

# NAIC

NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

# Group Capital Calculations

## 2022 Instructions



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## I. BACKGROUND

1. In 2015, the ComFrame Development and Analysis (G) Working Group held discussions regarding developing a group capital calculation (GCC) tool. The discussions revealed that developing a GCC was a natural extension of work state insurance regulators had already begun, in part driven by lessons learned from the 2008 financial crisis which include better understanding the risks to insurance groups and their policyholders. While insurance regulators currently have authorities to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist regulators in identifying risks that may emanate from a holding company system.
2. More specifically, the GCC and related reporting provides more transparency to insurance regulators regarding the insurance group and makes risks more identifiable and more easily quantified. In this regard, the tool assists regulators in holistically understanding the financial condition of non-insurance entities, how capital is distributed across an entire group, and whether and to what degree insurance companies may be supporting the operations of non-insurance entities, potentially adversely impacting the insurance company's financial condition or policyholders. This calculation provides an additional analytical view to regulators so they can begin working with a group to resolve any concerns in a manner that will ensure that policyholders of the insurers in the group will be protected. The GCC is an additional reporting requirement but with important confidentiality protections built into the legal authority. State insurance regulators already have broad authority to take action when an insurer is financially distressed, and the GCC is designed to provide Lead State Regulators with further insights to allow them to reach informed conclusions on the financial condition of the group and the need for further information or discussion.
3. State insurance regulators currently perform group analysis on all U.S. insurance groups, including assessing the risks and financial position of the insurance holding company system based on currently available information; however, they do not have the benefit of a consolidated statutory accounting system and financial statements to assist them in these efforts. It was noted prior to development that a consistent method of calculating group capital for typical group risks would provide a useful tool for state financial regulators to utilize in their group assessment work. It was also noted that a GCC could serve as a baseline quantitative measure to be used by regulators to complement the view of group-specific risks and stresses provided by the Own Risk and Solvency Assessment (ORSA) Summary Report filings and in Form F filings that may not be captured in legal entity filings.
4. During several open meetings and exposure periods, the ComFrame Development and Analysis (G) Working Group considered a discussion draft which included three high-level methodologies for the GCC: a risk-based capital (RBC) aggregation approach; a statutory accounting principles (SAP) consolidated approach; and a generally accepted accounting principles (GAAP) consolidated approach. On Sept. 11, 2015, Working Group members unanimously approved a motion to move forward with developing a recommendation for a GCC and directed an appropriate high-level methodology for the recommendation.
5. At a ComFrame Development and Analysis (G) Working Group meeting held Sept. 24, 2015, pros and cons for each methodology were discussed, and a consensus quickly developed in support of using an RBC

aggregation approach if a GCC were to be developed. The Executive (EX) Committee and Plenary ultimately adopted the following charge for the Financial Condition (E) Committee:

*“Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation.”*

6. The RBC aggregation approach is intended to build on existing legal entity capital requirements where they exist rather than developing replacement/additional standards. In selecting this approach, it was recognized as satisfying regulatory needs while at the same time having the advantages of being less burdensome and costly to regulators and industry and respecting other jurisdictions’ existing capital regimes. To capture the risks associated with the entire group, including the insurance holding company, RBC calculations would need to be developed in those instances where no RBC calculations currently exist.
7. In early 2016, the Financial Condition (E) Committee appointed the Group Capital Calculation (E) Working Group, which began to address its charge and various details of the items suggested by the ComFrame Development and Analysis (G) Working Group. The instructions included herein represent the data, factors, and approaches that the Working Group believed were appropriate for achieving such an objective. The GCC instructions and template are intended to be modified, improved, and maintained by the NAIC in the future as are the *Accounting Practices and Procedures Manual*, the *Annual Statement Instructions* and the *Risk- Based Capital Formula and Instructions*. This includes, but is not limited to, future disclosure of additional items developed or referred to by other NAIC committees, task forces and/or working groups.
8. In December 2020, amendments to NAIC Model Law (#440) and Model Regulation (#450) were adopted to provide States with legislative language to fully implement the GCC as an annual filing. The Model specifies what groups are exempted from the GCC filing requirement and the circumstance under which a limited filing may be submitted. For such information reference should be made not to these instructions, rather to the models and, more specifically, to how they are implemented into laws and regulations of a Lead State.

## II. DEFINITIONS

9. **Affiliate:** As defined in the NAIC Model Insurance Holding Company System Regulatory Act in Model #440, an “affiliate” of, or person “affiliated” with, a specific person, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. The Model #440 defines “Control” (including the terms “controlling,” “controlled by” and “under common control with”) as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. Model #440 provides that the presumption may be rebutted by showing that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact,

notwithstanding the absence of a presumption to that effect. Any entities that would otherwise qualify as Schedule BA affiliates as described above but are owned by other entities (e.g., foreign insurers or other types of Parent entity) should be treated in the same way.

10. Broader Group: The entire set of legal entities that are controlled by the Ultimate Controlling Person of insurers within a corporate group. When considering the use of this term, all entities included in the Broader Group should be included in Schedule 1 and the Inventory, but only those that are denoted as “included” in Schedule 1 will be considered in the actual GCC.
11. Control: As used in the Model #440, the term “control” (including the terms “controlling,” “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by Section 4K of Model #440 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.
12. Cross-Support Mechanism: A cross-support mechanism is an agreement or transaction that creates a financial interdependence. Depending on the nature of the transaction and the specific circumstances, these mechanisms may pose material risk. These may include corporate guarantees, capital maintenance agreements (regulatory or ratings based), letters of credit, intercompany indebtedness, bond repurchase agreements, securities lending or other agreements or transactions that create a financial interdependence or link between entities in the group.
13. Entity Not Subject to A Regulatory Capital Requirement: This is a financial entity other than an entity that is subject to a specified regulatory capital requirement.
14. Financial Entity: A non-insurance entity that engages in or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits, or making loans, managing, or holding investments, etc.). Such entities may or may not be subject to specified regulatory capital requirements of other sectoral supervisory authorities. For purposes of the GCC, entities that are not regulated by an insurance or banking authority [e.g., the U.S. Securities and Exchange Commission (SEC) or the Financial Industry Regulatory Authority (FINRA)] will be considered as not subject to a specified regulatory capital requirement.

The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds) that represents the Broader Group’s aggregate ownership in such entities, whether or not any member of the Broader Group is involved in that entity’s management responsibilities (e.g., via investment advisory or broker- dealer duties) for those entities.

For purposes of this definition, a subsidiary of an insurance company whose predominant purpose is to manage or hold investments or act as a broker-dealer for those investments on behalf of the insurance company and its affiliated insurance (greater than 90% of all such investment subsidiaries' assets under management or held are owned by or for the benefit of these insurance affiliates) should NOT be considered a Financial Entity. In the case where an insurer sets up multiple subsidiaries for this purpose, the 90% may be measured in the aggregate for all such entities. Similarly, in the case of collective investment pools (e.g., private funds, commodity pools, and mutual funds) the 90% may be measured individually, or in the aggregate for each subtype (e.g., private funds, commodity pools, and mutual funds).

In addition, other financial entities without a regulatory capital requirement include those which are predominantly engaged in activities that depending on the nature of the transaction and the specific circumstances, could create financial risks through the offering of products or transactions outside the group such as a mortgage, other credit offering or a derivative.

15. Insurance Group: For purposes of the GCC, a group that is comprised of two or more entities of which at least one is an insurer, and which includes all insurers in the Broader Group. Another (non-insurance) entity may exercise significant influence on the insurer(s); i.e., a holding company or a mutual holding company; in other cases, such as mutual insurance companies, the mutual insurer itself may be the Ultimate Controlling Person. The exercise of significant influence is determined based on criteria such as (direct or indirect) participation, influence and/or other contractual obligations; interconnectedness; risk exposure; risk concentration; risk transfer; and/or intragroup agreements, transactions and exposures.

An Insurance Group may include entities that facilitate, finance or service the group's insurance operation, such as holding companies, branches, non-regulated entities, and other regulated financial institutions. An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control and includes all members of the Broader Group that exercise significant influence on the insurance entities and/or facilitate, finance or service the insurance operations.

An Insurance Group could be headed by:

- An insurance legal entity;
- A holding company; or
- A mutual holding company.

An Insurance Group may be:

- A subset/part of bank-led or securities-led financial conglomerate; or
- A subset of a wider group.

An Insurance Group is thus comprised of the head of the Insurance Group and all entities under its direct or indirect control.

16. Insurance Subgroup/U.S. Operations: Refers to all U.S. insurers within a Broader Group where the groupwide supervisor is in a non-U.S. jurisdiction. It includes all the directly and indirectly held subsidiaries of those U.S. insurers. For purposes of subgroup reporting, capital instruments, loans, reinsurance, guarantees would only include those that exist within the U.S. insurers. Amounts included for the U.S. insurers shall include all amounts contained within the financial statements of those entities included in the

subgroup reporting, whether those amounts are directly attributable or allocated to a company in the subgroup from an affiliate outside of the U.S. insurers and its direct or indirect subsidiaries.

17. Lead State Regulator: As defined in the Financial Analysis Handbook; i.e., generally considered to be the one state that “takes the lead” with respect to conducting and coordinating groupwide supervision within the U.S. solvency. The determination of a lead state is affected by the following factors: (i) The state with the insurer/affiliate with largest direct written premiums (ii) Domiciliary state/country of top-tiered insurance company in an insurance holding company system (iii) Physical location of the main corporate offices or largest operational offices of the group (iv) Knowledge in distinct areas of various business attributes and structures (v) Affiliated arrangements or reinsurance agreements (vi) Lead state must be accredited by the NAIC.
18. Group-wide supervisor: The regulatory official authorized to engage in conducting and coordinating group-wide supervision activities who is determined or acknowledged by the commissioner under Section 7.1 to have sufficient significant contacts.
19. Internationally active insurance group: An insurance holding company system that (1) includes an insurer registered under Section 4; and (2) meets the following criteria: (a) premiums written in at least three countries, (b) the percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system’s total gross written premiums, and (c) based on a three year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars (\$50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars (\$10,000,000,000).”
20. Limited Group Capital Filing: Refers to a GCC filing that includes sufficient data or information to complete the “Input 4 Analytics” tab and the “Summary 3 – Analytics” tab of the GCC template. This includes Schedule 1 of the template and may include limited data from other input tabs as deemed necessary for purposes of the analytics.
21. Material Risk: Risk emanating from a non-insurance/non-financial entity not owned by an insurer in the Insurance Group or is part of the Broader Group that is of a magnitude that could adversely impact the financial stability of the group as a whole, that the ability of insurers within a group to pay policyholder claims or make other policy related payments (e.g., policy loan requests or annuity distributions) may be impacted.

To determine whether an entity within the Broader Group poses material risks to the Insurance Group, the totality of the facts and circumstances must be considered. The determination of whether risk posed by an entity is material requires analysis of various aspects pertaining to the subject entity. A determination that a non-insurance/non-financial entity does not pose material risk allows the filer to request exclusion of that entity from the calculation of the GCC ratio in the “Inventory” tab. Several items as listed below should be considered in making such a determination, to the extent they apply.

Caution is necessary, however. The fact that one or more of these items may apply does not necessarily indicate risk to the Insurance Group is, or is not, material. The group should be able to support its determination of material risk if requested by the Lead State Regulator. This should not be used as a checklist or as a scorecard. Rather, the list is intended to illuminate relevant facts and circumstances about



a subject entity, the risk it poses, how the Insurance Group might be exposed to that risk and means to mitigate that risk.

Primary Considerations:

- Past experience (i.e., the extent to which risk from the entity has impacted the Insurance Group over prior years/cycles).
- The degree to which capital management across the Broader Group has historically relied on funding by the Insurance Group to cover losses of the subject entity.
- The existence of intragroup cross-support mechanisms (as defined below) between the entity and the Insurance Group.
- The means by which risk can be transmitted; i.e., the existence of sufficient capital within the entity itself to absorb losses under stress and/or if adequate capital is designated elsewhere in the Broader Group for that purpose.
- The degree of risk correlation or diversification between the subject entity and the Insurance Group (e.g., where risks of one or more entities outside the Insurance Group are potentially offset (or exacerbated) by risks of other entities) and whether the corporate structure or agreements allow for the benefits of such diversification to protect the Insurance Group.
- The existence and relative strength or effectiveness of structural safeguards that could minimize the transmission of risk to the Insurance Group (e.g., whether the corporate shell can be broken).

