

Plan for the List of MWG Considerations – PE Related and Other

Some of these Working Group projects will continue for several years. The status of the 13 MWG Considerations is as follows as of **August 13, 2023**:

1. Holding Company Structures:

Sent a referral for new work to the Group Solvency Issues (E) Working Group.

GSIWG Update 3/22/23: *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*

GSIWG Update 8/13/23: *The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.*

2. Ownership and Control:

Sent a referral for new work to the Group Solvency Issues (E) Working Group.

GSIWG Update 3/22/23: *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*

GSIWG Update 8/13/23: *The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.*

3. Investment Management Agreements (IMAs):

Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and Form D filings. Also sent a referral to the Valuation of Securities (E) Task Force (VOSTF) to highlight the regulatory discussion involving topics it administers.

RFSWG Update 3/22/23: *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its*

ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.

RFSWG Update 8/13/23: *The RFSWG is nearing the completion of its project to update general guidance in NAIC handbooks related to affiliated service agreements, which is expected to be completed by the 2023 Summer National Meeting. After the general guidance is completed, the Working Group plans to begin work on more targeted guidance related to affiliated investment management agreements.*

4. Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer:

Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees. Also sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.

RFSWG Update 3/22/23: *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.*

RFSWG Update 8/13/23: *No update.*

LATF Update 3/22/23: *Asset adequacy analysis requirements in NAIC Model #820 and VM-30 require that company Appointed Actuaries perform testing to ensure that the reserves held for the company's liabilities are adequate in light of the assets supporting the business. Regulators review associated company Statements of Actuarial Opinion periodically.*

LATF Update 8/13/23: *Actuarial Guideline 53 – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) became effective for year-end 2022. AG 53 requires additional disclosures related to life insurance and annuity company investment return assumptions for complex and high yielding assets. Regulators are conducting targeted reviews of the AG 53 disclosures to ensure that company investment returns for complex and high-yielding assets are not overly optimistic.*

5. Operational, Governance and Market Conduct Practices:

The MWG will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.

MWG Update 3/22/23: *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.*

MWG Update 8/13/23: *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.*

6. Definition of Private Equity (PE):

No action was deemed necessary for this consideration.

No update.

7. Identifying Related Party-Originated Investments (Including Structured Securities):

Sent a referral to the Statutory Accounting Principles (E) Working (SAPWG) Group recognizing its existing work regarding disclosures for related-party issuance/acquisition. Once MWG regulators work with these SAPWG disclosures and regulatory enhancements from referrals to other groups, further regulatory guidance may be considered as needed.

SAPWG Completed Actions 3/22/23:

- *Ref #2021-21 included revisions that clarified guidance for related parties and developed a blanks proposal which provided new investment schedule column with reporting codes to identify investments that involve related parties. (Adopted May 2022)*
- *Ref #2021-22BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures include codes that identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)*

SAPWG Completed Actions 8/13/23:

- *Ref #2022-15, included revisions to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Adopted March 2023)*

8. Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities:

Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investment. Also sent a referral for new work to the Examination Oversight (E) Task Force for the CLO/structured security considerations.

SAPWG Completed Actions 3/22/23:

- See above descriptions (Ref # 2021-21 and Ref #2021-22 BWG) on investment reporting codes for year end 2022 reporting.
- Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a “related party” and the disclosure of material transactions. This agenda item also resulted in the creation of a new Schedule Y Part 3, which was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Ref #2019-34 and Ref #2020-37BWG, both adopted March 2021)

SAPWG Completed Actions 8/13/23:

- See above descriptions (Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG).

EOTF Update 3/22/23: The EOTF delegated work on this referral to its Financial Analysis Solvency Tools (E) Working Group and its Financial Examiners Handbook (E) Technical Group. Both groups developed new guidance for inclusion in 2023 NAIC handbooks related to the new related party investment disclosures developed by SAPWG and the AG 53 standards developed by LATF that will be in place for 12/31/22 reporting. The groups may develop additional guidance for NAIC handbooks, as well as supporting regulatory reports and tools, as work proceeds in this area.

9. Asset Manager Affiliates and Disclaimers of Affiliation:

MWG regulators are comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed. Also, a referral was sent to the Statutory Accounting Principles (E) Working Group recognizing its existing work to

revamp Schedule D reporting along with the previously mentioned code disclosures will assist with this consideration.

SAPWG Completed Actions 3/22/23:

- See above descriptions of Schedule Y Part 3. (Ref #2019-34 and Ref #2020-37BWG).

