goal of "Equal Capital for Equal Risk." Care should be taken to consider the impacts of developing RBC factors for CLOs for an asset class while similar asset classes remain the same. Factors to consider may include impacts on asset allocation and financial markets, in balance with the level of urgency of regulatory action.

<table>
<tr><th>Commentor</th><th>Comments</th></tr>
<tr><td>American Investment Council</td><td>Notwithstanding these encouraging developments, we are concerned by – and opposed to – the introduction of the concept of "equal capital for equal tail risk" that was included in the latest iteration of the Investment Framework. While the specific intent of this change is not clear, the potential narrowing of the concept of capital parity is not appropriate. Instead, the language should be revised to reflect that the Investment Framework recognizes that tail risk is an important element of the broader, more appropriate, concept of "equal capital for equal risk," for example that the concept "includes, but is not limited to, tail risk."</td></tr>
<tr><td colspan="2">Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as equal capital for equal risk which includes consideration of tail risk.</td></tr>
<tr><td>ACLI</td><td>Clarifying the intent for including "tail" risk under the principle of "equal capital for equal risk". ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework, measured in risk-based capital (RBC). However, the conversation around the holistic framework would suggest E Committee's approach is broader than just a focus on RBC. As a result, clarity on the inclusion of the "tail" concept in the framework would better inform industry understanding and further comments on this point.

Is the goal of this framework to be focused only on capital charges for asset-risk (C-1) or is it meant to be true holistic view including both capital and reserves together when using "equal capital for equal risk" in the framework? For example, ACLI supports the C-1 bond factors and the appropriate emphasis on tail risk as is captured all throughout the NAIC's capital framework measured in risk-based capital. However, it was not clear to us whether the committee was looking at this framework as only addressing capital, or if it was looking at overall solvency that would also include reserves. The change to include "tail" might suggest the former, but clarity on this point will provide a better understanding of the goal of this approach.</td></tr>
<tr><td colspan="2">Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as equal capital for equal risk which includes consideration of tail risk.

With respect to equal capital for equal risk, since this refers to capital, we believed it was self-evident that this does not refer to reserving, for which actuaries use various methods of reserving to assure adequacy of reserves. This is not to suggest that other initiatives of the NAIC to address investment related matters are not appropriate, rather that they are not intended to specifically address the Framework, which is guiding in terms of future potential changes, but is not based upon principles that might be more guiding in terms of future aims for investments by insurers and that may impact reserving.</td></tr>
</table>

Met Life	Finally, we want to express our support for the Framework's focus on tail risk as the key equalizer of capital. As the American Academy of Actuaries has noted, the loss behavior of subordinated structured securities in tail scenarios is significantly more adverse than the behavior of corporate credit of the same rating in those scenarios. Subordinated structured securities are behind much of the increase in industry portfolio risks seen in the last few years. Determining the appropriate capital that insurers should hold against these investments by focusing on their tail risks through modeling, when practical, will greatly enhance the current RBC approach and will help the NAIC achieve its stated goal of reducing blind reliance on ratings.
Regulators Response: Comments are in support.	
Athene	As stated in our October 9 letter on the draft Framework, Athene supports the concept of capital parity, or 'Equal Capital for Equal Risk', and the Framework's goal of achieving such capital parity. The revised Framework now refers to 'Equal Capital for Equal Tail Risk' throughout the document, but the E Committee Memo to Interested Parties explains that the "Drafting Group Members are supportive of the view of equal capital for equal risk which includes consideration of tail risk." We agree that tail risk is a critical consideration for RBC but believe the E Committee Framework's original language provided a more appropriate characterization than the draft revised Framework, which could inadvertently narrow the meaning of Equal Capital for Equal Risk. Additionally, at this point there are varying views on the precise definition and scope of 'tail risk' as an NAIC approved terminology within the RBC environment. We believe that the Equal Capital for Equal Risk concept should be explored both in the context of asset capital charges, as well as in broader tail risks captured by RBC, such as reserving for difficult-to-value liabilities (e.g., long-term care) and soft capital benefits achieved through covariance from riskier blocks of business. In our view, it is premature to limit regulatory assessment to only those risks that might be considered 'tail risk', which has not been fully defined. By way of example, RBC C1 bond factors are calibrated to a 96th percentile risk of loss over 10 years using default rate data from 1983-2020 and recovery data from 1987−2019; however, this is not the case for all asset classes. For example, the common stock C1 factor is measured as the 94th percentile worst 2-year loss on the S&P 500 using data between 1960 and 1991, and the commercial mortgage factor is the tail expected loss at the 92nd percentile of modeled loss projected using 10-year periods that begin in each calendar quarter from 1980–2000, and with default algorithms that are based on commercial mortgage loan experience tracked from the 1970s through 2010. One would presume that all of these models are assessing 'tail risk', though we are unaware of an NAIC workstream that has attempted to delineate how each of these meets a common definition of tail risk across asset classes. As noted in the E Committee Memo, "Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets", and that "comments on tail risk should be directed to the appropriate technical work streams" (emphasis added). Given the foregoing, we recommend the Framework be revised to clarify that the goal remains "Equal Capital for Equal Risk," and that this concept "includes consideration of tail risk" when the term is first referenced. This will allow the NAIC processes to advance to a place where RBC risk tolerances can be better analyzed, including for consistency, and the definition and scope of tail risk can be better defined.
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

Regulators have not suggested the current RBC framework is inadequate when it comes to matching the principle and does not believe the same methodology is required to be used for the development of all factors, as the degree of data and other circumstances and materiality of the asset class may dictate other methods are satisfactory.	
Structured Finance Association	II. Revision of "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk" With the release of the Memo, the NAIC noted the change in the language regarding future revisions to RBC Risk Factors from "Equal Capital for Equal Risk" to "Equal Capital for Equal Tail Risk". While the NAIC has stated that this change was not meant to be material, and the two terms are used interchangeably within the NAIC, differing opinions exist within our membership as to which term is more appropriate. Some members believe that "Equal Capital for Equal Tail Risk" is consistent with the RBC framework where capital factors should be calculated by evaluating the tail risks specific to the assets in question. Other members have proposed restoring "Equal Capital for Equal Risk" as the operative term, but for its first instance adding an appended clause as follows: "Equal Capital for Equal Risk, noting that the full distribution of risk that includes tail risk should be considered." SFA requests that the definition and its intended use be clarified
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. The intent is for this phrase to be worded as **equal capital for equal risk which includes consideration of tail risk.**	

2-The RBC-IRE WG should consider and address areas where inconsistencies in treatment across asset classes incentivize a particular legal form. A key example is private credit funds, where underlying assets are fixed income, but regulatory barriers assign an equity factor.

American Investment Council	We will be submitting a separate comment letter to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE") regarding the Oliver Wyman study exposure on the performance of asset backed security residual tranche investments and the associated potential increase in capital charge on such assets from 30% to 45%. Having carefully reviewed the Oliver Wyman study, we feel strongly that the study does not support a 45% capital charge on such residual tranches and remain committed to supporting a data driven capital charge that appropriately reflects the risk of these assets. We are also concerned with public statements by state insurance regulators indicating that the imposition of a 45% capital charge on residual tranches is viewed as a template by regulators to justify punitive capital charges for other high-performing assets that are well understood by the capital markets but relatively newer to insurance company balance sheets. This concept is referenced in the Investment Framework Recommendation 9, but we are concerned with the precedential impact of these statements as they seem to suggest that any future interim charge imposed using the residual template would not be supported by data
Regulators Response: Regulators continue to support the idea for a process that would provide new asset classes a temporary factor when materiality, timing and historical data may preclude specific or immediate analysis to immediately develop a capital charge that is more long-term. The process would initially assign different factors for different broad categories of risk. This is in contrast to the current process where the form of the investment directs the reporting which drives the RBC factor. Regulators would also like to clarify that RBC charges are not punitive.	

WORKPLAN

Action Item 1-

ACLI	The workplan document opens with a set of core principles. These principles help us fully understand the E Committee's direction and seem thoughtful and appropriate. We agree that prudent investments need to be managed by the insurers. However, a crucial aspect of this function is understanding the perspective of regulators, which helps shape the insurer's management of its assets. For this reason, transparency with the industry and regulators across all levels will be critical to success. Further, we believe it is necessary to consider not only the 3 agendas of existing workstreams but also any new work that may emerge during the development of the holistic approach. Accordingly, we agree and support Action Item One – updating the framework as needed.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 2-

ACLI	As noted in our previous comments, we continue to support hiring a consultant to provide recommendations for a due diligence framework for credit rating providers (CRPs) -- Action Item Two. We applaud the committee for its work and receiving approval for hiring a consultant and for its focus on transparency during the RFP process. ACLI looks forward to engaging with the committee and the Valuations of Securities Task Force on this work.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 3-

ACLI	Action Item Three of the workplan notes again that there will be no pause in existing work and the Committee will continue to defer to the subgroups. We also will comment on Action Item Six, the development and implementation of best practices for enhanced coordination between the Committee's workstreams. We understand that the framework is meant to be a longer-term flexible document, coupled with the core principles. It makes sense to continue the current work, as discussed previously. Continuing the existing work will require clear coordination between E Committee and the workgroups. For example, the framework notes that LATF might have some work that would be considered a part of the framework. To our knowledge, there has been no further mention of the framework in the Task Force's existing work or any potential new work being considered. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 4-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the

	committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 5-

ACLI	Action Items Four and Five include an assessment of conceptual centralized investment expertise and appointing an investment focused working group to support the committee and its groups/task forces. We generally support conducting the assessment and the addition of an investment-focused workgroup.
Regulators Response: Comments support action item therefore no further comment.	

Action Item 6-

ACLI	Coordination with investment-related initiatives of the Life Actuarial Task Force (LATF) and other related work. The framework includes references to work being done at LATF as an example, but we are not aware of any additional conversations about what work LATF is doing that would be overseen by this holistic process. Additionally, it is possible – if not likely— there would be new work that is not yet contemplated or not yet begun, that should be included in the holistic approach as well. Clarity on how LATF and other related work will be included in the framework would be helpful. We think that much of the work LATF is currently conducting should be considered a part of the framework and would suggest it be included in the coordination and transparency umbrella that the holistic approach requires. Development of a new document to help identify and strengthen coordination of work being included under the framework. Similar to the 13 macroprudential considerations, such a document would complement the framework and the workplan and help track all the work that is being overseen by the framework. We believe new work should also be included so that all the work, both current and new, being overseen would be tracked and updated. We also suggest that a more defined process for continued coordination and transparency is necessary to foster all parties being on the same page. We are cognizant of not wanting to add layers of bureaucracy or delay to an already public process. As noted above, our recommendation is to create a document to track current work and new work that is included in the scope of the holistic framework. We would suggest the document include 1) the name of the group, 2) the overarching goal of the work, and 3) whether the work would impact any other solvency related item. To be clear, we are not recommending a change to the framework or the workplan but rather the addition of a new document that would continue to be tracked and updated as work proceeds. Such a document seems like a good best practice that could be utilized to support better coordination and will give more visibility into the collective impact of all the work being done in this space. ACLI was present for the recent E Committee meeting in Phoenix and heard comments from the workgroups and task forces chairs. We think that was a good step forward in hearing from those groups. We are wondering if interested parties can comment during that process or if there is a way to introduce some interested party comments into this process? If there is an alternative option for incorporating interested party feedback into this process, we would be happy to engage in further conversation.