Other Considerations (*if primary considerations suggest exclusion may be reasonable, these can be used to further support exclusions*):

- The location of the entity in relation to the Insurance Group within the Broader Group's corporate structure and how direct or indirect the linkage, if any, to the Insurance Group may be.
- The activities of the entity and the degree of losses that the entity could pose to the group under the current economic environment or economic outlook.

The guidance above recognizes that there are diverse structures and business models of insurers that make it impracticable to apply a one-size-fits-all checklist that would work for materiality determinations across all groups. Strict or formulaic quantitative measures based on size of the entity, or its operations of a non-insurance affiliate are an insufficient proxy for materiality of risk to the insurance operations. The GCC Instructions thus consider the unique circumstances of the relevant entity and group and uses an interactive process whereby the group brings forward its suggestions as to entities that should be excluded from the scope of application for a discussion with the lead state, ultimately culminating in an agreement on the scope of application. The guidance in this section helps to facilitate that process and discussion with criteria for cross-support mechanisms that can potentially transmit material risk, as defined, to the Insurance Group as well as safeguards that can mitigate such risk or its transfer.

22. Person: As used in Model #440, a "person" is an individual, a corporation, a limited liability company, a partnership, an association, a joint stock company, a trust, an unincorporated organization, any similar entity or any combination of the foregoing acting in concert but shall not include any joint venture partnership exclusively engaged in owning, managing, leasing or developing real or tangible personal property.

23. Reciprocal Jurisdiction: As defined in the *Credit for Reinsurance Model Law* (#785).
24. Scope of Application: Refers to the entities that meet the criteria listed herein for inclusion in the GCC ratio. The application of material risk criteria may result in the Scope of Application being the same as, or a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s).

NOTE: U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator, otherwise in as much as they are already included in a reporting legal entity, they are already in the scope of application and there is no need for any additional reporting.

25. Ultimate Controlling Person: As used in the *Insurance Holding Company System Regulatory Act* (#440). This is the entity that exercises control directly or indirectly over all entities within the Broader Group.

### III. DETERMINING THE SCOPE OF APPLICATION

- A. Groups Exempted from the GCC
26. Refer to changes to Model #440 for guidance on groups that are exempted from filing a GCC. Instead, instructions are provided to ensure Lead State Regulators receive the information necessary to evaluate the Scope of Application.
- B. Scope of Application – Legal Entity Inventory
27. When considering the scope of application, preparers of the GCC must first understand the information to be included in Schedule 1 of the template. When developing an initial inventory of all potential entities, the preparers of the GCC shall complete Schedule 1, which, except in the case of an Insurance Subgroup (as defined in Section II), requests data for all of the entities within the Broader Group that are directly or indirectly owned by the Ultimate Controlling Person (including the Ultimate controlling Person) that are listed in the insurer’s most recent Schedule Y or in relevant Holding Company Filings. GCC preparers should provide basic information about each entity in Schedule 1, including its total assets, and total revenue and net income for this specific year identified. Additionally, the initial filing will require some further information for the prior year (e.g., prior year equity or surplus to policyholders). The primary purpose of the Schedule 1 is to: 1) assist the lead state in making an assessment on the entities within the group that should be included in the Scope of Application; and 2) provide the lead state with valuation information to better understand the group. This valuable information produces various ratios and other financial metrics that will be used in the analysis of the GCC and the group by the lead state for their holding company analysis.

With regard to Schedule A and Schedule BA affiliates, for purposes of the data input on the Schedule 1 and Inventory tabs, only include Schedule A and Schedule BA affiliates which are insurers or other financial entities reported as, or owned indirectly through, Schedule A or Schedule BA affiliates. All other Schedule A and Schedule BA investments will remain as investments of a Parent insurer will be reported as part of the value and capital calculation of the Parent insurer. A full list of Schedule A and BA entities shall be

reported in the Input 6 – Questions tab. Any insurer or financial entities that would otherwise qualify as Schedule BA affiliates if owned by a U.S. insurer, but which are owned by other entities (e.g., foreign insurers or other type of Parent entity) should be reported in the Schedule 1 and Inventory tabs.

28. To assist the Lead State Regulator in assessing the Scope of Application, the Schedule 1 and the “Inventory” tab of the template will be completed by each preparer to provide information and certain financial data on all the entities in the group. Each preparer will also use the include/exclude column in Schedule 1 to request its own set of entities to be excluded from the calculation after applying criteria for material risk (as defined in Section II). The requests for exclusion will be described by the preparer in the template and evaluated by the Lead State Regulator. A second column will be used by the regulator to reflect entities that the regulator agrees should be excluded.
29. Although all entities must be listed in Schedule 1 and in the “Inventory” tab, the preparer is allowed to group data for certain financial entities not subject to a regulatory capital requirement and certain non-insurance and non-financial entities. Thus, while the Schedule 1 would include the full combined financial results/key financial information (for all entities directly or indirectly owned by the Ultimate Controlling Person, such data may be reported based on major groupings of entities to maximize its usefulness, reduce the number of numeric entries, and allow the Lead State Regulator to better understand the group, its structure, and trends at the sub-group as well as group level. Criteria for grouping are further described in Section V, paragraph 57. Prior to completing the GCC annually, the Insurance Group should determine if the proposed grouping is satisfactory to the lead state or if there are certain non-insurance and non-financial entities (such entities are required to be broken out and reported separately) that should be broken out and reported separately.

#### C. General Process for Determining the Scope of Application

30. The starting point for “Scope of Application” (i.e., for purposes of the GCC specifically) is the entire group except in the case of an Insurance Subgroup (as defined in Section II). However, in the case of groups with material diverse non-insurance/non-financial activities isolated from the financial/Insurance Group and without cross-support mechanisms as defined in Section II, the preparer may request a narrower scope starting at the entity that controls all insurance and financial entities within the group [i.e., comprise a subset of, the entities controlled by the Ultimate Controlling Person of the insurer(s) (Broader Group)]. However, the adjustments as to the Scope of Application suggested by the preparer in consultation and in agreement with the Lead State Regulator should include consideration of guidance in paragraph 31 (“Identify and Include all Financial Entities”) the totality of the facts and circumstances, as described in paragraph 21 (“Definition of material risk”). The rationale and criteria applied in allowing the reduced scope should be documented and made available to non-lead states if requested. The decision on reduced scope should be revisited when changes in the group structure or activities occur.

The fundamental reason for state insurance regulation is to protect American insurance consumers. Therefore, the objective of the GCC is to assess quantitatively the collective risks to, and capital of, the entities within the Scope of Application. This assessment should consider risks that originate within the Insurance Group along with risks that emanate from outside the Insurance Group but within the Broader Group. The overall purpose of this assessment is to better understand the risks that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims consistent with the primary focus of insurance regulators.

D. Guiding Principles and Steps to Determine the Scope of Application

31. For most groups, the Scope of Application is initially determined by the preparer in a series of steps, listed here and then further explained as necessary in the text that follows:

- Develop a full inventory of potential entities using the Inventory of the Group template (Schedule 1). This should correspond to Annual Statement Schedule Y, Part 1A
- Denote in Schedule 1 for each non-financial entity whether it is to be “included in or excluded from” the Scope of Application” using the criteria in the “Identify Risks from the Broader Group” subsection below.
- All non-financial entities, whether to be included in or excluded from the Scope of Application are to be reported in the “Inventory” tab of the template. Information to be provided for excluded entities will be limited to Schedule 1B and the corresponding columns in the Inventory tab. See paragraph 57 for additional information on treatment of non-insurance/non-financial subsidiaries of U.S. RBC filers or such subsidiaries owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity.
- Non-financial entities may qualify for grouping on this Inventory tab as described elsewhere in these instructions.

E. Steps for Determining the Scope of Application

32. Identify and list all entities in the Insurance Group or Insurance Subgroup (where required).

Include all entities that meet the definition of an affiliate in Section II, above and that fit the criteria identified in the definition of the Insurance Group or Insurance Subgroup (if applicable), in Section II, above except as modified in paragraph 34 (Identify Risks from the Broader Group), below. All insurance entities and entities owned directly or indirectly by the insurance entities in the group shall be included in the Scope of Application and reported in the Schedule 1 and Inventory of the Group template. Other non-insurance/nonfinancial entities within the Insurance Group may be designated as “exclude” as described in paragraph 30.

33. Identify and include all Financial Entities.

Financial Entities (as defined in Section II) within the Inventory of the Group template shall be included in (i.e., may not be designated as “excluded from”) the Scope of Application, regardless of where they reside within the Broader Group.

As learned from the 2008 financial crisis, U.S. insurers were not materially impacted by their larger group issues; however, materiality of either equity or revenue of an entity might not be an adequate determinant of potential for risk transmission within the group. Furthermore, risks embedded in financial entities are not often mitigated by the activities of the insurers in the group and may amplify their (the insurers’) risks.

Any discretion in evaluating the ultimate risk generated by a defined financial entity that is not subject to a regulatory capital requirement should be applied via review of the material risk definitions/principles included in paragraph 21 to set the level of risk as low, medium or high and not to exclude such entities

from the calculation. The rationale should be documented, and all data required in Schedule 1 must be provided for the entity for purposes of analysis and trending.

#### 34. Identify Risks from the Broader Group

An Insurance Group or Insurance Subgroup may be a subset of a Broader Group, such as a larger diversified conglomerate with insurance legal entities, financial entities, and non-financial entities. In considering the risks to which the Insurance Group or Insurance subgroup is exposed, it is important to take account of those material risks (as defined in Section II) to the Insurance Group from the Broader Group within which the Insurance Group operates. All non-insurance/non-financial entities included within the Insurance Group or Insurance Subgroup that pose material risk to the insurers in the group should be included within (i.e., may not be designated as “excluded from”) the Scope of the Application. Similarly, all non-financial entities within the Broader Group but outside the Insurance Group that pose material risks to the Insurance Group should be included within (i.e., may not be designated as “excluded from”) the Scope of Application; non-material non-insurance/non-financial entities within the Broader Group or within the Insurance Group (as both terms are defined in Section II) other than those entities owned by entities subject to a specified regulatory capital requirement should be reported as “excluded.” However, no such entities outside an Insurance Subgroup (as defined in Section II) should be included in the GCC. When determining which non-financial entities from the Broader Group to include in the Scope of Application, the preparer must include any entity that could adversely impact the ability of the entities within the Scope of Application to pay policyholder claims or provide services to policyholders consistent with the primary focus of insurance regulators.

#### 35. Review of Submission

The Lead State Regulator should review the inventory of entities provided in the Group template to determine if there are entities excluded by the preparer using the criteria above that the Lead State Regulator agrees do not pose material risk (as defined herein) to its insurance operations. Additional information may be requested by the Lead State Regulator to facilitate this analysis. For entities where the Lead State Regulator agrees with the request to exclude, the GCC may exclude the data for such entities. Ultimately, the decision to include or exclude entities from the GCC will occur based on the Lead State Regulator’s knowledge of the group and related information or filings available to the Lead State and whether they believe an applicable entity would not adversely impact the entities within the Scope of Application to pay policyholder claims.

The template’s Summary 2 - Top Level tab includes a calculation to reflect the impact of excluded entities requested, but not approved for exclusion by the lead state. (See instructions for Summary 2 herein).

#### 36. The preparer, together with the Lead State Regulator, would use the above steps, which includes considering the Lead State Regulator’s understanding of the group, including inputs such as Form F, ORSA and other information from other involved regulators, to determine the reasonableness of the suggested Scope of Application.

#### 37. Updating the Scope of Application

The Scope of Application could be re-assessed by the preparer and the Lead State Regulator each successive annual filing of the GCC provided there has been substantial changes in corporate structure or other

material changes from the previous year's filing. Any updates should be driven by the assessment of material risk and changes in group structure as they impact the exclusion or inclusion of entities within the Scope of Application based on material risk considerations.