SAPWG Ongoing Work 3/22/23:

- Ref #2022-15, which clarifies affiliated investment reporting, is planned for exposure at the 2022 Fall National Meeting. It adds guidance on reporting of affiliated investments.
- As part of a project known as the bond project, the SAPWG is developing a proposal to revise Schedule D reporting, which intends to determine what is considered a qualifying bond and to identify different types of investments more clearly. For example, the current bond proposal would divide Schedule D-1 into a Schedule D-1-1 for issuer credit obligations and a Schedule D-1-2 for asset-backed securities. The proposal includes more detailed reporting lines to provide more granularity on the actual types of investments held. The effective date of the bond proposal, and the reporting changes, is anticipated for January 1, 2025. The Ref #2019-21 is the primary Form A; however, the project has several documents.
- Ref #2022-17, which clarifies interest income disclosures, is planned for exposure at the 2022 Fall National Meeting.

SAPWG Completed Actions 8/13/23:

- See above descriptions Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG; Ref #2022-17, incorporated revisions to data-capture interest income disclosures, and established new disclosures for aggregate paid-in-kind interest and deferred interest. (Adopted March 2023). SAPWG Ongoing Work: Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023, and updated revisions are anticipated for exposure shortly after the 2023 Summer National Meeting. The statutory accounting revisions to incorporate a new principles-based bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities will be presented for adoption at the 2023 Summer National Meeting.

10. Privately Structured Securities:

Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an Actuarial Guideline including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks. Sent a referral to the VOSTF highlighting the MWG

regulators' support for the blanks proposal to add market data fields for private securities being considered by the Valuation of Securities (E) Task Force (VOSTF). MWG regulators will wait on any further work or referrals until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project. Sent a referral for new work to the RBC Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.

LATF Update 3/22/23: *Actuarial Guideline 53 (AG 53) has been adopted by the Life Actuarial (A) Task Force and will be effective for year-end 2022 reporting. Regulators on the Valuation Analysis (E) Working Group will be conducting AG 53 reviews.*

VOSTF Update 3/22/23: The VOSTF will be sending referrals to a number of NAIC committee groups requesting feedback on a replacement proposal to have the NAIC produce analytical risk metrics for bond investments. These groups will also be asked if they support the proposal and to describe different ways they envision being able to take advantage of such a capability within the NAIC.

SAPWG Ongoing Work 8/13/23:

- *As discussed above, the Schedule D bond proposal is planned for 2025 reporting.*

RBCIREWG Update 8/13/23: *The Risk-Based Capital Investment Risk and Evaluation (E) Working Group added this item to its working agenda. While not specifically addressing privately structured securities, the Working Group's current work on collateralized loan obligations may contribute to addressing this item.*

11. Reliance on Rating Agencies:

Sent a referral to the VOSTF indicating the MWG regulators' agreement to monitor the work of its ad hoc group addressing various rating agency considerations.

VOSTF Update 3/22/23:

- *The Task Force adopted an amendment at its Feb. 21 meeting that effective Jan. 1, 2024, financially modeled collateralized loan obligations (CLO) will not be eligible to use credit rating provider ratings to determine an NAIC Designation.*

- *The Task Force has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The questions are in the materials for the Spring National Meeting and will likely being exposed for public comment.*
- *The Securities Valuation Office (SVO) has proposed an amendment to remove Structured Equity and Funds transactions from being eligible to use credit rating provider (CRP) ratings to assign an NAIC Designation. The SVO has proposed defining Structured Equity and Funds investments as investments which, through the insertion of an intervening entity such as a special purpose vehicle (SPV) or limited partnership, enable underlying assets that may not qualify as ‘bonds’ or be eligible to receive an NAIC Designation under the current regulatory guidance, to be reported as ‘bonds’ because the intervening entity issues notes and those notes receive a credit rating provider rating. The SVO identified multiple regulatory reporting arbitrage opportunities with these investments that circumvent regulatory guidance using a CRP rating to accomplish that result.*
- *The Task Force adopted a new charge for 2023 to stablish criteria to permit staff’s discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC’s financial solvency objectives. The criteria have not yet been proposed.*

VOSTF Update 8/13/23:

- *VOSTF received referral responses from the Financial Condition (E) Committee, the Life Actuarial (A) Task Force, the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group. The Life Actuarial Task Force and Valuation Analysis Working Group supported the proposal and provided examples of risk metrics which would be useful to their groups. The Financial Analysis Working Group supported the VOSTF investigating various products because it said the risk metrics could be more effective in helping financial analysts and examiners to fully evaluate and assess investment risks. The Financial Condition Committee said it was worthwhile for the VOSTF to continue to investigate the various products which could be made available to the SVO staff and state regulators that provide some of the alternative investment risk measures as they could obviate the need for the NAIC to collect that information form NAIC Annual Statements. However, the E Committee said that before it could sponsor the proposal it would need more information to fully understand the costs and benefits of such products. This is an ongoing initiative.*

- *VOSTF has drafted a list of questions to discuss with each rating agency in future regulator-only meetings. The SVO has received comments from certain rating agencies and is incorporating those comments into a final list of questions to be agreed to by the Task Force. At the 2023 Spring National, during the discussion of the proposed amendment on Structured Equity and Funds, the Task Force deferred action on the Structured Equity and Funds amendment and directed the SVO staff to draft a distinct process on how it would recommend challenging an NAIC Designation assigned from a credit rating provider (“CRP”) rating pursuant to the Filing Exemption (“FE”) process which the SVO thinks is not a reasonable assessment of risk for regulatory purposes. The SVO subsequently proposed an amendment which would grant the SVO staff a limited amount of discretion over the FE process to address the NAIC’s current blind reliance on credit ratings. The amendment would establish strict due process requirements before the SVO could over-ride a CRP rating including a materiality threshold of a 3-notch difference in order to flag a CRP rating and sufficient notice to insurers to provide time for insurers to appeal SVO assessments. This amendment will continue to be discussed by the Task Force and interested parties.*

12. Pension Risk Transfer (PRT) Business Supported by Complex Investments.

a. LATF’s Actuarial Guideline:

Sent a referral to the LATF recognizing its work on an Actuarial Guideline which should address the reserve considerations of pension risk transfer (PRT) business. Sent a referral to the SAPWG to address the related disclosure considerations as the goal was to have them in the Notes to Financial Statements.

LATF Update 3/22/23: *The PRT Drafting Group of the VM-22 SG is considering the development of PRT/longevity risk mortality factors. The DG hopes to share data with the Longevity Risk Subgroup of LATF that the Subgroup could consider for C-2 RBC for PRT products and longevity risk transactions.*

SAPWG Completed Actions 3/22/23:

- *Ref #2020-37: Separate Account – Product Identifiers and Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure, which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements, was adopted by the SAPWG May 2021. Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021.*

Comment – The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented; most entities are still broadly grouping PRT activity in the disclosures.

LATF Update 8/13/23: The PRT drafting group hasn't met since January, and the Longevity Risk Subgroup is holding off on meeting until the VM-22 Subgroup finalizes the VM-22 methodology

b. Department of Labor Protections:

MWG Update 8/13/23: Discussions with DoL continue. DoL is in the process of updating their fiduciary requirements under 95-1, which require due diligence in assessing an insurer prior to a PRT transaction.

c. State Guaranty Funds Compared to PBGC Protection – NOLHGA 2016 Study:

No further action was deemed necessary.

MWG Update 8/13/23: No update necessary.

d. RBC Treatment of PRT Business:

Sent a referral to the Longevity Risk (E/A) Subgroup recognizing its work will also address PRT business and indicating the MWG regulators will monitor this work.

LATF Update 3/22/23: The Longevity Risk (E/A) Subgroup has not met since the Summer National Meeting. The subgroup will resume the meetings once the currently exposed VM-22 PBR methodology is finalized and adopted to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.

LATF Update 8/13/23: No change in this item as the VM-22 framework is not final yet.

13. Offshore/Complex Reinsurance:

MWG Update 12/13/22: MWG regulators are wrapping up the confidential discussions with industry participants and other jurisdictions regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles. They are continuing discussions to identify the best mechanism to ensure reviewing/approving regulators can identify the true economic impacts of the reinsurance

transaction. MWG regulators will consider further work and/or referrals once they have concluded these discussions.

MWG Update 3/22/23: *At the Spring NM 2023 The Working Group released for comment the reinsurance comparison worksheet designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved. We believe the cross-border reinsurance worksheet will enhance state insurance regulators' ability to monitor these transactions. The comment period ended Apr 28 and the MWG is in the process of addressing comments received.*

MWG Update 8/13/23: *The Reinsurance Worksheet was adopted on a joint FSTF/MWG virtual meeting on June 20, 2023.*