Regulators Response: The Drafting Group will develop a matrix of work originated by the Committee directly related to the implementation of the Investment Framework, or originated by subordinate groups of the Committee that help to implement the Investment Framework. Such a matrix will NOT include individual technical matters at Task Force's and Working Groups (e.g. unrelated changes to the SVO Manual, Blanks and Instructions, RBC changes, etc) not directly related to the Framework. Such a list would also include initiatives at the Life Actuarial Task Force directly related to the implementation of the Investment Framework. As such, this matrix will NOT list whether the work would impact any other solvency related item, but rather only other matters included in the matrix directly related to the Framework, otherwise the Matrix would include all activities within the Committee, which would be far too cumbersome for its requested objective. With respect to coordination, and the reporting by chairs to the Committee at the Spring National Meeting, this is specifically designed to provide the Committee with an update on work related to the Investment Framework, and like other reports, the Committee chair asks for comments from members and interested regulators and interested parties and would suggest comments be made after such reports to the extent they are specific to the role of the committee in coordination, but if they are related to the technical matters being consider by those groups, those comments should be directed to those groups.	

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

INVESTMENT FRAMEWORK
RECOMMENDED WORK PLAN FOR THE FINANCIAL CONDITION (E) COMMITTEE

~~During the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed a draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review* (Investment Framework or Framework). On Oct. 25, 2023, the Committee received 17 comment letters on the exposed Framework and, during the 2023 Fall National Meeting, received oral summaries of the written comments. Subsequent to that meeting,~~ In early 2024, the Committee formed a drafting group, which, among other things, developed this work plan to guide the implementation of the Investment Framework.

NOTE: This work plan is intended to be a working document. Additional action plans may be added, and current action plans may evolve as more information becomes available. The drafting group will provide updates to the Committee, including the work plan, on a regular basis.

Core Principles

(1) The goal of the Framework is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. It does not have an objective of reaching technical conclusions on ongoing initiatives.
(2) The primary objective of the Framework and all supporting initiatives is to ensure state insurance regulators have appropriate tools to ensure the solvency of insurers. While other impacts will be assessed in the design and implementation of current and future initiatives, they will be secondary to ensuring insurer solvency.
(3) Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and produce iterative feedback to inform future progress toward its objectives. As is always the case, workstreams and the Framework are subject to future refinement based on this iterative process of incorporating new information.
(4) Initiatives are, and will continue to be, regulator-driven. Any enhancements to centralized resources are for the benefit of regulators, and regulators will retain the authority over how to use such resources.
(5) This work plan commits to being fully transparent, with multiple checkpoints for deliberation with interested parties.
(6) The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.

Action Item #1

The drafting group will propose updates to the exposed Framework to the Committee as deemed appropriate. The Committee will re-expose the Framework for comment and further discussion at the next NAIC national meeting or an interim or virtual meeting as deemed appropriate. The Committee will engage in public discussion. Avoiding any perception of the drafting group not being all-inclusive is emphasized.

The updates to the Framework may be somewhat minimal at the beginning of the process. The drafting group anticipates the ultimate Framework will be the ongoing foundation of principles for investment oversight and less of an "action plan" as it exists today.

Action Item #2

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CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
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The Committee received ~~will request~~ approval from the NAIC Executive (EX) Committee at the 2024 Spring National Meeting to develop a request for proposal (RFP) to hire an independent consultant to provide recommendations for a due diligence framework for CRPs.

- ~~If approved, the drafting group will work in concert with T~~the NAIC Securities Valuation Office (SVO) is currently working to create a robust RFP proposal with consultant independence as a priority. Once developed, the drafting group will review the proposed RFP, make modifications deemed appropriate, and invite further changes by the Committee. Once completed, the Committee will expose this communication for industry comment, including encouraging CRPs to comment. We note that the selection of a consultant needs to consider potential conflicts with CRPs or industry.
- The consultant would deliver a comprehensive recommendation/request for the Committee to consider.
- ~~The Committee would expose this communication for industry comment, including encouraging CRPs to comment.~~

Action Item #3

Consistent with the commitment not to pause or delay any of the current workstreams, the Committee will ensure implementation of the Framework in parallel and without interference with the work that the Valuation of Securities (E) Task Force and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group are developing related to the Framework. This work being completed by these groups (workstreams) is directionally consistent with the Framework. Therefore, the Committee will continue to defer to the workstreams as they progress toward and reach outcomes. Further, the workstreams must not slow their progress in waiting for the Framework's finalization. For example, the Valuation of Securities (E) Task Force is deliberating potential changes to regulator discretion over CRP ratings. The Framework's consideration of a due diligence framework over CRPs must not alter or impede any changes being considered or adopted by the Valuation of Securities (E) Task Force to CRP ratings.

Action Item #4

The Committee or the drafting group will begin an assessment of a conceptual centralized investment expertise (CIE). This term purposely differs from references to NAIC investment staff currently used, such as the Investment Analysis Office (IAO), Structured Securities Group (SSG), and SVO. While we expect much overlap between those existing organizations and this conceptual organization, we want to be deliberate when referring to a conceptual outcome.

Following are examples of initial discussion points (regulator- and comment letter-driven, but not exhaustive):

- Conducting a survey of all states, asking what output they would like from a CIE to assist in individual insurer examination/assessment. For instance, how could current portfolio reviews be improved?
- Investment risks that should be incorporated into a CIE. The current SVO is predominantly focused on credit risk in terms of a designation assessment for Schedule D investments.
- The enhancement of macroprudential and prospective risk capabilities.
- The ideal structure of a CIE, focusing on overarching holistic regulatory policy advisory staffing supported by strong capabilities in credit assessment, portfolio/market risk, asset adequacy, and macroprudential risk assessment.
- The enhancement of structured asset modeling capabilities to support due diligence, validation, and stress testing.
- Tools and resources (beyond personnel) that should be considered.
- The establishment of standards for validating tools and processes, including periodic assessments, model governance, etc.

Discussions should include open dialogue with interested parties.

An external consultant resource can be considered to add additional independent expertise.

This will and should be a longer-term initiative to ensure robust dialogue and value-added changes. However, regulators should consider phased implementation to have more timely results and manage costs.

Action Item #5

The drafting group will recommend appointing an investment-focused working group to support the Committee, the Financial Analysis (E) Working Group, the Valuation Analysis (E) Working Group, and other working groups.

- Define potential charges for this working group, which will help identify the appropriate time for formation. For example, charges may include support for initiatives not slated until 2025 or later.

Action Item #6

The drafting group will develop and implement best practices for enhanced coordination between the Committee's workstreams. Such efforts to harmonize efforts may involve regular reporting to the Committee and/or this new investment-focused working group, identification of dependencies and impacts between projects, and fostering improved communication between workstreams. These types of best practices can be informed by the work on the collateralized loan obligation (CLO)-related projects in process within the Valuation of Securities (E) Task Force and Risk-Based Capital Investment Risk and Evaluation (E) Working Group, including current efforts to highlight the coordination between the two during progress updates.

Action Item #7

~~The work plan does not include action items related to risk-based capital (RBC) recommendations at this time, but it will continue to review appropriate incorporation into the final Framework and whether an action item should be included in the work plan in a future iteration.~~ The work plan will continue to review appropriate incorporation of risk-based capital (RBC) recommendations into the final Framework, However, at this time the work plan does not include related action items and will continue to review inclusion in a future iteration.

Framework for Regulation of Insurer Investments – A Holistic Review

Executive Summary

- Recent initiatives to address gaps in the regulatory framework for insurer investments have received much attention by a variety of stakeholders.
- While the broader commentary has included many misconceptions around these initiatives, it has also included constructive feedback with themes and observations that many regulators have shared.
- At the most basic level, the question has arisen – **what is the most effective use of regulatory resources in the modern environment of insurance regulation for investments?**
- The historical focus of the SVO has been on risk assessment of individual securities, with filing exempt securities blindly reliant on credit rating providers (CRPs) for designations.
- The SVO currently lacks the tools to provide due diligence and assessment over the use and effectiveness of CRPs, or to conduct enterprise- or industry-wide risk analytics.
- Rather than a framework that utilizes valuable SVO resources to prioritize synthesizing CRP functions, a more effective use of those resources would be to prioritize the establishment of a robust and effective governance structure for the due diligence of CRPs.
- Further, with investment in modern risk analytics tools, the SVO could provide invaluable risk analysis capabilities to better support the risk-focused approach to supervision, at both a micro- and macro-prudential level.
- This memo provides concrete proposals envisioning a modernization of the role and capabilities of the SVO in a way that correlates with the observed shift towards more complex and asset-intensive insurer business strategies.
- It also provides high-level guidelines for considering consistency of capital across assets as the investment RBC initiatives move forward, recognizing the practical limitations of absolute capital parity.

Background

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators of the 50 states, the District of Columbia and the five U.S. territories. NAIC Designations are produced solely for the benefit of NAIC members in their capacity as state insurance regulators as a tool to help assess insurer's solvency.

There are several workstreams underway related to investments, which are meant to address a material, observable shift in insurer investment strategies – primarily but not limited to life insurance/reinsurance – toward more private assets, more structured assets and more complex assets. The workstreams are not meant to be punitive for the sake of being punitive, or to discourage innovation in insurers' investment strategies, but they recognize existing frameworks did not contemplate these investment strategies and will need to be enhanced to appropriately incorporate their characteristics into the regulatory framework.

While this goal is largely accepted by all interested parties as being necessary, the details of various proposals and the processes by which they have been undertaken have received an immense amount of attention from industry, other supervisory stakeholders and special interest groups, with stark divides in approval or disapproval of various initiatives. The collective commentary has included a significant amount of constructive feedback and valid critique, but has also been marked by misconceptions and competitive dynamics.

Recent comments have referred to these projects as "piecemeal" and "disjointed" and recommended a pause to all such workstreams. Others have suggested that these efforts are motivated by objectives other than enhancing regulators' ability to protect policyholders. In reality, what is being observed is the natural strain that results from solving complex problems through open and democratic processes. ~~A number of compounding factors contribute towards making these projects particularly challenging endeavors:~~

~~**Highly technical nature** – the ability to assess risk and design a regulatory framework for structured assets is highly dependent on the ability to model collateral performance through the capital structure of an extremely wide variety of securitization types. This requires highly specialized expertise. With experts from a divided group of stakeholders providing differing assessments of the modeled data, it is difficult for policy-making regulators to parse without conducting an impartial analytical study.~~
~~**Separate working groups** – the state-based framework has long utilized a "three-legged stool" approach to addressing accounting, risk assessment, and capital, which are governed by separate working groups. While all three legs of the stool have always needed to contemplate what the other legs were doing in order to have a cohesive regulatory framework, a project of this magnitude that spans all three legs requires a much more intensive level of coordination, which is further challenged by its exploratory nature.~~
~~**Exploratory nature** – assessing risk and capital is a balance between being too broad, and failing to appropriately capture material risks, and being too detailed, such that the framework is impractical to apply and too complex to be understood. Finding this balance is an iterative process of developing proposals, soliciting feedback, and adjusting or replacing proposals in response. This process inherently takes time and involves uncertainty around final outcome, but it also is not well understood by all stakeholders. This can result in disproportionately adverse reactions rather than the productive feedback that is necessary to reach what are often the common goals of all stakeholders. It also makes the coordination of working groups challenging, as the end state of each working group's initiatives is unknown while in process.~~
~~**Capital parity** – as a number of stakeholders have pointed out, the capital framework should have a goal of assigning "equal capital for equal risk". While this goal is likely non-controversial in the abstract, it doesn't address the practical limitations of achieving this goal in absolute terms. First are the balancing considerations noted elsewhere here. But it also implies that all risks must be holistically evaluated at the same time, in order to prevent a change for one asset class from disadvantaging another by comparison. There is no question that these impacts are very important to consider as updates are made, and mitigating unequal treatment to the extent possible should be a goal. However, practical constraints may prevent this aspiration from being realized to the satisfaction of all parties.~~
~~**Limited resources** – just as the regulatory framework is a balance between being too broad and too detailed, so too is the use of regulatory resources a balance between impartiality and practicality. State regulators have at their disposal a valuable resource in the NAIC, and SVO specifically. However, these resources are not unlimited. There should be a deliberate evaluation of the best use~~

~~of these limited resources. State regulators should not develop frameworks that prioritize using such resources in reperforming functions that can otherwise be satisfied using available market mechanisms, leaving no capacity for more impactful and macro-level risk assessment and analysis.~~

Purpose

While much of the characterization of these ongoing projects in the broader commentary is misplaced, it is prudent to reflect periodically on a holistic basis over the course of a complex project to evaluate potential areas for process improvement to the overall regulatory framework. **The intent of this memo is to highlight areas that regulators have identified where the insurance regulatory framework for investments could be enhanced based on reflections on the past several years of work on these issues, as well as comments on individual current initiatives and how they could be improved upon by addressing certain of the challenges described above.** This memo is not directly responsive to any particular feedback from stakeholders, but draws upon the experience of regulators involved in these workstreams, as well as comment letters written on current proposals, stakeholder communications not directly related to working group exposures, and ongoing conversations among regulators and stakeholders.