#### IV. GENERAL INSTRUCTIONS

38. The GCC template consists of a number of tabs (sections) within one workbook. The following provides general instructions on each of these tabs.
39. Attestation: This tab is intended to work similar to the annual financial statement and RBC attestations, which are both intended to give the regulator greater comfort that the company has completed in accordance with its (these) instructions. It will also indicate whether the group consists of predominantly life, P/C, or health insurers and whether the submission is a full or limited group capital filing
40. Input 1 – Schedule 1: This tab is intended to provide a full inventory of the group, including the designation by the filer of any non-financial entities to be included in, or excluded from, the Scope of Application and include sufficient data or information on each affiliated entity (see Schedule A and Schedule BA exception as described in paragraph 27) within the group so as to allow for analyzing multiple options for scope, grouping and sensitivity criteria, as well as, allowing the Lead State Regulator to decide as to whether the entities to be included in the scope of application or excluded from the scope of application meet the aforementioned criteria. This tab is also used to maximize the value of the calculation by including various information on the entities in the group that allow the lead state to better understand the group, the risks of the group, capital allocation, and overall strengths and weaknesses of the group.
41. Except as noted, equity method investments reported in the Section 1B in the Inventory tab that are accounted for based on *Statement of Statutory Accounting Principles (SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies* are not required to be de-stacked (separately listed) in Schedule 1; i.e., their value would be included in amounts reported by the Parent insurer within the calculation. The basis for this approach is predicated on the purpose of the entire GCC, which is to produce an expected level of capital and a corresponding level of available capital that are derived by aggregating the amounts reported of capital of the individual entities under the GCC methodology. The available capital for such joint ventures, partnerships and limited liability companies is already considered in Schedule 1 by its inclusion in its Parent's financial statements and can be excluded from an inventory (not separately listed) because the Parent also already receives a corresponding capital charge within its RBC.

NOTE: Data for this tab is required for a Limited Group Capital filing.

42. Input 2 – Inventory: This tab is intended to be used by the consolidated group to provide information on the value and capital calculation for all the entities in the group before any de- stacking of the entities. While some of this information is designed to “pull” information from Schedule 1, other cells (blue cells) require input from the group. This tab will then apply the adjustments for investment in subsidiary other than where an exception is described in these instructions and adjust for intragroup arrangements. This tab is set up to subtract those adjustments from capital and therefore should be entered as: 1) a positive figure if the adjustment currently has a positive impact on the available capital or the capital calculation; or 2) a negative figure if the adjustment currently has a negative impact on the available capital or the capital

calculation. It will also be used to add relevant insurance or other financial entities included as equity investments in Schedule A and Schedule BA and to aggregate the resulting adjusted values for use in the actual GCC.

NOTE: For a Limited Group Capital filing, data should be presented in the summarized format below in lieu of completing the full “Inventory” tab.

Limited Group Capital Filing Only: Input 2 – Inv Limited: Manually enter data in Adjusted Carrying Value (Inventory B, Column 8) and Adjusted Capital Calculation (Inventory C, Column 8) to report a single aggregated value for each entity category in the group. This will require that eliminations and adjustments normally found in a “full” Inventory B, Column 2 through Column 7 and Inventory C, Column 2 through Column 7 to be addressed offline.

43. Input 3 – Capital Instruments: This tab is intended to be used to gather necessary information to that will be used to calculate an allowance for additional available capital based on the concept of structural subordination applied to senior or other subordinated debt issued by a holding company that is within the scope of application of the GCC filing. It will also provide information on all debt issued by entities within the scope of application.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

44. Input 4 – Analytics: In recognizing a primary purpose of the GCC is to enhance groupwide financial analysis, this tab includes or draws from entity-category-level inputs reported in the tab or elsewhere in the GCC template to be used in GCC analytics. Separate guidance for Lead State Regulators to reference in analyzing the data provided in the GCC template (reference applicable location of the guidance; e.g., *Financial Analysis Handbook*).

NOTE: Data for this tab is required for a Limited Group Capital filing.

45. Input 5 – Sensitivity Analysis: This tab includes inputs and/or describes informational sensitivity analysis for other than XXX/AXXX captives, permitted and prescribed practices and other Regulator discretion. The inputs are intended to simply be a disclosure, similar to the disclosure required under Note 1 of the statutory financial statements. The analysis will be applied in the “Summary 2” tab.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

46. Input 6 – Questions: This tab will provide space for participants to describe or explain certain entries in other tabs. Examples include the materiality method applied to exclude entities in Schedule 1 and narrative on adjustments for intragroup debt and adjustments to available capital or capital calculations that are included in the “other adjustment” column in the “Inventory” tab.

NOTE: Data for this tab is NOT required for a Limited Group Capital filing.

47. Calc 1 – Scaling (Ins): This tab list countries predetermined by NAIC and provides the necessary factors for scaling available and required capital from non-US insurers to be used in in sensitivity analysis to a

comparable basis relative to the U.S. RBC figures. It also allows for set scaling options (which vary by insurance segment such as life, P/C, and health).

NOTE: This tab is NOT required for a Limited Group Capital filing.

48. Calc 2 – Scaling (Non-Ins): This tab is used to determine calculated capital for non- insurance entities.

NOTE: This tab is NOT required for a Limited Group Capital filing.

49. Summary 1 – Entity Level: This tab provides a summary of aggregated available capital and calculated capital for each entity category before the application of capital instruments.

NOTE: This tab is NOT required for a Limited Group Capital filing.

50. Summary 2 – Top Level: This tab calculates various informational GCC ratios resulting from applying “on top” and entity level adjustments to adjusted carrying value and adjusted calculated capital. This “what if” scenario analysis will not be part of the GCC ratio.

NOTE: This tab is NOT required for a Limited Group Capital filing.

51. Summary 3 – Analytics: Provides a summary of various GCC analytics.

NOTE: This tab is required for a Limited Group Capital filing.

52. Summary 4 – Grouping Alternatives: This tab currently calculates and displays a selected grouping option for organizing the structure of the group consistent with the way that the entities are managed.

NOTE: This tab is NOT required for a Limited Group Capital filing.

53. All cells in the template are color-coded based on the chart below. Inputs should only be made in blue cells. Do not add/delete rows, columns or cells or change the structure of the template in any way. If there appears to be an error in the formulas in the template, contact the NAIC.

The following set of colors is used to identify cells:	Colors used
Parameters	
Input cells	
Data from other worksheets	
Local calculations	
Results propagated	



## V. DETAILED INSTRUCTIONS

### INPUT 1 – SCHEDULE 1

54. Schedule 1A indicates the version of the template being prepared.
55. More detailed information on each legal entity should be reported in Schedule 1B through Schedule 1D. The order of the entries in Schedule 1 should match that in the “Inventory” tab. The first entity listed should be the ultimate controlling party.
56. U.S. branches of foreign insurers should be listed as separate entities when they are subject to capital requirements imposed by a U.S. insurance regulator. They should be reported under the appropriate entity category in [Sch 1B Col 6].
57. Entries are required for every entity within the scope of the group. However, while recognizing that Lead State Regulator retains the discretion to ask for greater detail, the following simplifications may be applied as long as information for every entity is listed in Schedule 1B:
- A single numerical entry for like Financial Entities would be allowed at the intermediate holding company level, assuming that the like entities are owned by a common Parent that does not own other entity types, all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. The entity at which the total data is provided must be assigned an “Entity Category” in Schedule 1 that corresponds to the instructed carrying value and capital calculation for which the entry is made (e.g., an entity that would otherwise be categorized as a non-operating holding company but holds asset managers would be categorized as an asset manager). Entries for the remaining individual entities in the grouping will be reported in Schedule 1B only as “included.”
  - In addition, a single numerical entry would be allowed for all “included” non- insurance/non-financial entities at the intermediate holding company level assuming that the intermediate holding company owns only non-insurance/non-financial entities (i.e., does not own other entity types), all use the same accounting rules (e.g., all GAAP), and are at least consistent with the way the group manages their business. This would include any positive residual value of the holding company itself. Entries for all individual entities in the grouping will be reported in Schedule 1B only as “included.”, but no stand-alone values for each entity would be required.
  - Values for, non-insurance/non-financial subsidiaries of U.S. RBC filers or such subsidiaries owned by other financial entities with regulatory capital requirements for which the non-insurance/non-financial entity is included in the capital charges for the Parent entity may remain with their Parent insurers and will not be de-stacked. Entries for these individual entities in the grouping will be reported individually in Schedule 1B Columns 1 and 2 only as “included.” along with other required entries in Schedule 1B, but no stand-alone values for each entity would be required in Schedules 1C or 1D. These should be reported as “included” in Schedule 1.

- Mutual Insurance Groups may use the Total Adjusted Capital and amount of required capital from the top-level Insurer’s RBC Report at 200% x ACL RBC further adjusted to de-stack foreign insurers and other financial entities owned directly or indirectly (on a look-through basis) via RBC filing subsidiaries. Such foreign insurance subsidiaries or other financial subsidiaries shall be reported at the carrying values and capital calculations as described later herein.
- Data for U.S. Branches of Foreign insurers may be omitted from Schedule 1 if they are otherwise included in the entries, values, and capital requirements of a foreign insurer in the group.

NOTE: These simplifications will be treated in a similar manner in Input 2 – Inventory.

58. Any financial entity owned by a Parent insurer and listed in Schedule A or Schedule BA, and any insurance or financial entity that is owned indirectly through a Schedule BA affiliate should be listed in Schedule 1 and in the Inventory and assigned the appropriated identifying information. (See also the instructions for Part B of the Inventory). These entities will be de- stacked from the values for the Parent insurer. The same treatment for these entities will be afforded when they are owned by a foreign insurer or other non-insurance entities.
59. Schedule 1B contains descriptions of each entity. Make selections from the drop-down menu where available.
- **[Sch 1B Col 1] Include/Exclude (Company)** – This column is to select entities where a request is made for exclusion. The filer will indicate which non-insurance/non-financial entities not owned directly or indirectly by an insurer should be excluded from the GCC as not posing material risk to the group.
  - **[Sch 1B Col 2] Include/Exclude (Supervisor)** – Column to be filled in by supervisor. These are entities where the Supervisor agrees with the filer’s assessment of material risk and these entities will be excluded from the GCC and may be included in a sensitivity analysis later in the template.  
NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.
  - **[Sch 1B Col 3] Include/Exclude (Selected)** – Formula to determine treatment of data for later sensitivity analysis. If supervisor has made a determination of include/exclude in the prior column, that will be used. If not, the company’s selection will be used.
  - **[Sch 1B Col 4] Entity Grouping** – Column denotes whether this is an insurance or non- insurance/non-financial entity and is also automatically populated based on the entry in Column 8.
  - **[Sch 1B Col 5] Entity Identifier** – Provide a unique string for each entity.
  - **[Sch 1B Col 6] Entity Identifier Type** – Enter the type of code that was entered in the “Entity Identifier” column. Choices include “NAIC Company Code,” “ISO Legal Entity Identifier,” “Reporting Entity Defined” and “Other.”
  - **[Sch 1B Col 7] Entity Name** – Provide the name of the legal entity.
  - **[Sch 1B Col 8] Entity Category** – Select the entity category that applies to the entity from the following choices (all U.S. life captives shall select the option for “RBC Filing Captive,” complete the calculation using the life RBC formula in accordance with instructions below regarding “Additional clarification on capital requirements where a U.S. formula (RBC) is not required,” regardless of whether the company is required by their captive state to complete the RBC formula. Insurers or financial entities that are de- stacked from an insurer’s Schedule A or Schedule BA should be assigned the corresponding insurer or financial entity category:

RBC Filing U.S. Insurer (Life)	UK Solvency II – Life	Colombia
RBC Filing U.S. Insurer (P/C)	UK Solvency II – Composite	Indonesia
RBC Filing U.S. Insurer (Health)	Australia – All	Thailand
RBC Filing U.S. Insurer (Other)	Switzerland – Life	Barbados
U.S. Mortgage Guaranty Insurers	Switzerland – Non-Life	Regime A (Participant Defined)
U.S. Title Insurers	Hong Kong – Life	Regime B (Participant Defined)
Other Non-RBC Filing U.S. Insurers	Hong Kong – Non-Life	Regime C (Participant Defined)
RBC filing (U.S. Captive)	Singapore – All	Regime D (Participant Defined)
Canada – Life	Chinese Taipei – All	New Zealand
Canadian – P/C	South Africa – Life	Bank (Basel III)
Bermuda – Other	South Africa – Composite	Bank (Other)
Bermuda – Commercial Insurers	South Africa – Non-Life	Financial Entity with a Regulatory Capital Requirement
Japan – Life	Mexico	Asset Manager/Registered Investment Advisor – High Risk
Japan – Non-Life	China	Asset Manager/Registered Investment Advisor – Medium Risk
Japan – Health*	South Korea	Other Financial Entity without a Regulatory Capital Requirement – High Risk
Solvency II – Life	Malaysia	Other Financial Entity without a Regulatory Capital Requirement – Medium Risk
Solvency II – Composite	Chile	Other Financial Entity without a Regulatory Capital Requirement – Low Risk
Solvency II – Non-Life	India	Other Non-Ins/Non-Fin with Material Risk
Solvency II – Non-Life	Brazil	Other Non-Ins/Non-Fin without Material Risk
UK Solvency II – Non-Life	Argentina	Non-Operating Holding Co.

