

MEMORANDUM

TO: Members, Interested Regulators and Interested Parties of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

FROM: Philip Barlow, Chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group

DATE: April 16, 2024

RE: Consideration of Additional Information on Interim Factor for Residual Tranches

The Risk-Based Capital Investment Risk and Evaluation (E) Working Group will meet May 22, 2024, to consider additional feedback to be provided by those industry stakeholders requesting a 1-year delay. In order to be considered by the Working Group, this feedback needs to include and shall be limited to, a detailed plan describing:

- (1) Who is accepting responsibility for conducting the additional analysis. Note that this cannot require the dedication of American Academy of Actuaries' (Academy) resources which are already dedicated to long-term projects commissioned by the Working Group. If the responsible party also needs the cooperation of other sources, please confirm the willingness and ability of those parties to provide the necessary data/analysis in the timeframe identified.
- (2) A specific timeline of when deliverables will be provided, in order to allow adequate time for the Working Group to conduct its review. This should include touchpoints with the Chair of the Working Group regarding progress, with a final proposal to be provided no later than January 31, 2025.
- (3) Any analysis provided must be credibly aligned with the actual holdings of residuals by insurers and should be based on a Conditional Tail Expectation (CTE) risk measure approach.
- (4) While the Working Group presumes that a long-term factor will be based on attributes of holdings, likely resulting in multiple factors, an interim factor is anticipated to be singular in nature. If industry anticipates it will request multiple factors be used for an interim step, the structure and design of the interim proposal must be received by November 30, 2024, to ensure an adequate time to review before a structure change. Note that any proposal involving multiple factors must be supported by additional CTE-based risk measure analysis. As evidenced by the vote taken during the April 12, 2024, meeting, a majority of the working group does not believe a 1-year delay for the sole purpose of allowing multiple interim factors is warranted.

- (5) Acknowledgement that the Working Group will not reassess the interim factor if information is received after the agreed timelines. Any information provided after those dates may be considered in the context of ongoing work as a long-term factor.