Proposed Regulatory Enhancements

The goal of the Framework and its proposed enhancements is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. A workplan will be utilized to further consider such proposed enhancements in more detail and where appropriate, changes will be made to this to reflect the final enhancement. The Framework does not have an objective of reaching technical conclusions on ongoing initiatives. Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and are producing iterative feedback that will inform future progress towards their objectives. As is always the case, workstreams and the Framework itself are subject to future refinement based on this iterative process of incorporating new information.

This Framework will be updated and retained in the future, but the following principles are expected to remain in place after the implementation of the work.

Core Principles

(1) The goal of the Framework is to set a long-term, strategic direction for investment regulation and ensure current and future initiatives are thoughtfully coordinated and supportive of this holistic direction. It does not have an objective of reaching technical conclusions on ongoing initiatives.
(2) The primary objective of the Framework and all supporting initiatives is to ensure state insurance regulators have appropriate tools to ensure the solvency of insurers. While other impacts will be assessed in the design and implementation of current and future initiatives, they will be secondary to ensuring insurer solvency.
(3) Ongoing work will continue without delay or pause. Current workstreams are directionally consistent with the Framework and produce iterative feedback to inform future progress toward its objectives. As is always the case, workstreams and the Framework are subject to future refinement based on this iterative process of incorporating new information.

(4) Initiatives are, and will continue to be, regulator-driven. Any enhancements to centralized resources are for the benefit of regulators, and regulators will retain the authority over how to use such resources.
(5) This work plan commits to being fully transparent, with multiple checkpoints for deliberation with interested parties.
(6) The ultimate responsibility for prudent investment oversight is with the insurers themselves, notwithstanding any of the work done to bolster regulatory resources and oversight over-reliance on credit rating providers (CRPs). This responsibility should not be "outsourced" to CRPs or the regulators.

A. Investment risk assessment / role of a centralized investment expertise function (e.g. SVO: IAO/SSG)

Currently, risk-based capital charges ~~The current framework~~ rel~~ies~~y upon NAIC Designations for assets reported as bonds, with limited risk assessment for non-bond holdings. NAIC Designations ~~currently~~ are either provided directly by the SVO for filed securities or by a direct translation of a credit rating from a Credit Rating Provider ("CRP") for those securities that are exempt from filing ("FE"). There is currently a "blind" reliance on the CRP rating, with no mechanism for overall due diligence around CRP usage, nor an ability to challenge an individual rating for not conforming to regulator expectations of how it was determined. Both of these issues are potentially addressed through current initiatives of the Valuation of Securities Task Force ("VOSTF"), with multiple challenges and concerns (both warranted and unwarranted) of how they may be implemented.

Proposed Framework to modernize the SVO:

(1) Reduce/eliminate "blind" reliance on CRPs but retain overall utilization of CRPs ***with the implementation of a strong due diligence framework***. This framework should be extremely robust with focused resources within the NAIC in its implementation and maintenance. This initiative should be a ***primary*** focus of the NAIC and ***utilize an external consultant/resource to design & implement***. It is both inefficient and impractical for the SVO to effectively replicate the capabilities of CRPs on a large scale, and would not provide incremental benefit if the output is substantially similar. Rather, the SVO should focus primarily on holistic due diligence around CRP usage. That process must be vigorous and consequential (e.g. clear quantitative and qualitative parameters for CRPs utilized to provide ratings for use as NAIC designations).

(2) ***Retain ability*** within the SVO to perform individualized credit assessment and utilize regulatory discretion when needed, ***under well-documented and governed parameters***. This "backstop" should be embedded in the regulatory regime, but ideally would be rarely used if other governance is optimized.

(3) ***Enhance SVO's portfolio risk analysis capabilities*** with investment in a risk analytics tool and corresponding personnel, which could perform both company-specific risk analytics at the request of regulators, and industry-wide risk analytics for use in macroprudential efforts. ***Review/ increase staffing*** to include analysts with investment actuarial and risk management backgrounds that can provide dedicated investment-related support to risk-based capital and reserving teams, understanding the key functions of asset-liability management and resulting portfolio impacts. Changes to this centralized investment expertise at the NAIC will be determined based upon the needs of regulators.

(4) ***Enhance structured asset modeling capabilities*** in line with #3 with less focus on individual designation production, but in support of the CRP due diligence function (can provide tools for validation of CRP designations), company and industry stress testing, and emerging risk identification. Provide additional resources to SSG to continue to build this capability, inclusive of ***model governance*** and validation of key parameters.

(5) ***Build out a broad policy advisory function*** at the SVO that can consider and recommend future policy changes to regulators under a holistic lens, considering input from all impacted processes. If needed, ***hire key external consultants*** to be on retainer to provide key guidance on policy related issues, assess market impact and provide recommendations. This would be akin to the use of the Academy of Actuaries or similar for risk-based capital and reserving initiatives.

(6) Consider establishing a ***broad investment working group*** under E committee that acts in an advisory capacity to various investment processes that would ultimately need more intensive regulator engagement and analysis on confidential basis (similar to FAWG/VAWG), including (1) review of bond reporting analysis under the principles-based bond definition, (2) challenges to individual designations provided by CRPs, (3) review of work provided by external consultants for investment-related projects for broad impacts to the framework (beyond the group that would have commissioned the review)

(7) If the multitude of the above recommendations are implemented, rename the SVO and VOSTF to better reflect the responsibilities of the groups beyond securities valuation. ***Empower SVO*** to utilize the tools and analysis available to raise key issues to other applicable working groups, such as SAPWG or LATF (or RBC-IRE, but also noting key support for that group via an investment-focused actuarial team). ***Reduce the size*** of VOSTF membership or its successor to encourage active regulator engagement on core issues.

Impacts of Proposed Framework on Current Initiatives:

VOSTF:

(1) CRP Due Diligence: Re-prioritize this initiative (currently in place with limited resources) and retain an external consultant to build out the framework. Allow for engagement with CRPs in its creation.

(2) Regulatory Discretion over CRP designations: Continue deliberative process on this existing proposal to incorporate interested parties' constructive feedback on framework.

(3) CLO/RMBS/CMBS Modeling: Review output in conjunction with the Academy of Actuaries and RBC-IRE to determine if (1) NAIC designations, (2) dynamic ad hoc modeling/stress capabilities or (3) a combination of both, are the most valuable use of SSG resources, noting the request above to provide additional resources to this group.

LATF:

(1) SVO Staff enhanced as suggested above could be an additional resource in AG 53 type reviews, and may be able to provide validating analysis via its analytical tools.

(2) Investment actuarial staff can provide key recommendations to enhancements to asset adequacy testing based on investment characteristics identified.

SAPWG:

(1) No direct impact to implementation of the bond project outside of establishment of a working group that can assess specific assets for reporting purposes.

RBC-IRE:

(1) Increased investment actuarial and risk management could provide key support to establishment of structured asset RBC factors given the cross-functional understanding of investments and RBC parameters.

B. Risk-Based Capital for Investments

The project to review RBC factors for investments remains ongoing ~~in its infancy,~~ but has made considerable strides with the formation for the RBC-IRE Working Group in 2022 and the engagement of the American Academy of Actuaries to begin developing factors for CLOs. As this project moves forward, the following guidelines should be considered:

(1) **Secondarily to the emphasis on ensuring insurer solvency, changes in RBC factors should consider market impacts ~~secondarily to solvency impact~~ and consistency across asset classes in** ~~Changes in RBC factors~~ ~~***should consider market impacts and consistency across asset classes***~~ in determining when and how to implement such changes. While perfection under a principle of "Equal Capital for Equal Risk which includes consideration of tail risk" is likely unachievable, it should nevertheless be a goal to create consistent standards to the highest degree practicable. For example, the current work at RBC-IRE is appropriately beginning with studying CLOs for developing RBC factors for structured securities. It is possible that new factors for CLOs would be available before a determination has been made for how to extrapolate a framework to other types of structured securities. As the phases of this project progress, care should be taken to consider the impacts of changing factors for an asset class while similar asset classes may remain unchanged. Factors to consider may include impacts to asset allocation and financial markets, in balance with the level of urgency of regulatory action.

(2) The RBC-IRE Working Group should consider and address areas where inconsistencies in treatment across asset classes ***incentivize a particular legal form***. The RBC-IRE Working Group should coordinate with the SAPWG where needed on this item. A key example of this is private credit funds, where the underlying assets are fixed income, but regulatory barriers frequently prevent them from receiving a fixed income capital charge, instead assigning an equity factor. This requires insurers to structure such investments into bond-form through securitization in order to receive a fixed income charge, which may ***"overcorrect"*** and lead to ***capital arbitrage***. Developing an avenue for such assets to receive a capital charge commensurate with the underlying asset risk would significantly reduce the need to form structured securities out of many types of private fixed income assets.

NAIC WG/TF	NAIC Identifier	Topic	Subtopic	Purpose of Purposed Work	Committee Consideration	Exposure Date	Targeted Effective Date	Most Recent Update
RBC Investment Risk and Evaluation (E) Working Group	IR4	Comprehensive Fund Review for investments reported on Schedule D Pt 2 Sn2		Review inconsistencies across asset classes based on legal form	Added to working agenda on 11/16/18 call			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR5	RBC for ABS including CLOs, CFOs or other similar		Long-Term Different RBC Requirement	Committee made request 1/12/22			American Academy Update Expected Quarterly
RBC Investment Risk and Evaluation (E) Working Group	IR7	Evaluate and develop an approach to map other ABS to current bond factors. Project will likely require outside consultant.		Long-Term Different RBC Requirement	Committee made request 1/12/22			Pending completion of other work
RBC Investment Risk and Evaluation (E) Working Group	IR8	Address the tail risk concerns not captured by reserves for privately structured securities		Long-Term Different RBC Requirement	Added to working agenda on 8/11/22 call (Referral from Macroprudential)			Pending completion of other work
Valuation of Securities (E) Task Force	VOSTF 2023-005	Authorizing the Procedures for the SVO's Discretion Over NAIC Designations Assigned Through the Filing Exemption Process		Reduce Reliance on Rating Agencies	Proposal addresses charge from the Committee from 2021	07/26/24		06/18/24
Valuation of Securities (E) Task Force	VOSTF 2024-007	Implement financial modeling of CLOs for purposes of designations		Reduce Reliance on Rating Agencies / Enhance Structured Asset Modeling Capabilities	Coordination with related workstream IR5 at RBC-IRE		1/1/2025 (but subject to finalization of methodlogy and coordination with RBC-IRE)	6/18/24 - Effective date change adopted
Financial Condition (E) Committee		Draft Request for Proposal to develop a dilligence process related to use of rating agency ratings		Address proposal from Investment Framework	Drafted by Valuation of Securities Task Force and Committee regulators			