\* If the GCC group’s Japanese insurer health business (referred to as “Third Sector”) is greater than 60% of total life business (referred to as “First Sector”) and health business combined, as reflected by annualized premium for the year reported, then that group may elect to use the Japan health scalar set rather than the life scalar set.

NOTE: All U.S. captives are required to complete the applicable RBC formula template. In addition, any insurer, other than U.S. captive, that submits an RBC filing to either the state of domicile or the NAIC will be considered an RBC filer.

- **[Sch 1B Col 9] Alternative Grouping** – This is an optional input field. This field should be used if you wish to show similar entities aggregated into a single line in Summary 4- Alternative Grouping. Exhibit. For example, if you have a dozen small dental HMO businesses, you may wish to show them as a single line called “Dental HMOs,” as opposed to listing each entity separately. This is a level of granularity below “Entity Category” but above individual entities. No entity should be put in the same “Alternative Grouping” as its Parent. It is acceptable to put only one entity in a grouping. If any entries are left blank then, in Column 17, the “Entity Name” will be selected as the grouping. This will not impact the order of the entities for which data is entered in Schedule 1 or the “Inventory” tab.
- **[Sch 1B Col 10] Parent Identifier** – Provide the Entity Identifier of the immediate Parent legal entity for each entity, as applicable. If there are multiple Parents, select the Parent entity with the largest ownership percentage. Only include one entry. For the top holding company, enter “N/A.”
- **[Sch 1B Col 11] Parent Name** – This will be populated by a formula, so input is not required.
- **[Sch 1B Col 12] % Owned by Parent** – Enter the percentage of the entity that is owned by the Parent identified earlier in the worksheet. Percentages of ownership should be based on the percentage of voting class securities (unless ownership is maintained other than by control of voting securities) consistent with what is reported pursuant to state holding company regulation filings (Form B or equivalent).
- **[Sch 1B Col 13] % Owned within Group Structure** – Enter the percentage of the entity that is owned in the aggregate by any affiliate within the Group.
- **[Sch 1B Col 14] State/Country of Domicile** – Enter state of domicile for U.S. insurance entities and country of domicile for all other entities. (Use references that are consistent with those used on Schedule Y, where available.)
- **[Sch 1B Col 15] Zero Valued and Not Admitted Entities** – Report for U.S. Insurers Only. Select the treatment of the entity from the following options: “Zero Valued for RBC” or “Nonadmitted for Accounting and RBC (Direct or Indirect).”  
Zero Valued for RBC are affiliated insurance and financial entities that are otherwise reported in the RBC filer’s annual financial statement at their accounting value (i.e., per SAP) but are reported at zero value and zero capital requirements for RBC purposes. Examples include non-Canadian foreign insurers directly owned by U.S. life RBC filers. The carrying value and capital calculation specified in these instructions for the specific insurance or financial entity type should be reported in Inventory B, Column 2 and Inventory C, Column 2, respectively.

NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column.

Nonadmitted for Accounting and RBC (Direct or Indirect) are insurance or other financial affiliates that are owned directly or indirectly by an RBC filer via a downstream non- financial entity or holding companies that are reported at zero value per SAP and are also reported at zero value and zero capital requirements for RBC purposes. Examples include U.S. insurers indirectly owned by a U.S. RBC filer through a nonadmitted holding company that has not been subject to an independent audit. The carrying values and capital calculations specified herein associated with the specific insurance or

financial indirectly owned entity type should be reported Inventory B, Column 2 and Inventory C, Column 2, respectively.

NOTE: Do not report zero values in Column 2 of Inventory B and Inventory C for these affiliates. Only RBC filing entities with this type of affiliate will report in this column. The excess value in the nonadmitted Parent entity may be reported at zero value.

No entry is required in this column for any nonadmitted directly or indirectly owned non-insurance/non-financial subsidiary. Report zero for these affiliates in Column 2 of Inventory B and Inventory C.

- **[Sch 1B Col 16] Is Affiliate on Schedule A or Schedule BA an Insurer or Other Financial Entity?** – Column is meant to identify an entity with an insurer or financial entity identifier in Column 8 that is reported on Schedule A or Schedule BA but is being de-stacked and also reported on the Inventory tab. Provide a “Y” response where that is applicable. Otherwise leave it blank.
- **[Sch 1B Col 17] Selected Alternative Grouping** – This will be populated by a formula, so input is not required. If there are any blank entries in Column 9 (Alternative Grouping), this column will set them equal to the name of the entity.

60. Schedule 1C contains financials for each entity:

- **[Sch 1C Col 1] Basis of Accounting** – Enter basis of accounting used for the entity’s financial reporting.
- **[Sch 1C Col 2 and Col 3] Gross and Net Written Premium** – Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (life, P/C, and health). Use equivalent local source for non-U.S. insurers or company records when available.
- **[Sch 1C Col 4] Reinsurance Assumed from Affiliates** – Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 1 and life and health Schedule S, Part 1, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.
- **[Sch 1C Col 5] Reinsurance Ceded to Affiliates** – Report for all U.S. and non-U.S. insurers. Use applicable entity annual financial statement data source for U.S. insurers (assumed premiums from P/C Schedule F, Part 3 and life and health Schedule S, Part 3, Section 1, and Section 2). Use equivalent local source for non-U.S. insurers or company records when available.
- **[Sch 1C Col 6] Book Assets** – This should be valued based on the applicable basis of accounting reported under the entity’s local regime and represents the total assets as reported in the basic financial statements before eliminations (because that is presumed to be less burdensome on the insurance holding company). Other financial data should similarly be prepared using financial data before eliminations. However, insurance holding companies are allowed to present such figures after eliminations if they do so for all figures and consistently for all years.
- **[Sch 1C Col 7] Book Liabilities** – This should be valued based on the applicable basis of accounting reported under the entity’s local regime and represents the total liabilities as reported in the basic financial statements.

- **[Sch 1C Col 8] Gross Paid-in and contributed Capital and Surplus (U.S. Insurers Only)** – For U.S. insurers, report the current year end amounts from annual financial statement Page 3 as follows:
  - Life Insurers: lines 29, 30 and 33.
  - P/C Insurers: lines 30, 31 and 34.
  - Health Insurers: lines 26, 27 and 28.

61. Generally, Schedule 1D will include entries from regulatory filings or entity specific GAAP financial statements as of the reporting date. The amounts reported should be the entity value on a stand-alone (fully de-stacked) or grouped basis (where applicable). This may require use of company records in certain cases. The amounts should be reported at 100% for the entity listed. Any required adjustments for percentage of ownership will be applied later, if necessary, to calculate a capital charge.

- **[Sch 1D Col 1] Prior Year Entity Identifier** – Report the Legal Entity Identifier, NAIC company code or other identifier used for the entity in the prior year GCC filing for the prior calendar year.
- **[Sch 1D Col 2] Prior Year Equity or Capital and Surplus** – Report the value based on net equity reported in the entity stand-alone balance sheet. This will generally be the same as what is reported in the current year column in the prior year GCC filing. Where grouping is permitted, the balance reported may be on a grouped basis.
- **[Sch 1D Col 3] Net Income** – The final reported income figure from the income statement, and therefore is the figure reported after interest, taxes, extraordinary items, etc. For entities with accounting and reporting requirements that specify that dividends paid or received will be part of “net income,” report the dividends received in this column. Report dividends to policyholders here as a reduction to net income if required by local accounting or reporting requirements.
- **[Sch 1D Col 4] Dividends Paid and Received (Net)** – All entity types report the net amount of dividends paid and received in reporting year to/from and affiliate, a Parent shareholder, public shareholders, or policyholders (if not required to be a reduction/increase in net income by local accounting or reporting requirements). Net dividend payments will be reported as a negative value. All entity types that are subject to accounting and reporting requirements that specify that dividends paid or received will be reported as a surplus adjustment, will report dividends received in the reporting year from affiliates in this column.
- **[Sch 1D Col 5] Capital and Surplus Contributions Received from Affiliates** – All entity types. Report the sum of capital contribution (other than via surplus notes) during the reporting year received from any affiliated entity.
- **[Sch 1D Col 6] All Other Changes in Capital and Surplus** – Include totals for all adjustments not listed above. This would include any investment income not already reported in Column 3 or Column 5. Also, report all stock repurchases or redemptions in this column.  
NOTE: Greater detail may be made available upon request.
- **[Sch 1D Col 7] Current Year Equity or Capital and Surplus** – Report the value based on net equity reported in the entity stand-alone Balance Sheet for the current year. This will generally be the same as what is reported for the entity in Inventory B, Column 2. Where grouping is permitted, the balance reported may be on a grouped basis.
- **[Sch 1D Col 8] Capital and Surplus Contributions Paid to Affiliates** – All entity types report the total of capital contributions (other than via surplus notes) during the reporting year paid to any affiliated entity.
- **[Sch 1D Col 9] Dividends Declared and Unpaid** – For all applicable entities report the amount of dividends declared or approved but not yet distributed.

- **[Sch 1D Col 10] Dividends Received and Not Retained** – All holding companies, insurers and financial entities with regulatory capital requirements indicate by “Y” or “N” if part or all of dividends received reported in Column 5 have been paid (passed through) to a Parent company, to public shareholders, or used to repurchase or redeem shares of stock.

## INPUT 2 – INVENTORY

62. Columns in Inventory A are being pulled from Schedule 1:

- [Column 1] Insurance/Non-Insurance
- [Column 2] Entity Identifier
- [Column 3] Entity Identifier Type
- [Column 4] Entity Name
- [Column 5] Entity Category
- [Column 6] Parent Identifier
- [Column 7] Parent Name
- [Column 8] Basis of Accounting

### Columns Requiring Input

63. Enter information on adjustments to carrying value. Considerations specific to different types of entities are located at the end of this subsection.

- **[Inv B Col 1] Carrying Value (Immediate Parent Regime)** – This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. In general, carrying values utilized should represent: 1) the subsidiary valuation required by the insurance or other sectoral regulator if the Parent is a regulated entity; or 2) in the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then a subsidiary valuation-based U.S. GAAP or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. No entry is required for the Ultimate Controlling Person (UCP)

The value in this column will include a zero value for entities not admitted per SAP or other jurisdictional regulatory rules. A single entry for all entities that qualify under the grouping criteria described in Input 1, herein may be made in lieu of individual entries on the line for the affiliate that holds the qualifying entities. This column will include double counting.

The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group.

- **[Inv B Col 2] Carrying Value (Local Regime)** – Record the carrying value recognized by the legal entity’s jurisdictional insurance or other sectoral supervisor. This will include the value of capital instruments (e.g., U.S. insurer issued surplus notes) that are specifically recognized by statute, regulation or accounting rule and included in the carrying value of the entity. In the case where the entity is not subject to insurance or other sectoral regulatory valuation, the carrying value will be U.S. GAAP equity

(including OCI) or other International GAAP as used in the ordinary course of business by the ultimate controlling party in their financial statements. If the group is comprised entirely of U.S.-based entities under a U.S.-based Parent company, the entries in this column will be the same as in Column 1 except in cases where the Parent owns not admitted (or otherwise zero valued financial affiliates that would be reported as not admitted in the Parent Regime column but fully admitted (per SAP valuation) in the Local Regime column). (See instructions for [Sch 1B Col 15].) However, if such an entity has been listed in the [Sch 1B Col 2] Include/Exclude (Supervisor) column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then a value will be reported here, but the ultimate calculation will show the results without the excluded entity's value. Directly or indirectly owned **non-insurance / non-financial** entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column. The carrying value for affiliates that are U.S. RBC filers will be the amount reported TAC on entity's RBC report. A change is recommended to allow the carrying value for Canadian insurers to be calculated on a net of reinsurance basis. This column will include double counting. The values recorded for all subsidiaries should be the full value of the subsidiary regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the full value of the subsidiary adjusted to reflect total percentage of ownership within the group. The entry here should generally be the same as the value reported in Inventory B, Column 1, except where TAC for RBC filers differs from their BACV. A single entry for all entities that qualify under the grouping criteria described exceptions described herein under Paragraph 57 in the Input 1 section, above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries.