Agenda Item #8

Hear a Presentation from BlackRock on Commercial Mortgages

Dan Harnick (BlackRock) and Alex Symes (BlackRock)

CRE Market Update

Alex Symes, US Head of Research & Strategy, BlackRock Real Estate

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Summary

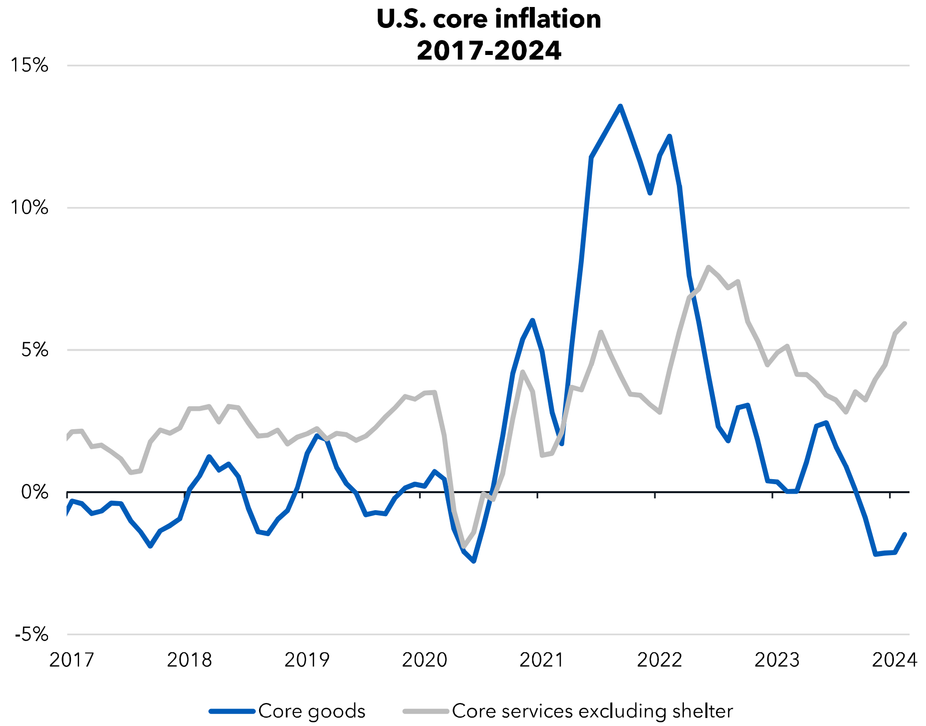
01 Dislocations in the capital market

02 Stable property market trends

03 Difficult path ahead for office

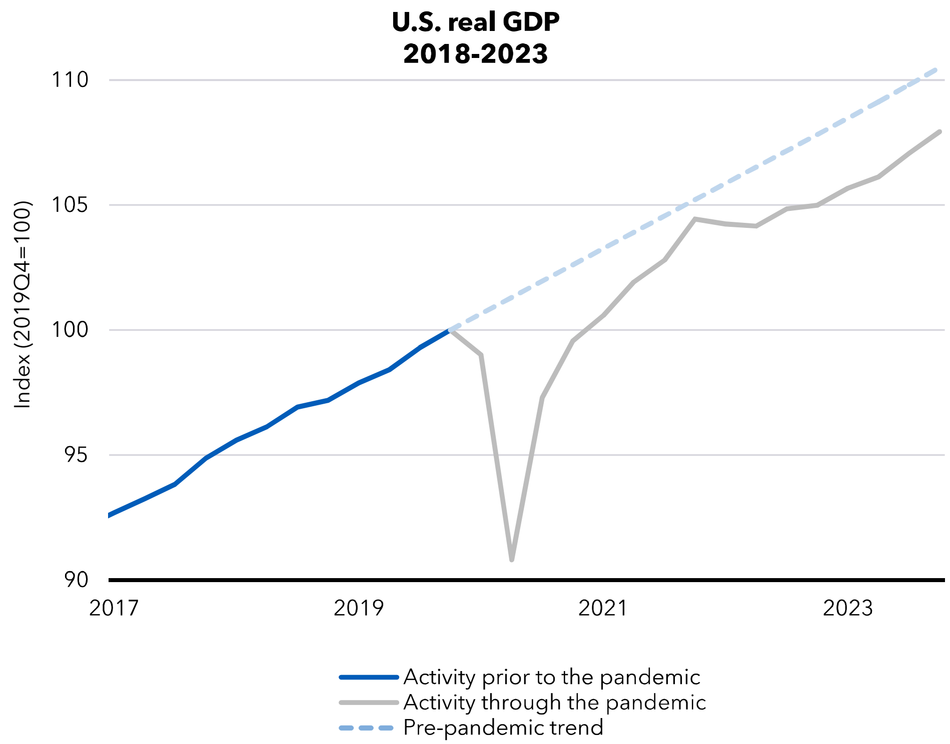
A whole new structurally different world
Inflation is decelerating, although not sharply

Services are holding inflation higher



Source: BlackRock Investment Institute, with data from Haver Analytics, March 2024. Notes: Note: The chart shows core goods and services inflation measured by the change over six months at an annualised rate. Core goods inflation covers all goods excluding energy and food costs; core services inflation covers all services excluding energy and shelter costs.

Growth has yet to return to prior trend

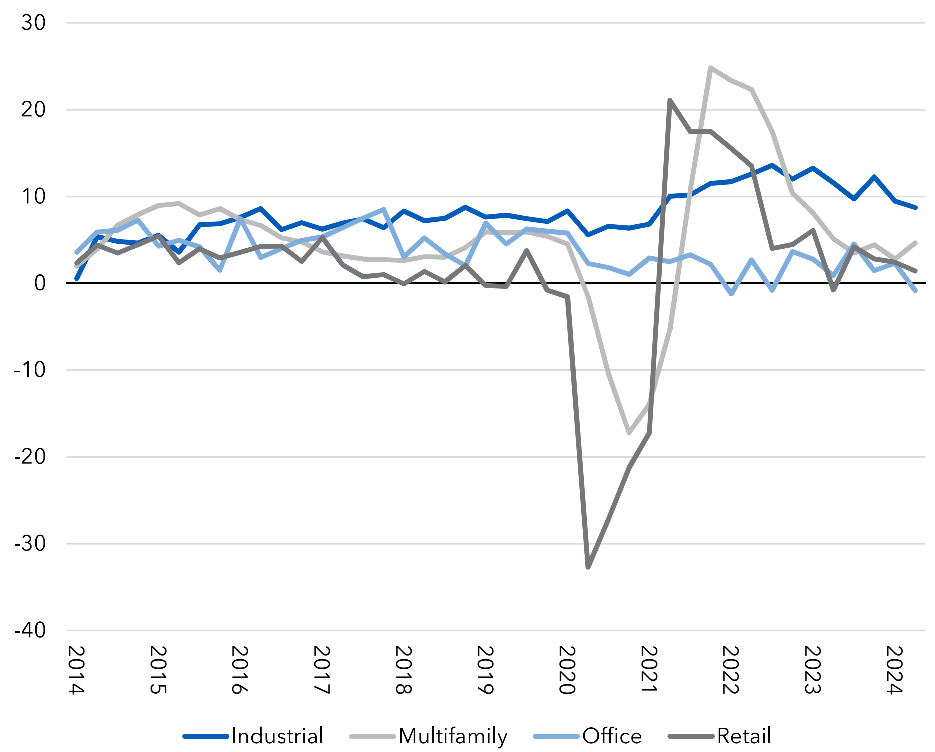


Source: BlackRock Investment Institute, U.S. Bureau of Economic Analysis, IMF with data from Haver Analytics, March 2024. Notes: The chart shows the level of real gross domestic product (GDP) in the U.S.

Fundamentals largely stable; expect dispersion

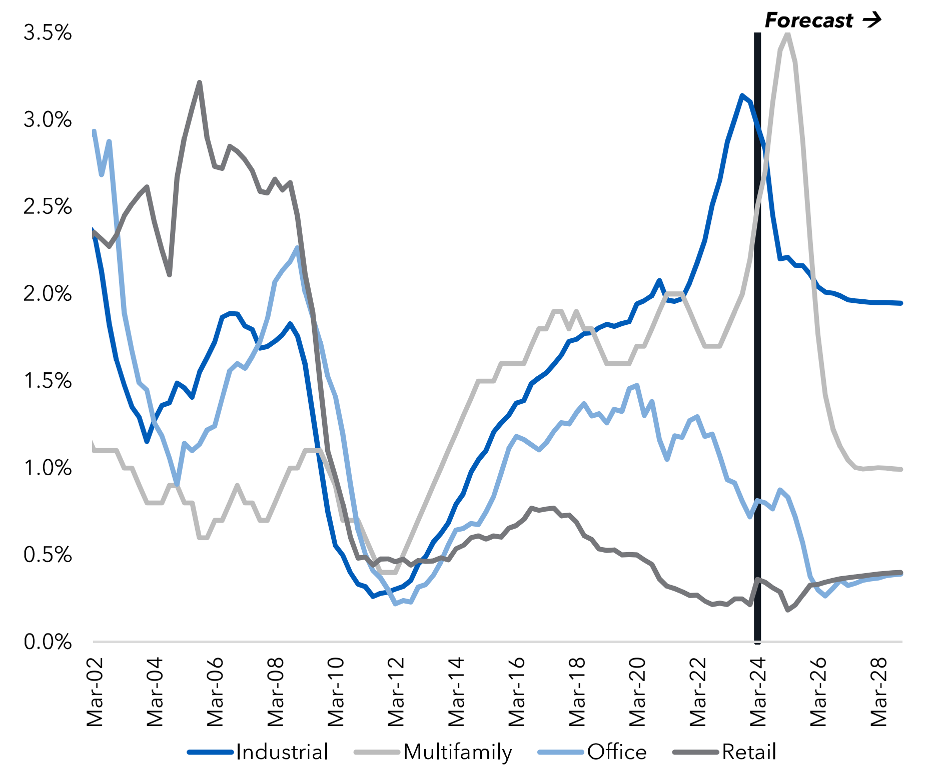
Strong structural trends support multifamily & industrial, less so for office

NCREIF NOI Growth (YoY%)



Source: NCREIF, as of 30 June 2024

Supply as % of existing stock



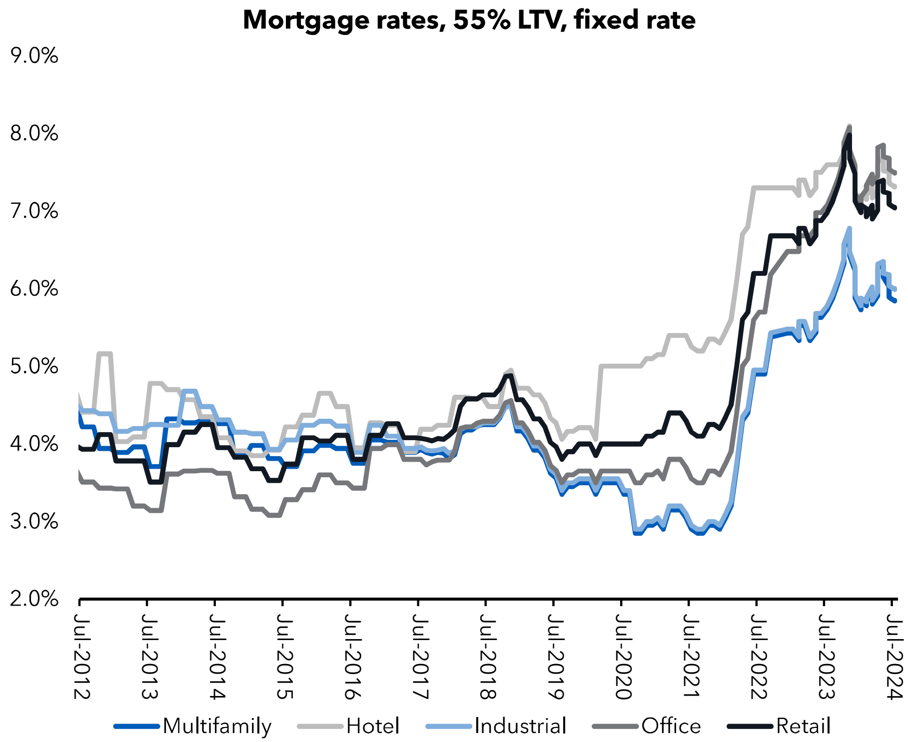
Forward looking estimates may not come to pass