A sensitivity analysis is included to calculate the impact of excluded entities requested but not approved for exclusion by the lead state.

Parent Entity	INVENTORY B – Accounting Valuation to be Used			Parent Entity Line/Inv B, Column 3
	Entity	Inv B, Column 1	Inv B, Column 2	
U.S. RBC filer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
U.S. RBC filer	Other U.S. Insurer	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	BACV Per Statutory Accounting	Per Local Regulatory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Financial w/o Capital Reqmt	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
U.S. RBC filer	Non-Financial	BACV Per Statutory Accounting	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	BACV Per Statutory Accounting	RBC TAC	BACV Per Statutory Accounting
Other U.S. Insurer	Any Other Entity Type	BACV Per Statutory Accounting	BACV Per Statutory Accounting	BACV Per Statutory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Regulatory Accounting	RBC TAC	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Regulatory Accounting	BACV Per Statutory Accounting	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Regulatory Accounting	Per Local Regulatory Accounting	Per Local Regulatory Accounting



Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Regulatory Accounting	Per risk level factor x 3-year avg revenue	Per Local Regulatory Accounting
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Regulatory Accounting	No entry Required	No entry Required – Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Per Local Public Accounting	RBC TAC	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Per Local Public Accounting	BACV Per Statutory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Public Accounting	Per Local Regulatory Accounting	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Per Local Public Accounting*	Per Local Regulatory Accounting*	Per Local Public Accounting
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Per Local Public Accounting*	Per Local Public Accounting*	Per Local Public Accounting

\*Subject to Grouping

In cases where a U.S. life RBC filer owns a foreign insurer and the BACV value reported for the foreign insurer in the Parent U.S. insurers financial statement is adjusted to zero for RBC purposes, then report zero in Inventory B, Column 1 and Column 3 for that foreign insurance entity.

- **[Inv B Col 3] Investment in Subsidiary** – Enter an adjustment to remove the investment carrying value of any directly owned subsidiary(ies) from Parent’s carrying value. This is intended to prevent double counting of available capital when regulated entities are stacked. The carrying value to be removed should be the investment value carried by the Parent from which the entity is being de-stacked (i.e., the value in Column 1 in Inventory B adjusted for ownership percentage). Thus, there will be no adjustment to the Parent’s value in this column for entities that are reported at zero value by the Parent. Where entities are owned partially by entities outside of the group, then the Parent’s percentage of ownership will be calculated based on the value owned within the group.

Generally, for all non-financial affiliates, Schedule A and Schedule BA assets will remain in the value of the Parent insurer and not entered in this column. However, if the Schedule A or Schedule BA asset is an insurance or financial entity as described herein, the value of that entity will be included in this column. For indirectly owned Schedule A or Schedule BA insurance or financial entities, only the value of that entity will be included in this column and the remaining value of the downstream Schedule BA Parent will remain with the Parent insurer. Similarly, the carrying value of U.S. branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the value of the foreign insurer so that the Parent entity may eliminate double counting of that available capital which will now be reported by the stand-alone Branch listed in the inventory.

NOTE: The “Sum of Subsidiaries” column may provide a useful check against this entry, but it will not necessarily be equal.

When utilizing public accounting (e.g., GAAP) equity values that differ from regulatory values (e.g., SAP), it is the GAAP equity of the insurers that must be eliminated from the GAAP Parent in this column, not the SAP value (regulator value). This is necessary in order to allow the calculation to appropriately

represent SAP available capital of regulated entities and GAAP equity of non-regulated entities. Data on the accounting differences between Parent and Local carrying values will be collected in [Inventory B, Column 9] and further detail provided in the “Input 6 - Questions” tab.

NOTE: Values for Schedule A and Schedule BA affiliates that are required to be reported in the “Inventory” tab will be adjusted out of the value reported by the U.S. insurer in this column.

- **[Inv B Col 4] Intragroup Capital Instruments** – This column is automatically calculated from inputs to the “Capital Instruments” tab. It reflects an adjustment to remove carrying value for intragroup financial instruments that are treated as capital by the issuer and consequently create additional capital within the group upon issuance (most notably U.S. surplus notes). Example for surplus notes: In both intragroup and unaffiliated transactions, treat the assets transferred to the issuer of the surplus note as available capital. If the purchaser is an affiliate, eliminate the investment value from the affiliated purchaser of the surplus note in this column. If the purchaser is an insurer or other regulated entity, eliminate the purchaser’s capital charge (e.g., RBC charge) on the surplus note investment in the corresponding adjustment column for the capital calculation. No adjustments are made for any intragroup capital instrument that is treated as a liability by the issuer.
- **[Inv B Col 5] Reported Intragroup Guarantees, LOCs and Other** – If there is an impact on the available capital / carrying value of an entity that is reported in Column 2, other than an XXX/AXXX captive, enter an adjustment to reflect the notional value weighted for expected utilization for reported intragroup guarantees (including solvency insurance and capital maintenance agreements). Enter the notional value for letters of credit, or other intragroup financial support mechanisms. Explain each intragroup arrangement in the “Input 6 - Questions” tab.
- **[Inv B Col 6] Other Intragroup Assets** – Enter the amounts to adjust for and to remove double-counting of carrying value reported in Column 2 for other intragroup assets, which could include intercompany balances, such as (provide an explanation of each entry in the “Input 6 - Questions” tab):
  - Loans, receivables and arrangements to centralize the management of assets or cash;
  - Derivative transactions;
  - Purchase, sale or lease of assets; and
  - Other (describe).
- **[Inv B Col 7] All Other Adjustments** – Include a brief explanation in the “Description of ‘Other Adjustments’” in the “Input 6 - Questions” tab. This column should adjust for externally issued LOCs or other SAP adjustments included in available capital in Column 2 but not otherwise recognized in these instructions. This will not apply to XXX/AXXX captives.
- **[Inv B Col 8] Adjusted Carrying Value** – Stand-alone value of each entity per the calculation to eliminate double-counting. This value includes permitted and prescribed practices.
- **[Inv B Col 9] Accounting Adjustments (e.g., GAAP to SAP)** – Report the total difference for all entities owned by a common parent between the carrying value reported in Column 1 and the value reported in Column 2 for those entities. This column will generally apply to regulated entities where the stand-alone carrying value is based on regulatory accounting (e.g., SAP) while the value reported for that

entity by the Parent is carried at a financial accounting (e.g., GAAP) value. Further detail is reported in the “Input 6 - Questions” tab. The total difference in values should be reported in this column on the Parent line.

- **[Inv B Col 10] Gross Revenue 2nd Prior Year (Financial Entities without Regulatory Capital Requirements and Non-financial Entities)** – Report gross revenue (excluding all revenues from subsidiaries and affiliates).
- **[Inv B Col 11] Gross Revenue Prior Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** – Report gross revenue (excluding all revenues from subsidiaries and affiliates).
- **[Inv B Col 12] Gross Revenue Current Year (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** – Report gross revenue (excluding all revenues from subsidiaries and affiliates).
- **[Inv B Col 13] Average Revenue over 3-years (Financial Entities without Regulatory Capital Requirements and Non-Financial Entities)** – This column is populated from data in Column 10, Column 11 and Column 12. This column will support the capital calculation for asset managers, broker-dealers and other Financial Entities without Regulatory Capital Requirements.

64. “Adjusted Capital Calculation” is reported in a similar manner to the “Adjusted Carrying Value” above. The columns are in the same order, although it is likely that fewer entries will be needed for Column 4 through Column 7. Further guidance is below.

- **[Inv C Col 1] Entity Required Capital (Immediate Parent Regime)** – This column is included to accommodate participants with either a U.S. or a non-U.S. based Parent company. No entry is required for the Ultimate Controlling Person. In general, the entity required capital should represent the capital requirements of the Parent’s insurance or other sectoral regulator:
  - For subsidiaries of foreign insurers or other non-U.S. financial entities, the unscaled capital required by the Parent’s regulator of the regulated entity based on the equivalent of a Prescribed Capital Requirement (PCR) level.
  - For subsidiaries, including applicable Schedule A and Schedule BA subsidiaries, of U.S. insurance entities that are subject to RBC, except where the subsidiary is also an RBC filer, the entry should be equivalent of what would be required in the Parent’s RBC, adjusted for covariance where applicable (calculated by the preparer) reported at company action level (or two times authorized control level RBC) for that entity. Where the subsidiary is also an RBC filer, then the amount reported will be at company action level RBC (or two times authorized control level RBC) after covariance.
  - For subsidiaries of U.S. insurers that do not file RBC, report the actual amount of capital required in the Parent’s capital requirement (if any) for the subsidiary entity.
  - In the case where the Parent is not subject to insurance or other sectoral regulatory valuation, then use zero where applicable. This column will include double counting. The values recorded for all subsidiaries should be 100% of the specified capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of

the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group. A single entry for all entities that qualify under the grouping criteria described in Section V, herein may be made on the line for the affiliate that holds the qualifying entities in lieu of individual entries.

- [Inv C Col 2] Entity Required Capital (Local Regime)** – Enter required capital for each de-stacked entity, as applicable entity description below. For U.S. RBC filing subsidiaries under a U.S. RBC filing Parent the amounts will be the same in both the Parent and Local Regime columns. For some entity types this will result in entries for the entities under a U.S.-based insurance Parent to be different from what U.S. RBC would dictate. In addition, where a U.S. insurer directly or indirectly owns not admitted (or otherwise zero valued) financial affiliates, those affiliates would be reported with zero value in the Parent Regime column but at the specified regulatory value described below for that financial entity type in this column. However, if such an entity has been listed in [Sch1B Col 2] Include/Exclude (Supervisor) column, indicating that the Lead State Regulator agrees that the entity does not pose material risk, then report the capital calculation in accordance with entity instructions in paragraph 65 below, but the ultimate calculation will show the results without the excluded entity's capital calculation. Directly or indirectly owned non-financial entities that were not admitted or otherwise carried at a zero value in the Parent Regime, should be reported at zero value in this column. The column allows the entity required capital for Canadian insurers to be calculated on a net of reinsurance basis. For non-risk-based regimes (e.g. Barbados-domiciled operating companies) the required capital will be 50% of available capital, although groups are also allowed to utilize an amount that is derived from U.S. RBC (with simplifications allowed) if that is preferred by the group. Note, this 50% factor is an interim factor to be used until a more thorough analysis can be complete. A single entry for all entities that qualify under the grouping criteria described herein under Paragraph 57 in the Input 1 section above may be made in the line for the affiliate that holds the qualifying entities in lieu of individual entries. This column will include double counting. The values recorded for all subsidiaries should be 100% of the capital requirements regardless of percentage of ownership by entities within the group. Where entities are owned partially by entities outside of the group, then report the capital requirements of the subsidiary adjusted to reflect total percentage of ownership within the group.

65. Additional clarification on capital requirements where a formula is required:

- U.S. RBC filing Insurers: Report RBC at Company Action Level including operational risk (200% x ACL)
- Foreign Insurance Entities: The local capital requirement as specified below for each jurisdiction should be reported by a legal entity at a Prescribed Capital Requirement (PCR) level. This treatment is different than what U.S. RBC would require and recognizes other regulators view of adequate capital for insurers within another jurisdiction. It is more reflective of risk within the group context. A sensitivity analysis will be included in the "Summary 2 - Top Level" tab using the jurisdictional PCR scaled per the Excess Relative Ratio method (see Appendix 1) for insurers in foreign jurisdictions that are subject to scaling.
- European Union subsidiaries: Use the Solvency II Solo Solvency Capital Requirement (SCR) as the PCR.
- U.S. RBC filing subsidiaries: The RBC Company Action Level including operational risk of each insurer should be reported.
- Australia subsidiaries: The PCR is the target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP." PCR is not a set multiple of MCR.