Source: CBRE-EA, BlackRock; as of 31 March 2024

Higher cost of capital and constrained credit conditions

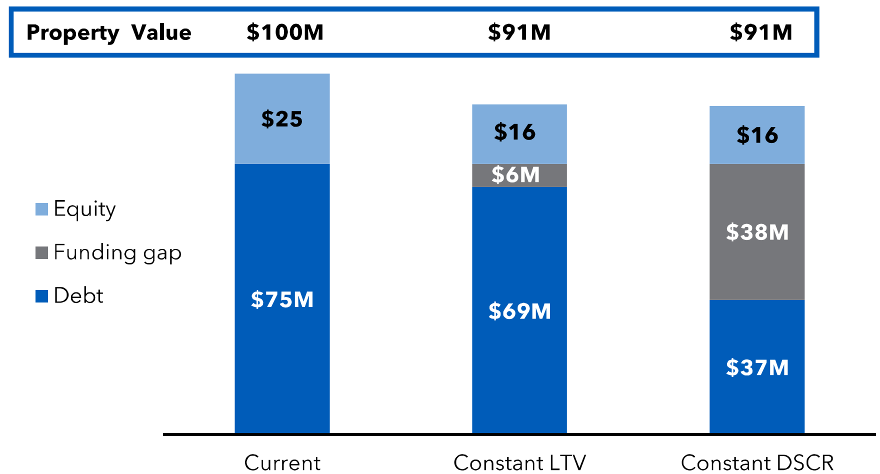
Cost of debt is higher and proceeds are lower than in 2021

Higher debt costs across the board…



Source: Chatham Financial, BlackRock, as of July 2024

…leads to potential funding gaps



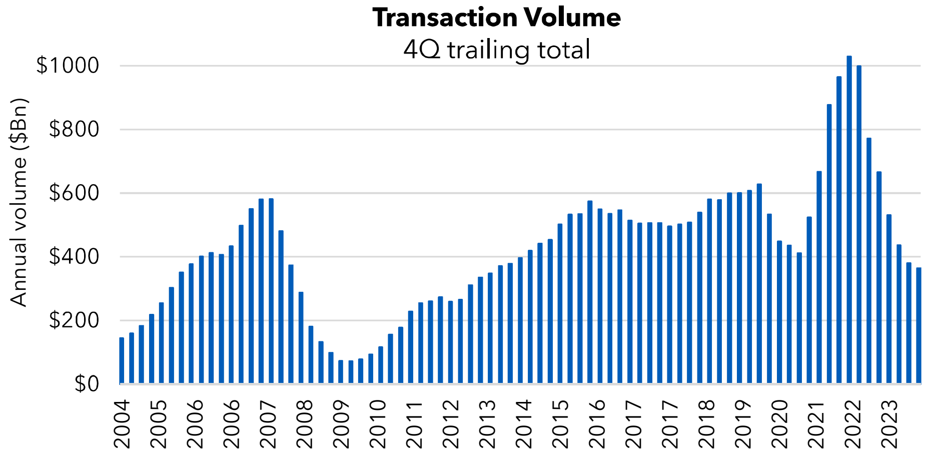
	Jan 2021	May 2024: Constant LTV	May 2024: Constant DSCR
NOI	$4.5M	$4.8M	$4.8M
Cap rate	4.50%	5.25%	5.25%
LTV	75%	75%	41%
Cost of Debt	2.8%	6.0%	6.0%
DSCR	2.1	1.2	2.1

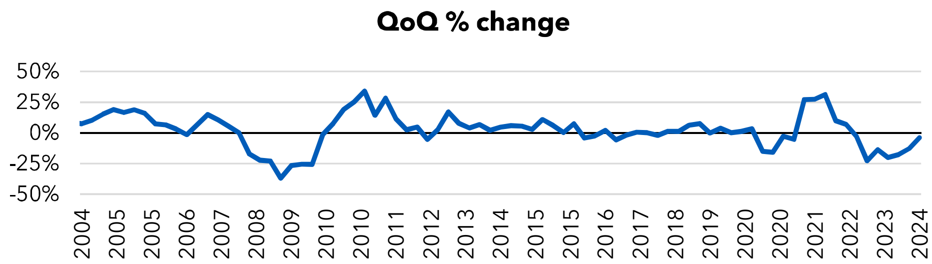
Source: BlackRock, May 2024. All $ amounts are in USD.

Transactions and pricing are moving towards a bottom

Shift varies by property type depending on investor demand

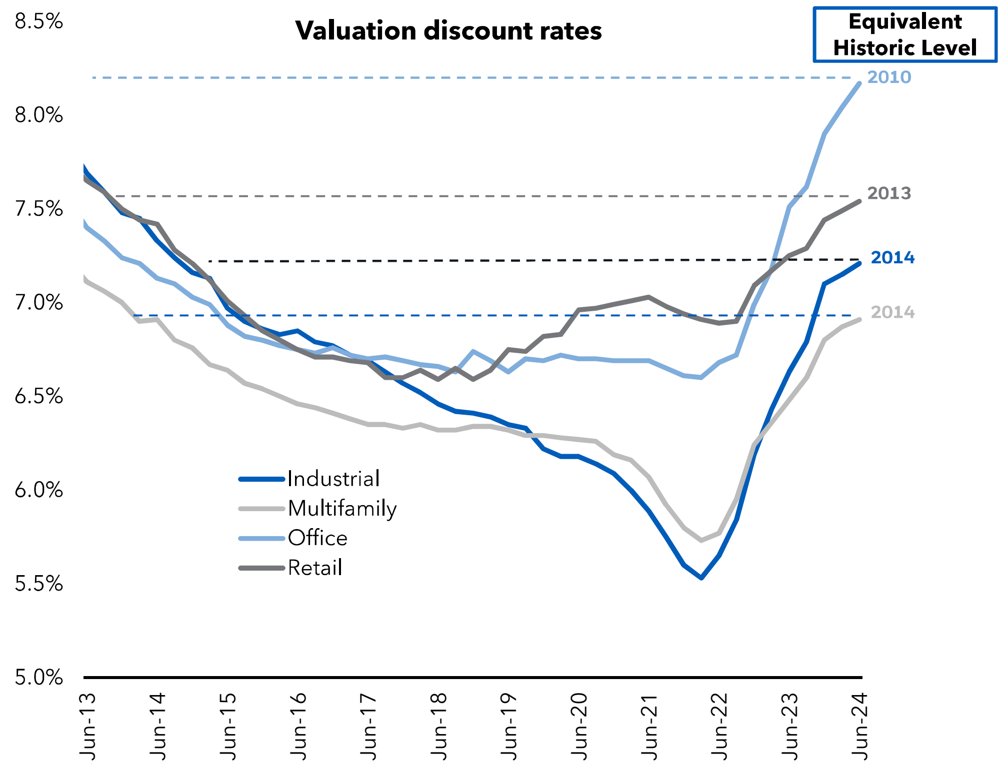
Lower volumes due to higher cost of capital





Source: Real Capital Analytics; as of 31 March 2024

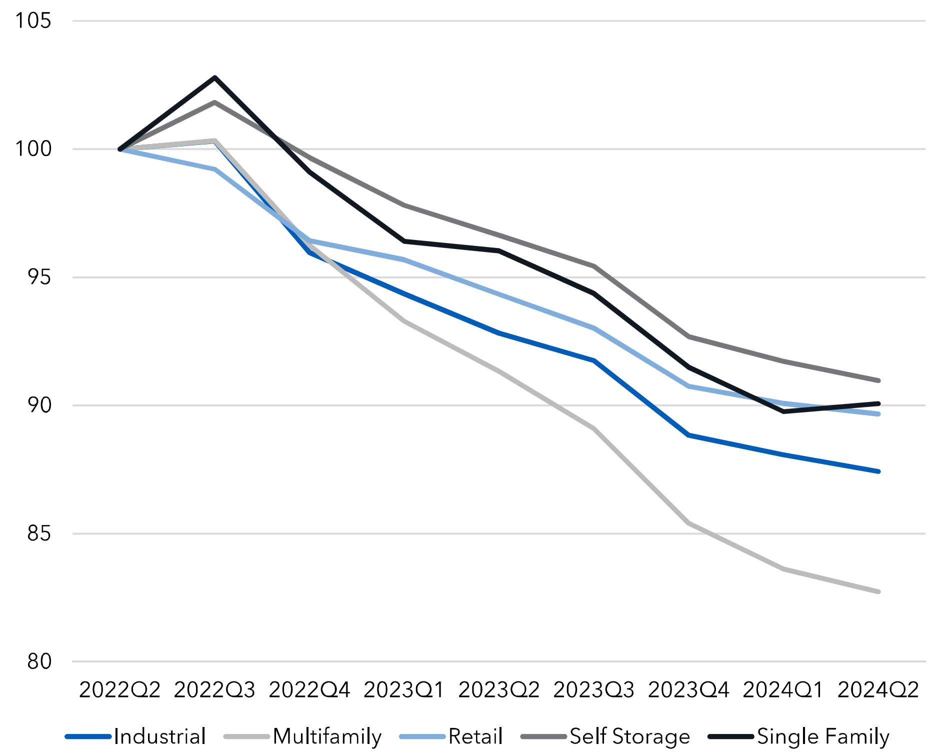
Discount rates have followed higher interest rates



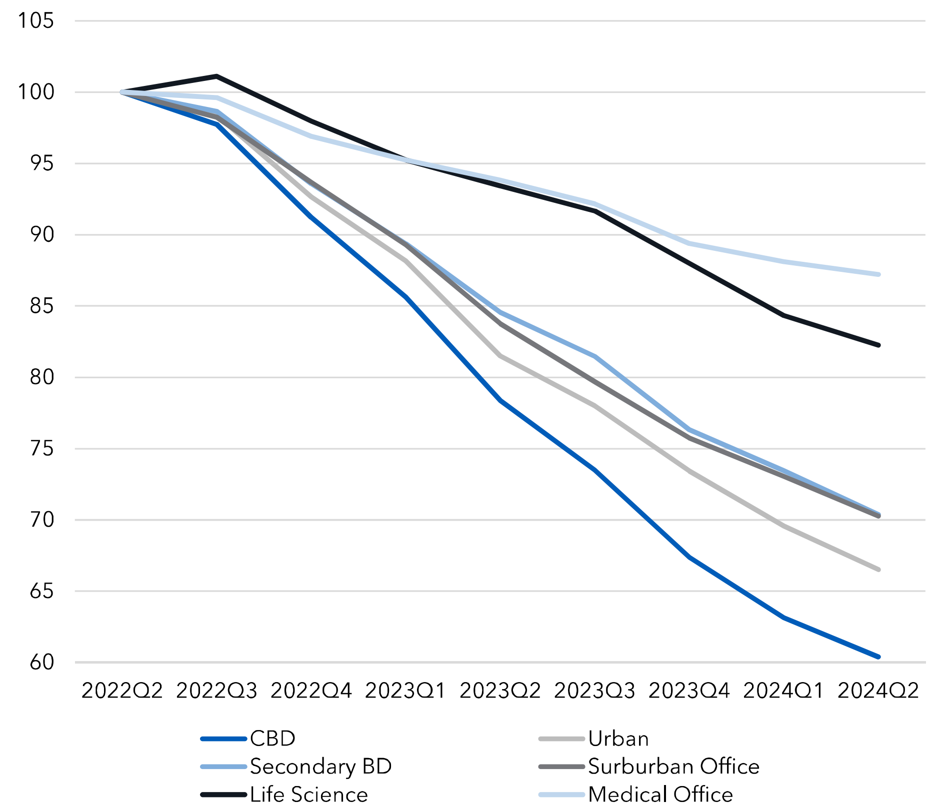
Source: Altus; as of 30 June 2024

Where are we in the cycle?