- Bermuda subsidiaries: The Legal Entity PCR in Bermuda for medium and large commercial insurers is called the “Enhanced Capital Requirement” (ECR) and is calibrated to Tail VaR at 99% confidence level over a one-year time horizon.
- Hong Kong subsidiaries: Under the current rule-based capital regime, if applied similar to the concept of PCR, the regime’s PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.
- Japan subsidiaries: The PCR is the solvency margin ratio of 200%.
- Korea subsidiaries: The PCR is 100% of risk-based solvency margin ratio.
- Singapore subsidiaries: The PCR is 120% of total risk requirement (i.e., capital requirement).
- China Taipei subsidiaries: The PCR is 200% of RBC ratio.
- Canada life entities: The baseline PCR should be stated to be “100% of the LICAT Base Solvency Buffer.” The carrying value should include surplus allowances and eligible deposits.
- Canada P/C entities: The PCR should be the MCT capital requirement at the target level.
- South Africa subsidiaries: The PCR is 100% of the SAM SCR.
- For any entities that cannot be mapped to the above categories excluding those in non-risk-based regimes, scaling will be at 100%.

66. Additional clarification on capital requirements where a U.S. formula (RBC) is not required:

- For those U.S. insurers that do not have an RBC formula, the minimum capital per state law should be used as the basis for what is used for that insurer in the GCC. This may differ from what U.S. RBC would require. It is more reflective of the regulatory view of risk in the group context. The following requirements should be used in other specified situations where an RBC does not exist:
- Mortgage Guaranty Insurers: The minimum capital requirement shall be based on the NAIC’s requirements set forth in the *Mortgage Guaranty Insurance Model Act* (#630).
- Financial Guaranty Insurers: The minimum capital requirement shall be based on the NAIC’s requirements set forth in the *Financial Guaranty Insurance Guideline* (#1626), specifically considering Section 2B (minimum capital requirements) and Section 3 (Contingency, Loss and Unearned Premium Reserves) and the other requirements of that guideline that impact capital (e.g., specific limits).
- Title Companies: The minimum capital requirement shall represent 200% of the required level of reserves carried by the insurance company.
- Other Companies: A selected basis for minimum capital requirements derived from a review of state laws. Where there is a one-off treatment of a certain type of insurer that otherwise would file RBC (e.g., HMOs domiciled in California), the minimum capital required by their respective regulator could be considered in lieu of requiring the entity to complete an RBC blank.
- Captives: U.S. insurers that have captives should complete the applicable RBC formula regardless of whether the captive is required to complete it in their captive state. The amounts input into RBC by the captive shall be based on the actual assets and liabilities utilized in the regulatory reporting used by the captive. Captives used exclusively for self- insurance (either by U.S. life insurers or any other type of insurer) or insurance provided exclusively to its own employees and/or its affiliates, should not complete an RBC calculation and the entire entity should be treated as non-insurers and receive the same charge as a non-regulated entity.

67. Non-insurance financial entities subject to a specified regulatory capital requirement:

- All banks and other depository institutions – The unscaled minimum required by their regulator. For U.S. banks, that is the Office of the Comptroller of the Currency (OCC) Tier 1 or other applicable capital requirement. This is understood to be consistent with how the Federal Reserve Board would apply its Building Block Approach.
- Any other financial entity that is determined to be subject to a specified regulatory capital requirement will bring that requirement in the GCC at the first level of regulator intervention (if applicable). Application of regulatory capital requirements not specifically described in this paragraph must be approved for use by the lead state prior to their use. Otherwise, the entity will be subject to the capital calculation described in Paragraph 68.
- This differs from what U.S. RBC would require. It recognizes the sectoral regulator’s view of risk for a particular financial entity type. It is more reflective of risk in the group context.

68. Non-insurance financial entities NOT subject to a specified regulatory capital requirement:

- All asset managers and registered investment advisors and all other financial entities as defined in Section II: Use the capital calculation specified below based the level of risk assigned to the entity by applying the material risk principles defined in Section II. However, asset managers and investment affiliates (not qualifying to be treated as non- financial entities per paragraph 9) will be reported at either medium or high risk. In certain cases, these entities may be subject to a layer of regulation (e.g., SEC or FINRA) but are not generally subject to a specified capital requirement.

High Risk: 10% x 3-year average revenue

NOTE: A Basel Charge of 15% will be used for the IAIS ICS.

Medium Risk: 5.0% x 3-year average revenue.

Low Risk: 2.5% x 3-year average revenue

NOTE: Medium risk could be used as a starting point while the stratified methodology is further developed.

69. Other non-insurance, non-financial entities with material risk:

Non-insurance, non-financial entities may not be as risky as financial entities. For non- insurance, non-financial entities not owned by RBC filers or other such entities where there is not a regulatory capital charge for the entity in the capital formula, use an equity charge of 10.5% (post tax) for predominantly life Insurance Groups 9.5% for predominantly P/C Insurance Groups and 3.5% for predominantly health Insurance Groups x BACV. If the entity is not subject to a capital charge or is included in the capital charge of another financial entity, then enter zero in Column 1 and the charge specified in this paragraph in Column 2. These factors are based on average after covariance RBC charges for the respective insurer types and are calibrated at 200% x ACL RBC. This is meant to be consistent with how the entity would be treated if owned by an RBC filer while recognizing that the entity may be excluded from the GCC if it does not pose material risk to the insurers in the group.

Non-insurance/non-financial entities owned by RBC filing insurers (or owned by other entities where a regulatory capital charge applied to the non-insurance/non-financial affiliate) will remain in the Parent’s capital charge and reported at that value in Column 1 but will be reported as zero in Column 2. These non-financial entities may not be excluded from the GCC and should be reported under this entity category as “included”. One additional informational capital calculation for all non-financial entities will be applied in the Summary 2 - Top Level tab using current year gross revenue from Inventory B, Column 12 with the calculation occurring and results available in the “Calc 2” tab as follows: 5% of reporting year gross revenue based on a medium level risk for a financial entity.

70. Non-operating holding companies:

Non-operating holding companies will be treated the same as other non-insurance/non- financial entities with material risk. Unless reported on a grouped basis (see paragraph 57), for purposes of applying the capital calculation, the carrying value of stand-alone positive valued and negative valued non-operating holding companies will be netted. If the net value is zero or less (floored at zero for purposes of applying a charge), the charge applied will be zero. If the filer chooses to designate the non-operating holding company as a non-insurance/non-financial entity without material risk and requests exclusion, then no allowance for debt issued by that holding company may be included in the calculation.

71. Non-insurance, non-financial entities without material risk:

Only entities not owned directly or owned by RBC filing insurers (or by other entities where a regulatory capital charge applied to the non-insurance/non-financial affiliate) should be reported in this category. In general, these entities should be “excluded” from the GCC in Schedule 1B, Column 1, subject to review and decisions to report as “include” by the lead- State regulator in Schedule 1B Column 2.

Parent Entity	INVENTORY C – Capital Calculation to be Applied			
	Entity	Entry on Entity’s Own Line		Impact on Investment in Subsidiary in Parent’s Line
		Inv C, Column 1	Inv C, Column 2	Inv C, Column 3
U.S. RBC filer	U.S. RBC filer	RBC ACL (including op Risk) x 2	RBC ACL (incl. op risk) x 2	RBC ACL (including op Risk) x 2
U.S. RBC filer	Other U.S. Insurer	Affiliate risk RBC	Per GCC Entity Instructions	Affiliate risk RBC
U.S. RBC filer	Foreign Insurer or Other Regulated w/ Capital Reqmt	Affiliate risk RBC	Jurisdictional or Sectoral PCR Level Capital Reqmt	Affiliate risk RBC
U.S. RBC filer	Financial w/o Capital Reqmt	Asset risk RBC	Per risk level factor x 3-year avg revenue	Asset risk RBC
U.S. RBC filer	Non-Financial	Asset risk RBC -Post covariance	No entry Required	No entry Required - Do not de-stack
Other U.S. Insurer	U.S. RBC filer	Zero	RBC ACL (incl. op risk) x 2	Zero
Other U.S. Insurer	Any Other Entity Type	Zero	Per GCC Entity Instructions	Zero
Foreign Insurer or Other Regulated w/ Capital Reqmt	U.S. RBC filer	Per Local Capital Reqmt	RBC ACL (incl. op risk) x 2	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Other U.S. Insurer	Per Local Capital Reqmt	Per GCC Instructions	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Foreign Insurer or Other Regulated w/ Capital Reqmt	Per Local Capital Reqmt	Jurisdictional or Sectoral PCR Level Per Local Capital	Foreign Insurer or Other Regulated w/ Capital Reqmt

Foreign Insurer or Other Regulated w/ Capital Reqmt	Financial w/o Capital Reqmt	Per Local Capital Reqmt	Per risk level factor x 3-year avg revenue	Per Local Capital Reqmt
Foreign Insurer or Other Regulated w/ Capital Reqmt	Non-Financial	Per Local Capital Reqmt	No entry Required	No entry Required - Do not de-stack
Financial w/o Capital Reqmt or Non-Financial	U.S. RBC filer	Zero	RBC ACL (incl. op risk) x 2	Zero
Financial w/o Capital Reqmt or Non-Financial	Other U.S. Insurer	Zero	Per GCC Entity Instructions	Zero
Financial w/o Capital Reqmt or Non-Financial	Foreign Insurer or Other Regulated w/ Capital Reqmt	Zero	Jurisdictional or Sectoral PCR Level Capital Reqmt	Zero
Financial w/o Capital Reqmt or Non-Financial	Financial w/o Capital Reqmt	Zero	Per risk level factor x 3-year avg revenue*	Zero
Financial w/o Capital Reqmt or Non-Financial	Non-Financial	Zero	Per GCC Instructions*	Zero

### Capital Calculation Adjustments

- [Inv C Col 3] Investment in Subsidiary** – Enter an adjustment to remove the required capital of the directly owned subsidiary(ies) from Parent’s required capital. The capital requirement to be removed should be the capital requirement carried by the Parent from which the entity is being de-stacked (i.e., the value reported in Column 1 in Inventory C adjusted for ownership percentage). Thus, there will be no adjustment to the Parent’s value in this column for entities that are reported at a capital calculation of zero value by the parent. This is intended to prevent double counting required capital when regulated entities are stacked. [Example: When de-stacking an RBC filer from another RBC filer, the amount entered on the Parent line would be the RBC of the subsidiary. When de-stacking financial entities that are subject to diversification in a capital formula (e.g., RBC) the amount entered on the Parent line is the post-diversified capital requirement as calculated by the preparer (which is also the amount to be reported for the de-stacked entity on the entity’s line.

Generally the capital requirements for Schedule A and BA affiliates and other non-financial affiliates will remain in the capital requirements of the Parent insurer and not entered in this column, except that the capital requirements for any financial entity reported in a Parent’s Schedule A and BA, any financial entity indirectly owned through another Schedule A or BA affiliate listed in Schedule 1 and in this section should be entered in this column in the row of the entity that directly or indirectly owns that Schedule A and BA affiliate so that the parent entity may eliminate double counting of that capital requirement capital which will now be reported by the stand-alone Schedule A or BA affiliate listed in the inventory.

For indirectly owned Schedule A and BA financial entities, only the capital requirements for that entity will be included in this column and the remaining capital requirement of the downstream BA Parent will remain with the Parent insurer. Similarly, the capital requirement for any U.S. Branch of a foreign insurer that is listed in Schedule 1 and in this section should be entered in this column in the row of the foreign insurer if it is already included in the capital requirement of the foreign insurer so that the parent entity may eliminate double counting of that capital requirement which will now be reported



by the stand-alone Branch listed in the inventory. The amounts entered in this column for a Parent must correspond to the capital required by the parent entity which is being de-stacked from that Parent.

Capital calculations for Schedule A and Schedule BA indirectly owned financial entities that are owned by Schedule A or Schedule BA assets are reported in the Inventory Tab and will be adjusted out of the value reported by the U.S. insurer in this column (since the non-financial direct parent Schedule A or BA affiliate is not listed in the Inventory Tab).