NCREIF Property Index: Non-office property types



NCREIF Property Index : Office property types



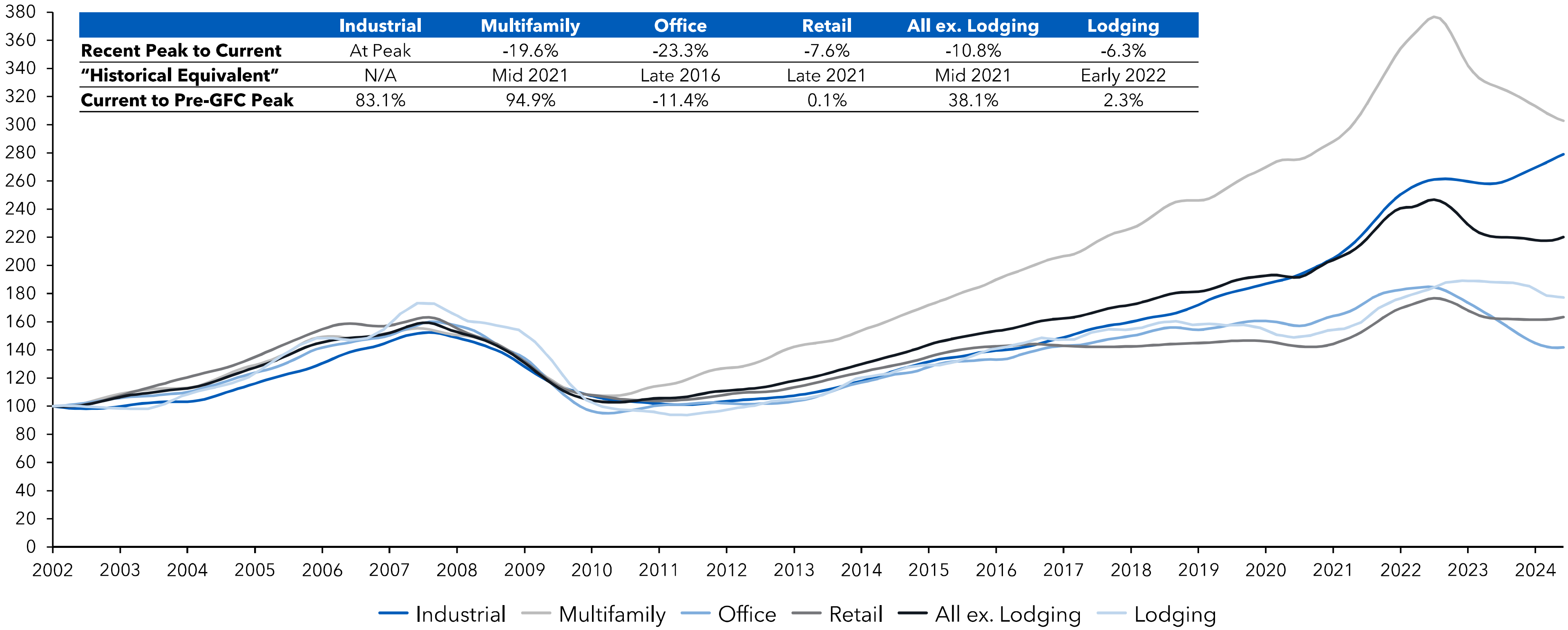
Source: NCREIF , as of June 2024

Note: NPI Appreciation Index, Values indexed to 100 as of Q2 2022

Where have we come from?

RCA Commercial Property Price Index

	Industrial	Multifamily	Office	Retail	All ex. Lodging	Lodging
Recent Peak to Current	At Peak	-19.6%	-23.3%	-7.6%	-10.8%	-6.3%
"Historical Equivalent"	N/A	Mid 2021	Late 2016	Late 2021	Mid 2021	Early 2022
Current to Pre-GFC Peak	83.1%	94.9%	-11.4%	0.1%	38.1%	2.3%



Source: MSCI RCA , as of June 2024

Note: Values indexed to 100 as of Q1 2002

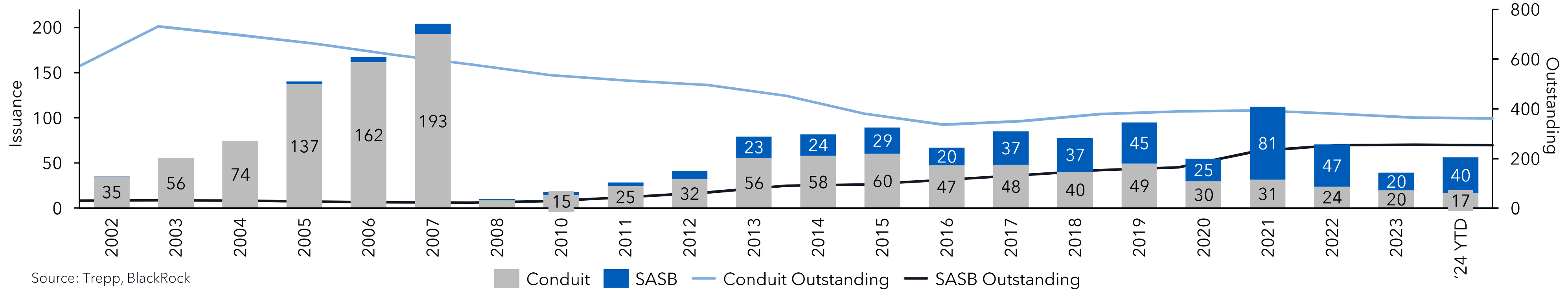
CMBS Market Update

Dan Harnick, Director, BlackRock Financial Markets Advisory

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

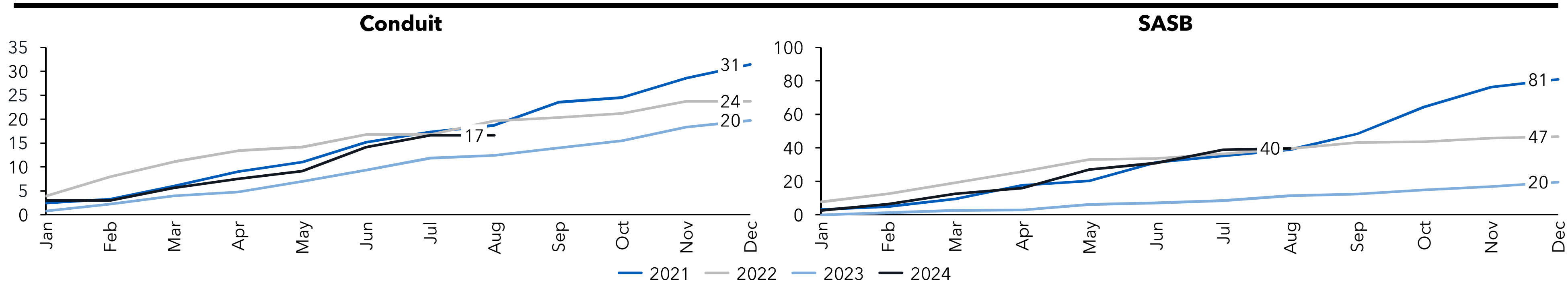
Issuance volumes are rebounding from a slow 2023; SASB continues to dominate volumes

CMBS Issuance and Outstanding ($ bn)



Source: Trepp, BlackRock

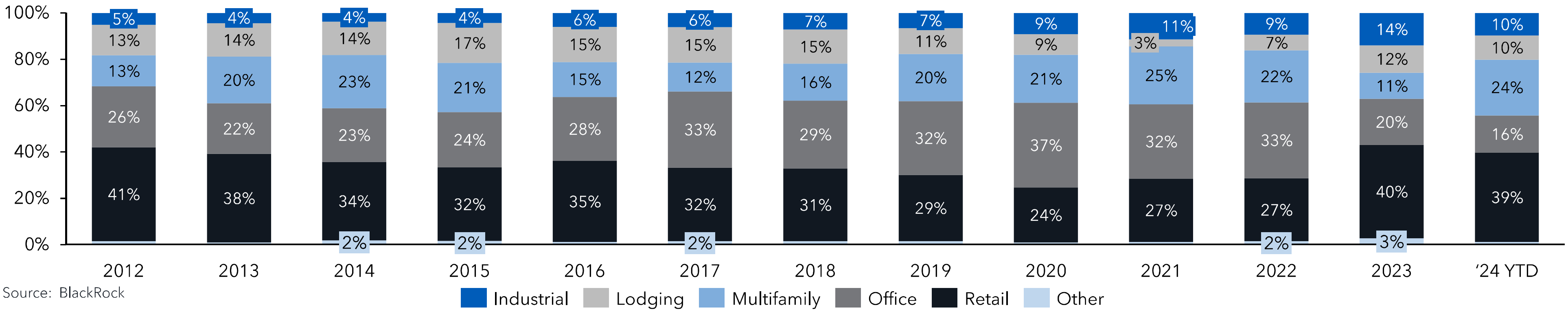
YTD Issuance ($ bn)



Source: Trepp, BlackRock

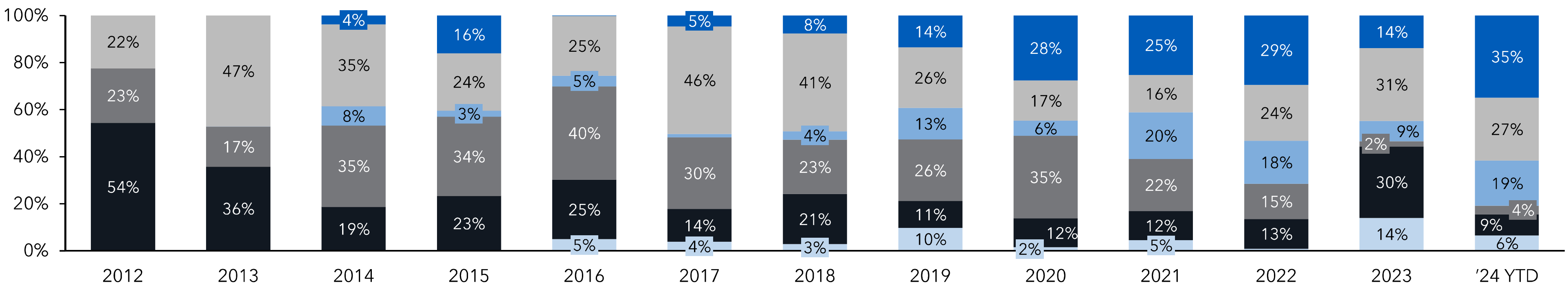
Property type concentrations continue to evolve

Conduit Property Type Concentration by Vintage



Source: BlackRock

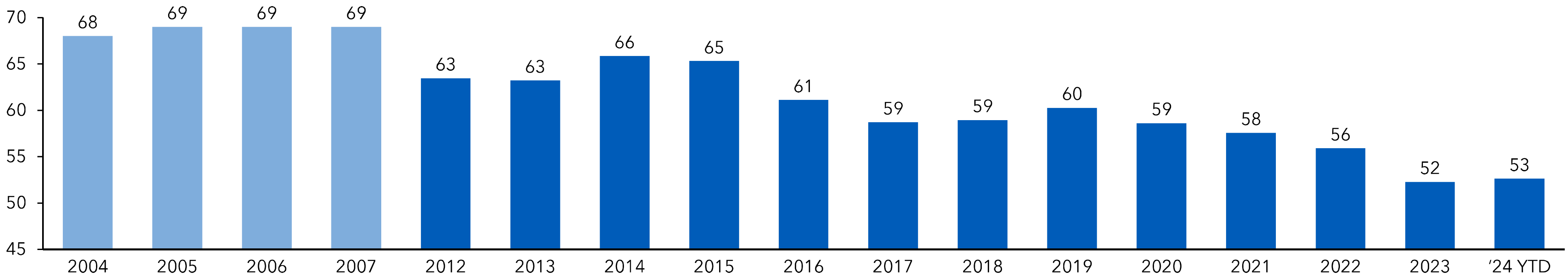
SASB Property Type Concentration by Vintage



Source: BlackRock

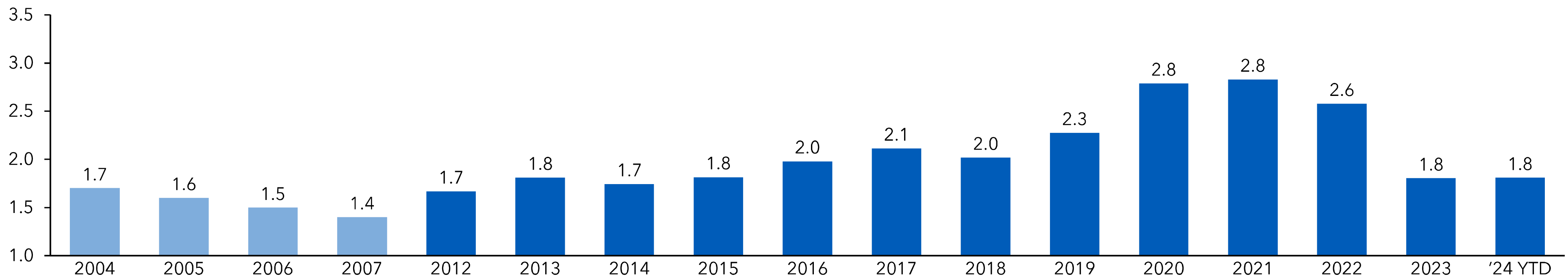
Underwritten leverage levels continue to improve relative to pre-GFC issuance, though debt service coverage ratios have recently deteriorated

Conduit Weighted Average Underwritten LTV by Vintage (%)



Source: BlackRock

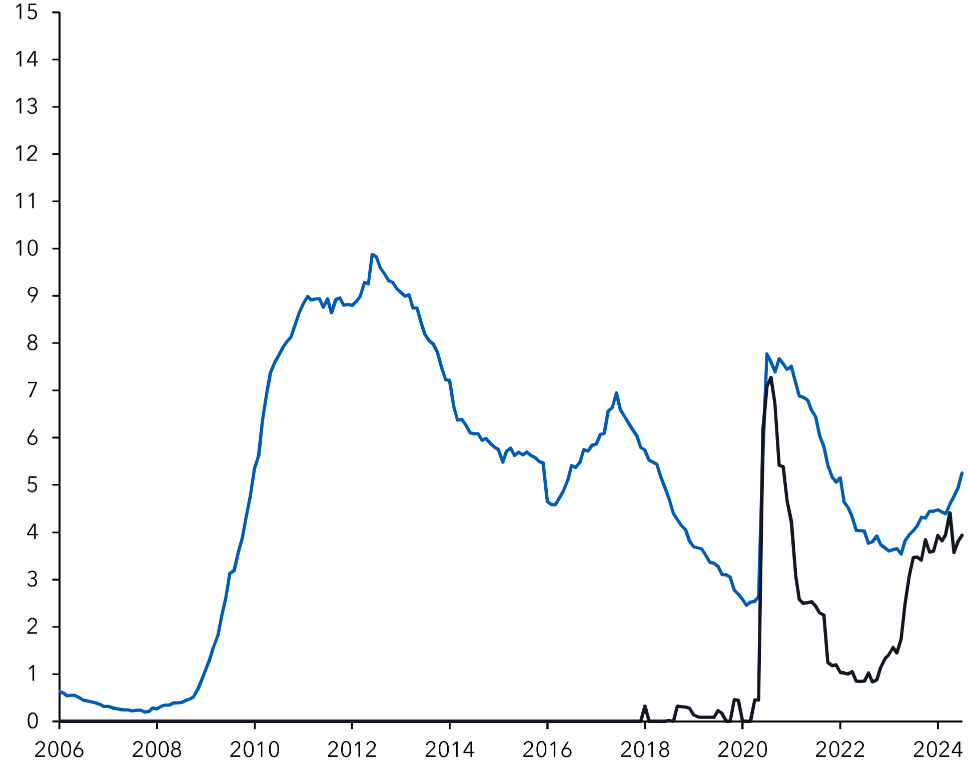
Conduit Weighted Average Underwritten DSCR by Vintage



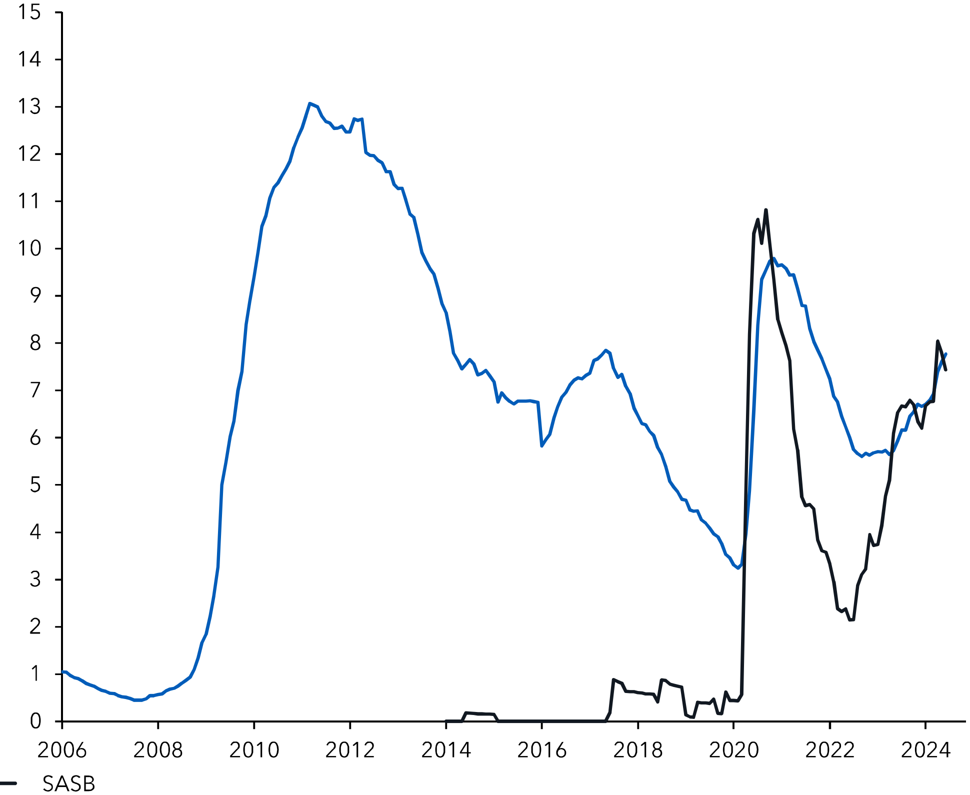
Source: BlackRock

There is concern, as distress is once again rising in the CMBS universe…

60+ Delinquency by Deal Type (%)



Special Servicing by Deal Type (%)

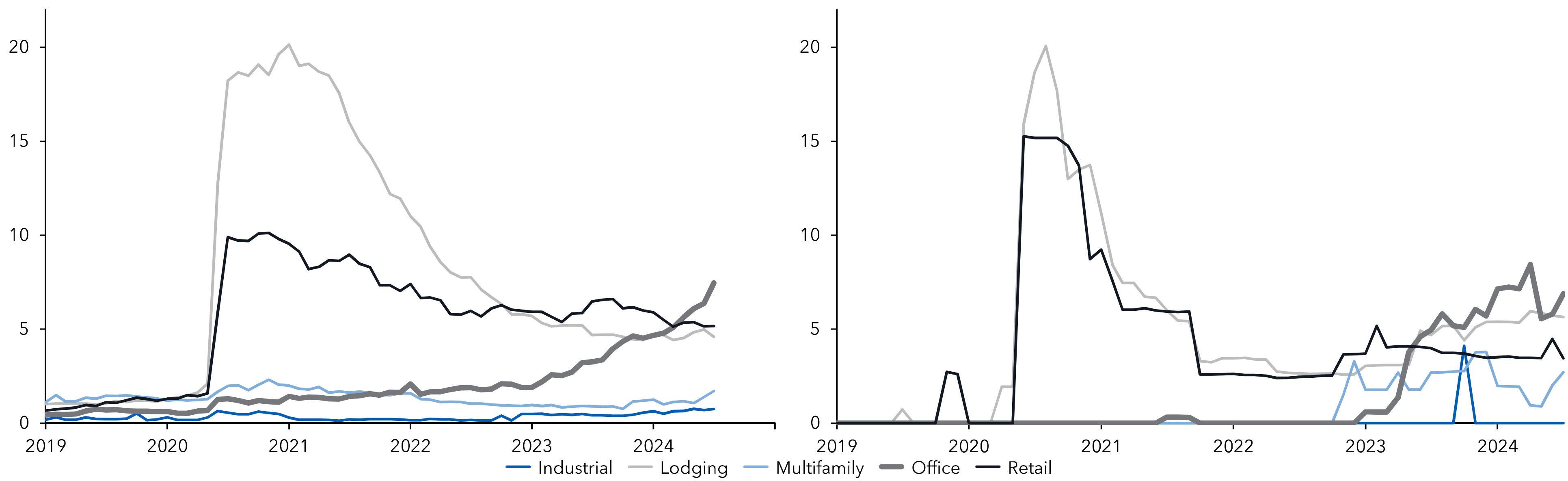


Source: Trepp, BlackRock; as of June 2024

…But not all property sectors are created equal

Post-GFC Conduit 60+DQ (%) by Property Type

Post-GFC SASB 60+DQ (%) by Property Type



Conduit - Current vs Peak 60+ DQ Rates

Sector	Peak GFC	Peak Covid	Current
Industrial	12.2%	0.6%	0.7%
Lodging	16.7%	20.1%	5.0%
Multifamily	15.5%	2.3%	1.4%
Office	10.4%	2.1%	6.4%
Retail	7.8%	10.1%	5.2%