In the “Input 6 - Questions” tab, a capital requirement should be reported for the value of the indirectly owned insurance of other financial entity based on the insurers Schedule A or Schedule BA charge rather than a charge (which would be zero) attributable to the Schedule A or Schedule BA entity that directly owns the insurance or other financial entity. As indicated earlier, the remaining capital requirement of the entity that directly owns the insurance or other financial entity will remain with the Parent insurer.

- **[Inv C Col 4] Intragroup Capital Instruments** – This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on surplus notes purchased by an affiliated U.S. insurer from a U.S. insurer issuer).
- **[Inv C Col 5] Reported Intragroup Guarantees, LOCs and Other** – This column would generally be used if there is potential double-counting of capital requirements (e.g., RBC charges on guarantees or LOCs).
- **[Inv C Col 6] Other Intragroup Assets** – This column is not intended to be used for required capital but is included in case an entity believes it is necessary from reporting an inaccurate required capital figure.
  - Loans, receivables and arrangements to centralize the management of assets or cash.
  - Derivative transactions.
  - Purchase, sale or lease of assets.
  - Other (describe in “Input 6 - Questions” tab).
- **[Inv C Col 7] All Other Adjustments** – Include a brief explanation in the “Description of ‘Other Adjustments’” in the “Input 6 - Questions” tab. Use this column is for adjustments related to required capital that correspond to adjustments in Inventory B, Column 7 and in cases where an entity believes it is necessary to adjust an inaccurate regulatory required capital figure (e.g., the RBC calculation applied as a permitted practice).

NOTE: Consider whether this column should be used rather than Column 2 for zero value entities.

- **[Inv C Col 8] Adjusted Capital Calculation** – Stand-alone capital calculation for each entity per the calculation to eliminate double-counting. This value includes the impact of permitted and prescribed practices.
- Inventory D is for “Reference Calculations Checks.” These are calculations that can serve as checks on the reasonability/consistency of entries.

- **[Inv D Col 1 – 3] Sum of Subsidiaries (Carrying Value)** – This automatically generated column calculates the value of the carrying value of the underlying subsidiaries. It is provided for reference when filling out the “Investment in Subsidiary” column. This sum will often, but not always, be equal to the “Investment in Subsidiary” column.
- **[Inv D Col 4 – 6] Sum of Subsidiaries (Calculated Capital)** – Similar to above but for calculated capital.
- **[Inv D Col 7 – 8] Carrying Value/Adj Calc Cap** – This is a capital ratio on the adjusted and unadjusted figures. Double-check entities with abnormally large/small/negative figures to make sure that adjustments were made correctly.
- **[Inv D Col 9 – 11] Equity & Carrying Value** – This is to compare Equity from Schedule 1 to the Carrying Value in Column L on Inv D.

### INPUT 3 – CAPITAL INSTRUMENTS

72. Provide all relevant information pertaining to paid-up (i.e., any receivables for non-paid-in amounts would not be included for purposes of calculating the allowance) financial instruments issued by the Group (including senior debt issued by a holding company), except for common or ordinary shares and preferred shares. This worksheet aims to capture all financial instruments such as surplus notes, senior debt, hybrid instruments and other subordinated debt. Where a Reporting Entity’s Group has issued multiple instruments, the Group should not use a single row to report that information; one instrument per row should be reported (multiple instruments issued under the same terms may be combined on a single line). All qualifying debt should be reported as follows.
73. Debt issued by U.S.-led groups:
- Surplus Notes – Report the outstanding value of all surplus notes in Column 8 whether issued to purchasers within or outside the group. The outstanding value of surplus notes issued to entities outside the group and that is already recognized by state insurance regulators and reported 100% as capital in the carrying value of U.S. insurer issuers in “Inventory B” will not be included in the calculation for an additional capital allowance. Surplus notes issued within the group generally result in double-counting and will not be included in the additional capital allowance. (See instructions below.)
  - Subordinated Senior Debt and Hybrid Debt Issued (e.g., debt issuances that receive an amount of equity credit from rating agencies) – The outstanding value will be reported in Column 8. Recognition for structurally subordinated debt will be allowed to increase available capital. For purposes of qualifying for recognition as additional capital, both of the following criteria must be met:
    - a. The instrument has a fixed term (a minimum of five years at the date of issue or refinance, including any call options other than making whole provisions<sup>1</sup>). However, if the instrument is

<sup>1</sup> NAIC staff have been informed that make whole provisions are a form of a call feature that can be exercised by the issuer at any time; that they nonetheless are most frequently utilized near the end of the term of the instrument, generally in connection with refinancing; and that the cost to the issuer to exercise the make whole provision and associated financial reporting impacts, combined with the very low interest rate environment, make it much less likely that such provisions will be triggered, particularly within five years of issuance. Staff will continue their research, and assuming these observations are confirmed, the referenced criteria will continue to scope out make whole provisions.

callable within the first five years from the date of issue it may be considered qualifying debt if any such call is at the option of the issuer only (the instrument is not retractable by the holder) AND it is the intent of management to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument.

- b. Supervisory approval of ordinary dividends\* is met if the supervisor has in place direct or indirect supervisory controls over distributions, including the ability for the supervisor to limit, defer and/or disallow the payment of any distributions should it find that the insurer is presently, or may potentially become, financially distressed. There shall be no expectation, either implied or through the terms of the instrument, that such approval will be granted without supervisory review.

\*The concept of approval for ordinary dividends is for GCC purposes and is met as described in subparagraph b, above. It is not intended to require explicit regulatory approval or in any way alter current provisions of Model #440 or the *Insurance Holding Company System Model Regulation* (#450).

- “Other” Debt – The outstanding value will be reported in Column 12 and will be reported in a manner that is consistent with Senior Subordinated Debt, as described above. Such debt will not be included in the additional capital allowance for the GCC.

74. Please fill in columns in Section 3A as follows for all capital instruments:

- **[Sec 3A Col 1] Name of Issuer** – Name of the company that issued the capital financial instrument. Will populate automatically from the “Entity Identifier” column in this subsection.
- **[Sec 3A Col 2] Entity Identifier** – Provide the reference number that was input in Schedule 1.
- **[Sec 3A Col 3] Type of Financial Instrument** – Select type from the drop-down menu. Selections include Senior Debt, Surplus Notes (or similar), Hybrid Instruments and “Other” Subordinated Debt.
- **[Sec 3A Col 4] Instrument Identifier** – Provide a unique security identifier (such as CUSIP). ALL debt instruments must include an internal identifier if an external identifier is not available.
- **[Sec 3A Col 5] Entity Category** – Links automatically to selection made on the “Inventory” tab worksheet.
- **[Sec 3A Col 6] Year of Issue** – Provide the year in which the financial instrument was issued or refinanced.
- **[Sec 3A Col 7] Year of Maturity** – Enter the year in which the financial instrument will mature.
- **[Sec 3A Col 8] Balance as of Reporting Date** – Enter the principal balance outstanding as reported in the general-purpose financial statements of the issuer.

- **[Sec 3A Col 9] Intragroup Issuance** – Select whether the instrument was issued on an intragroup basis (that is, issued to a related entity within the group). This column will be used to remove “double-counting.” This column is a drop-down menu box with options “Y” and “N.”
- **[Sec 3A Col 10] Treatment in Inventory B** – Select option that applies:
  - a. **Capital** – This instrument is recognized by the applicable regulator or credited as capital in local regulatory regime and reported as part of the adjusted carrying value of the issuer and was not purchased by an affiliate. This includes the value of qualifying senior and hybrid debt instruments (if recognized as capital) and U.S. surplus notes (or similar local regime instruments) that are issued to entities outside the group and included in the issuing entity’s value in the “Inventory B” tab. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital.
  - b. **Liability** – This instrument is reflected by the issuer as a liability in the adjusted carrying value in the “Inventory B” tab and was not purchased by an affiliate. This would apply to all qualifying senior and hybrid debt issued to purchasers outside the group that is not recognized as capital by the local regulator and therefore is not included in the issuing entity’s value in the “Inventory B” tab. The value will be included in the calculation of a proxy allowance for additional capital.
  - c. **Liability designation** would also apply to all non-qualifying senior and hybrid instruments and all debt categorized as “Other” issued to purchasers outside the group that is not recognized as capital by the local regulator. The value of these instruments will NOT be included in the calculation of a proxy allowance for additional capital.
  - d. **Intragroup** – This would apply to all qualifying instruments purchased by an affiliate within the group. The outstanding value of those debt instruments will not be included in the calculation of a proxy allowance for additional capital. If the financial instrument is recognized or credited as part of the issuer’s available capital in Inventory B, then an adjustment for intragroup capital instruments is made in Inventory B, Column 4 and Inventory C adjustments (if necessary to eliminate an associated capital requirement). If the financial instrument is treated as a liability by the issuer, then no intragroup capital instrument adjustment is required in Inventory B or Inventory C.
  - e. The outstanding value of all non-qualifying senior and hybrid instruments and financial instruments categorized as “Other Debt” whether issued to purchasers inside or outside the group will not be included in the calculation of a proxy allowance for additional capital and no other adjustments are required in the template. However, in the unlikely event that the instrument is treated as available capital to the issuer in Inventory B, an adjustment in Inventory B, Column 4 to remove the available capital would be required.

For intragroup surplus notes, the adjustment will impact the carrying value and associated capital calculation of the purchasing affiliated entity.

- **[Sec 3A Col 11] Intragroup Purchaser Identifier** – Enter the entity identify for the affiliate entity that purchased the instrument.
- **[Sec 3A Col 12] Description of Other Debt Instruments** – Provide a description of instruments designated as “Other”.

- **[Sec 3A Col 13] Call Provisions Criteria** – Respond “Y” or “N” as to whether the instrument is subject to a call provision (other than a make whole provision) in the first five years AND it is management’s intent to replace the called instrument in full before or at redemption by a new issuance of the same or higher quality instrument. Respond “X” if the instrument has a maturity of greater than five years including any call provisions.
- **[Sec 3A Col 14] Potentially Recognized Instrument** – This is an automatic calculation to determine if this is instrument that has potential to be recognized as additional capital in the GCC and/or in sensitivity analysis. The column will show “Y” if each of the following is true: 1) it is Senior Debt, Hybrid or Other instrument; 2) the instrument is not intragroup; and 3) the instrument is treated as liability on Inventory B. These are calculated using Column 3, Column 9, and Column 10, respectively.
- **[Sec 3A Col 15] Other Criteria Met** – This is an automatic calculation to determine if instrument qualifies due to criteria beyond those in Column 14. The column will show “Y” if: 1) the instrument has initial maturity of greater than five years including any call provision (i.e., “X” is reported in Column 13); and 2) it meets the “Call provisions criteria” in Column 13 (i.e., “Y” is reported in Column 13).
- **[Sec 3A Col 16] Qualified Debt** – This column is calculated automatically using data from the entries in Column 14 and Column 15. To qualify, an instrument needs a “Y” in both columns. It represents the amount of qualifying debt that will be used in the calculation of an allowance for addition capital under the alternate subordination method and the proxy allowance method. This amount will be carried into Section 3C, Column 1, Line 3.

75. Section 3C will be auto filled, with the exception of Column 1, Line 2.

- **[Sec 3C Col 1, Line 1] Total Paid-In and Contributed Capital and Surplus** – This is the amount reported on Page 3 of the annual financial statement submitted to regulators by a U.S. insurer.
- **[Sec 3C Col 1, Line 2] Alternate Subordination Calculation** – This manual entry is the excess of qualifying debt issued over liquid assets held by the issuing consolidated holding company as reported in the consolidated financial statements. Liquid assets generally include cash, short-term investments (including bonds held by the hold co). In most cases the excess of liquid assets will be made up of the value of all subsidiaries owned by the consolidated hold co. No entry is expected for a mutual group.
- **[Sec 3C Col 1, Line 4] Downstream Estimate** - The total reported under the alternate subordination approach will be compared to the total amount of gross paid-in or contributed capital and surplus reported by the insurance entities within the group as reported in Schedule 1. The greater value will be carried into the calculation for an additional capital allowance.

NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 5] Proxy Calculation for Additional Capital Allowance** – A calculation will be made in this tab in Section 3B that will apply 30% of available capital plus the value of all qualifying debt to become part of the proxy allowance for additional capital for qualifying senior subordinated. An

additional amount of 15% of available capital plus the value of all qualifying debt will be calculated to become part of a proxy allowance for additional capital be for hybrid debt.