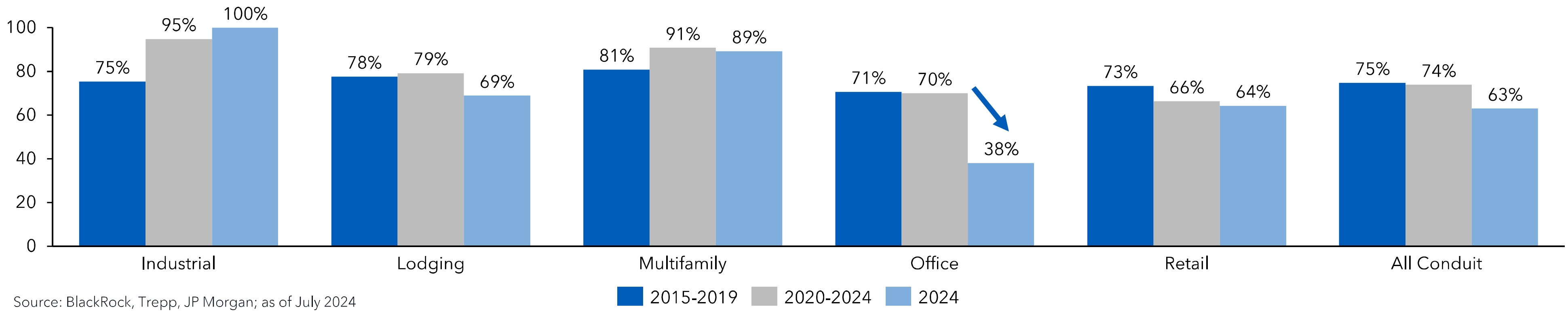
SASB - Current vs Peak 60+ DQ Rates

Sector	Peak Covid	Current
Industrial	0.0%	0.0%
Lodging	20.1%	5.7%
Multifamily	3.3%	2.0%
Office	0.3%	5.8%
Retail	15.3%	4.5%

Source: Trepp, BlackRock; as of June 2024

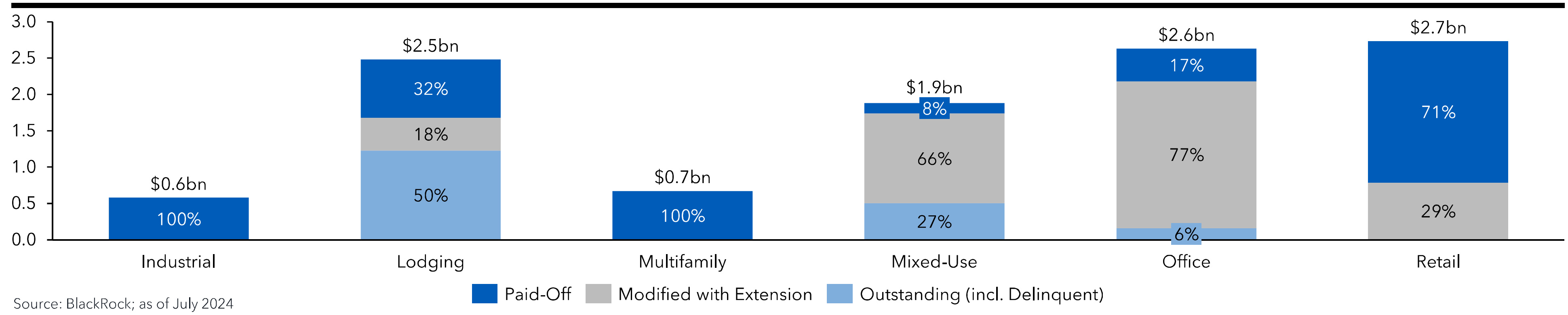
Loan payoff rates have declined, driven by the office sector, as borrowers face a challenging refinancing environment

Conduit Maturity Refinance Success Rates by Property Type and Maturity Year (Balance %)



Source: BlackRock, Trepp, JP Morgan; as of July 2024

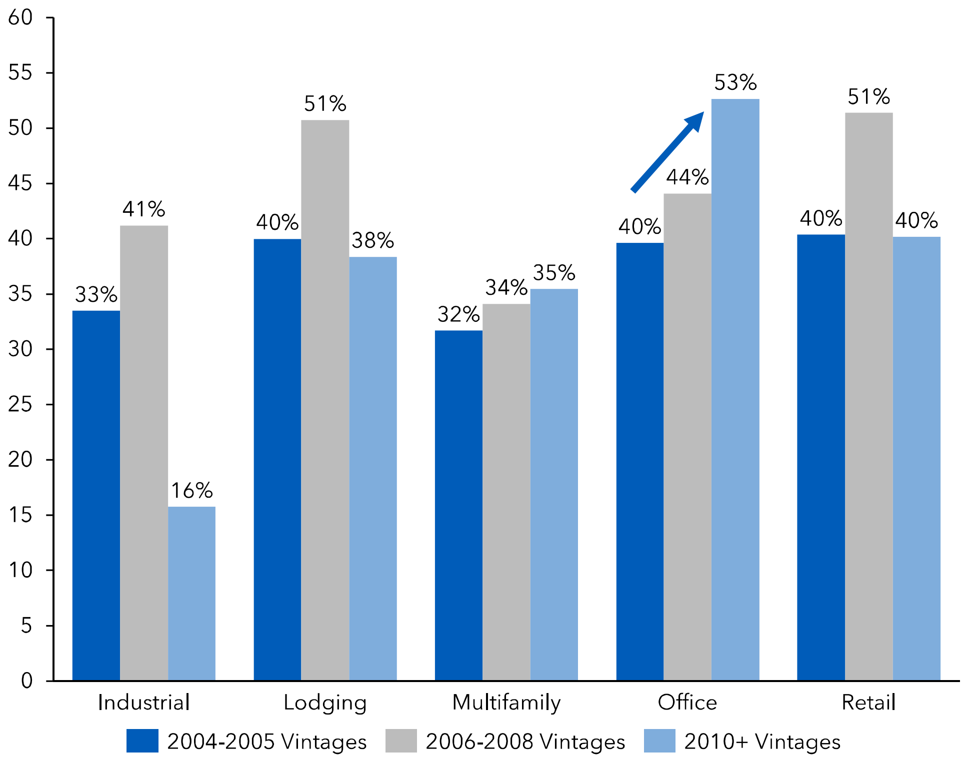
SASB 2023 Final Maturity Outcomes by Property Type (Balance $ bn)



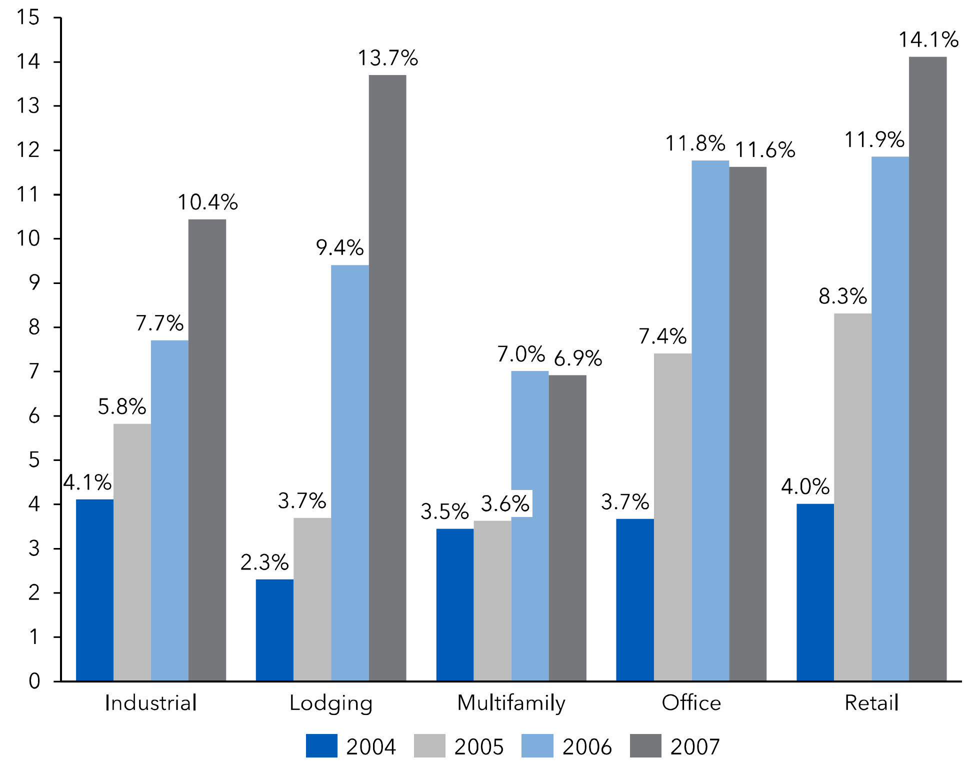
Source: BlackRock; as of July 2024

Comparing pre-GFC deal performance to recent vintages

Conduit Loss Severity by Property Type & Vintage (%)



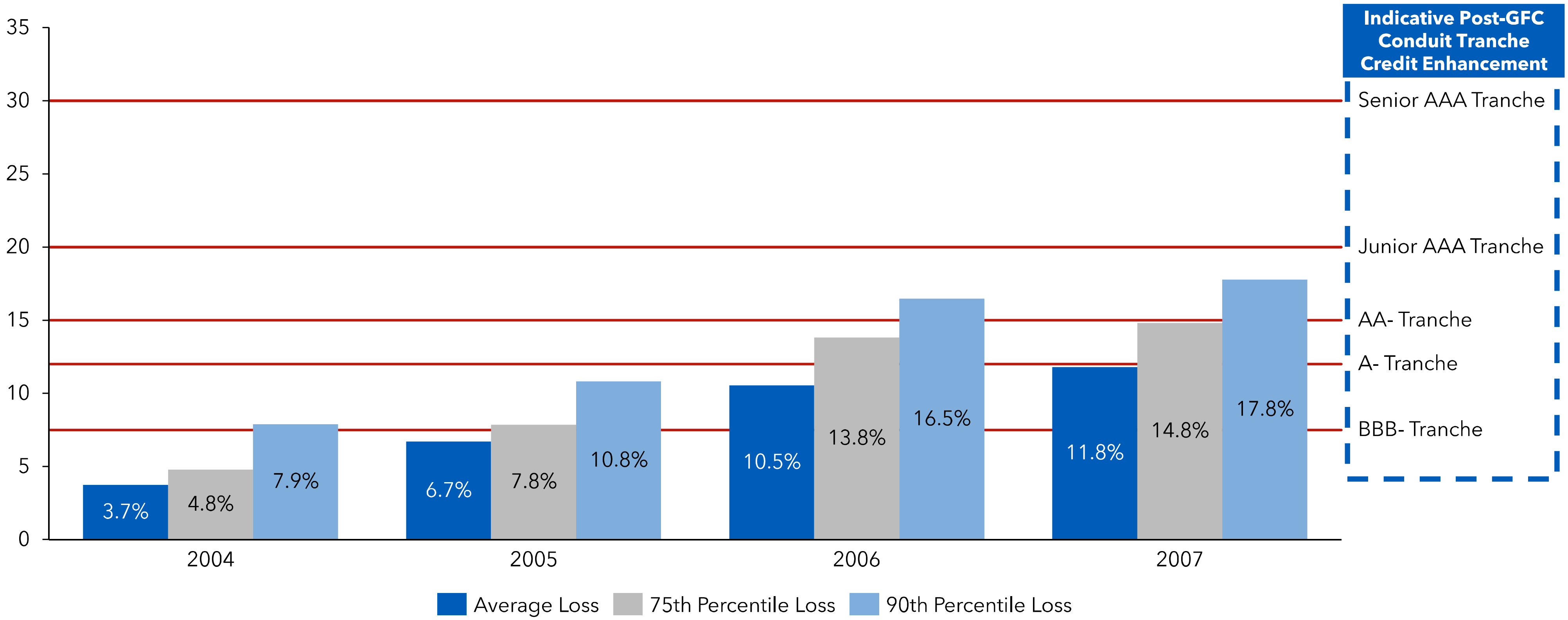
Conduit Cumulative Loss by Property Type & Vintage (%)



Source: Trepp, BlackRock, as of July 2024

Using historical losses as a benchmark for post-GFC vintage bond performance

Conduit Historical Deal Loss Percent vs Post-GFC Bond Credit Enhancement (%)



Source: Trepp, BlackRock, as of July 2024

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