SUMMARY FORMULA: Proxy Amount = (30% x (Available Capital + Qualifying Senior and Hybrid Debt)) + (15% x (Available Capital + Qualifying Senior and Hybrid Debt)).

NOTE: No more than 100% of the total outstanding value of qualified senior and hybrid debt will be allowed into the calculation.

- **[Sec 3C Col 1, Line 6 through Line 8]** – The greater of the proxy calculation or the larger of paid in capital or alternate subordination calculation will be allowed as additional capital in **[Sec 3C Line 6]**. However, an overall limit of no more than 75% of the total adjusted carrying value in Inventory B will be applied in **[Sec 3C Line 7]**. Adjustments to increase available capital will be calculated from data on this page. The summary results of the components of the calculation (paid in capital and surplus, alternate subordination, proxy calculation and limitations) are populated as titled in the calculation columns in this section. The final amount recognized as additional capital is shown in **[Sec 3C Line 8]**.
- The additional capital allowance recognized for capital instruments will be shown as an “on-top” adjustment in the “Summary 1 – Entity Level” tab.

Summary Calculation for Debt Allowed as Additional Capital:

Step 1: Calculate the following amounts:

- The greater of Total paid-in capital and surplus of U.S. insurers or the alternative subordination calculation (defined above)
- A proxy value (defined above)

Step 2: Take the greater of a) or b) from Step 1, and subject that amount to two limitations:

- First, the total amount to qualify as capital cannot exceed 100% of the total outstanding value of qualified senior and hybrid debt.
- Second, the total amount to qualify as capital cannot exceed 75% of the total adjusted carrying value in Inventory B.

After applying the two limitations in Step 2, the remaining amount is allowed as additional capital.

#### INPUT 4 – ANALYTICS

76. The entity type information supporting analytics summarized in Summary 3 – Analytics are pulled into this tab from data or information reported in other tabs in the GCC template. That data is exported into summaries in the “Summary 3 – Analytics” tab. Only 2022 data is currently to be populated. However, it is contemplated that going forward, data for prior years will also be populated by the group such that it will provide the Lead State Regulator with metrics to identify trends over time.

## INPUT 5 – SENSITIVITY ANALYSIS

77. This tab shows inputs required for Analysis 3 - Permitted practices, Analysis 4 - Prescribed Practices, Analysis 7 - Captives other than XXX/AXXX and Analysis 8 – Regulatory Discretion on tab Summary 2. Sensitivity Analysis is intended to provide the Lead State Regulator additional information that helps them better understand the financial condition of the group. Similar to the sensitivity analysis included in the legal entity RBC, it provides the regulator with additional information and allows them to consider “what-if” scenarios to better understand the impact of such items. The results of this analysis will not impact the GCC ratio.

- [Analysis 3 and Analysis 4]: Permitted and Prescribed Practices – Report values from annual financial statement Note 1 (excluding those pertaining to XXX/AXXX captives). Values or permitted or prescribed practices that decrease available capital should be reported as negative values:
  - Entity identifier
  - Value of permitted practice
  - Capital Requirement attributable to permitted practice (if any)
  - Description of permitted practice
  - Value of prescribed practice
  - Capital requirement attributable to permitted practice (if any)
  - Description of prescribed practice
- [Analysis 7]: Captives other than XXX/AXXX – all other U.S. captives shall make an asset adjustment as described below.

Asset Impact

78. For the asset impact, it is ONLY required for the assets included in a captive or an entity not required to follow the statutory accounting guidance in the *Accounting Practices and Procedures Manual*. It is not required for assets for those groups that retain such business in a non-captive traditional insurance company(ies) already required to follow the *Accounting Practices and Procedures Manual*.

NOTE: Variations for state prescribed and permitted practices are captured in the separate sensitivity analysis.

79. The asset impact amount shall be determined based on a valuation that is equivalent to what is required by the *Accounting Practices and Procedures Manual* (SAP). For this purpose, “equivalent” means that, at a minimum the listed adjustments (as follows) be made with the intent of deriving a valuation materially equivalent to what is required by the *Accounting Practices and Procedures Manual*, however, without requiring adjustments that are overly burdensome (e.g., mark-to market bonds used by some captives under U.S. GAAP versus full SAP that considers NAIC designations). To be more specific, the asset impact shall be developed by accumulating the impact on surplus because of an accumulation of all the following in paragraph 80 and paragraph 81 combined.

NOTE: Letters of credit or other financial instruments that operate in a manner like a letter of credit, which are not designated as an asset under either SAP or U.S. GAAP and are required to be adjusted out of the available assets (i.e., the asset reduction is recorded as a negative figure in the template).

80. To achieve the above, accumulate the effect of making the following impact and record as a negative figure in the template, an asset adjustment for all the following explicit assets not allowed to be admitted under SAP:

- Assets specifically not allowed under the *Accounting Practices and Procedures Manual* in accordance with paragraph 9 of *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*.
- *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*.
- *SSAP No. 16R—Electronic Data Processing Equipment and Software*.
- *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*.
- *SSAP No. 20—Nonadmitted Assets*.
- *SSAP No. 21—Other Admitted Assets* (e.g., collateral loans secured by assets that do not qualify as investments are nonadmitted under SAP).
- *SSAP No. 29—Prepaid Expenses*.
- *SSAP No. 105—Working Capital Finance Investments*.
- Expense costs that are capitalized in accordance with GAAP but are expensed pursuant to statutory accounting as promulgated by the NAIC in the *Accounting Practices and Procedures Manual* (e.g., deferred policy acquisition costs, pre-operating, development and research costs, etc.).
- Depreciation for certain assets in accordance with the following SSAPs:
  - *SSAP No. 16R—Electronic Data Processing Equipment and Software*.
  - *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements*.
  - *SSAP No. 68—Business Combinations and Goodwill*.
- The amount of goodwill of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- The amount of the net deferred tax assets (DTAs) of the SCA more than 10% of the audited U.S. GAAP equity of the SCA's last audited financial statements.
- Any surplus notes held by the SCA issued by the reporting entity.

81. In addition, record as a negative figure, an asset impact for any assets that are not recognized as an admitted asset under the principles of *SSAP No. 4—Assets and Nonadmitted Assets*, including:

- Letters of credit, or other similar instruments, that operate in a manner like a letter of credit and, therefore, do not meet the definition of “asset” as required under paragraph 2.
- Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third-party interests, should not be recognized on the balance sheet and are, therefore, considered nonadmitted.
- Assets of an insurance entity pledged or otherwise restricted by the action of a related party, the assets are not under the exclusive control of the insurance entity and are not available to satisfy policyholder obligations due to these encumbrances or other third-party interests. Thus, such assets shall not be recognized as an admitted asset on the balance sheet.
- **[Analysis 8]: Regulatory Discretion** – This will be a post- submission item completed by the Lead State Regulator. Enter the following information here:
  - Entity identifier.
  - Amount of adjustment.
  - Description of regulatory issue.



NOTE: This column may also be completed by the filer after advance consultation with the Lead State Regulator.

## INPUT 6 – QUESTIONS

82. This tab provides space for participants to describe or provide greater detail for specified entries in other tabs (as noted in the instructions for the columns in those tabs) or additional relevant information not captured in the template. Examples include adjustments for intragroup debt, description of permitted practices; and adjustments to available capital or capital calculations that are included in the “other adjustment” column in the “Inventory” tab. Specified items are included in the tab. Other information that the filer believes is relevant should be added freeform in this tab.

### Information or Detail for Items Not Captured in the Template

- Intercompany Guarantees – Provide requested information:
  - a. Entity identifier issuing the guarantee.
  - b. Entity identifier of entity or entities that are covered by the guarantee.
  - c. Indicate the notional or fixed value of the guarantee.
  - d. Describe the nature of the guarantee.
  
- Capital Maintenance Agreements – Provide requested information:
  - a. Entity identifier obligated under the agreement.
  - b. Entity identifier for entity or entities that are covered by the guarantee.
  - c. Indicate the notional or fixed value of the agreement.
  - d. Describe the nature of the agreement.
  
- Value of intangible assets included in non-insurance Holding Companies – Provide the requested information for all entities designated in the non-operating holding company entity category:
  - a. Entity identifier.
  - b. All goodwill.
  - c. All intangibles related to health care services acquisitions included in local carrying value column in Inventory B. Examples include, but are not limited to, customer relationships (policy retention, long-term health services contracts) and technology/patents/trade names and provider network contracts.
  - d. All other intangible assets included in the local carrying value column in Inventory B.
  - e. Total of line b, line c and line d.\*
  - f. A description of each intangible asset included in line d.
    - \* Auto populated.

Further details on amounts reported for specific intangibles other than goodwill may be requested by the Lead State Regulator during review of the GCC template.

### Information or Detail for Items Captured in the Template

- Currency Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 2 is different than the amount in Inventory B, Column 1 due to currency conversion. If an entity is reported at zero value in Column 1, but a value is required in Column 2, then enter the information for the conversion rate used in Column 2:
  - a. Entity identifier.
  - b. Currency type reported in Inventory B, Column 1 and Inventory C, Column 1 (foreign currency).
  - c. Conversion rate applied.
  - d. Source of conversion rate applied.
  
- Intragroup Assets – Description of Adjustments for intragroup assets reported in Inventory B, Column 6 and Inventory C, Column 6. Provide the following information:
  - a. Entity identifier.
  - b. Amount reported in Inventory B, Column 6.
  - c. Description of adjustment.
  
- Other Adjustments – Description of adjustments reported in Inventory B, Column 7 and Inventory C, Column 7. Provide the following information:
  - a. Entity identifier.
  - b. Amount reported in Inventory B, Column 7.
  - c. Description of adjustment.
  
- Accounting Adjustments – Provide requested information only for entities where the amount reported for an entity in Inventory B, Column 1 is different than the amount in Inventory B, Column 2 due to differences in accounting basis:
  - a. Value reported in Inventory B, Column 1.\*
  - b. Value reported in Inventory B, Column 2.\*
  - c. Total amount of adjustments related to difference in accounting basis.\*
  - d. Nature of adjustment (e.g., GAAP to SAP).
    - \* Auto populated.
  
- The tab also includes a listing of all Schedule A and Schedule BA affiliates, along with the following information:
  - a. Parent identifier (if available) – This is the same information as is included in Schedule 1 **[Sch 1B Col 3]** as would be entered for non-Schedule A/Schedule BA affiliates.
  - b. Parent Name – Enter the Name of the Parent.
  - c. Is Parent a Schedule A or Schedule BA Asset? – Entities directly owned by Schedule A / BA affiliates are not normally independently reported in Schedule A and Schedule BA. These downstream entities, if financial in nature, must be listed per previous instructions herein. However, entries for

downstream non-insurance / non- financial entities may be required for a full reconciliation with Schedule Y

- d. Financial? (Y/N) – If the entity meets the criteria as being a financial entity, indicate with a “Yes” response. A “No” response is not required for other entities listed. “Yes” entries should correspond to “Yes” entries in Schedule 1 [Sch 1B Col 16].
- e. Carrying Value of Immediate Parent – Report the value listed in Schedule A and Schedule BA of the Parent insurer. For those cases where an indirect financial entity is reported use the value used by the direct Parent.
- f. Capital Requirement for Immediate Parent – Report the value listed in the RBC report of the Parent insurer (pre-tax where applicable). For those cases where an indirect financial entity is listed, report the value of the capital requirement attributable to the Insurer rather than the direct non-financial Schedule BA Parent. The capital requirement reported in this column for the immediate Schedule BA Parent should be adjusted to deduct the amount moved to Schedule 1 and Inventory C.

#### CALC 1 – SCALING (INS)

83. All entries in this tab are calculation cells populated using data from within the tab or using data from elsewhere in the template. Scaled values for calculated capital will become part of the GCC ratio. The calculated values will be summarized by entity type in the “Summary 1 – Entity Level” tab. The concept of a scalar was first introduced to address the issue of comparability of accounting systems and capital requirements between insurance regulatory jurisdictions. The idea is to scale capital requirements imposed on non-U.S. insurers to be comparable to an RBC-based requirement. Two approaches for scaling related to foreign insurers were presented, and others are being explored and will be reviewed. A decision on the scaling methodology to be adopted into the GCC template will be made at the end of the review. In the interim a scalar of 100% of the jurisdictional PCR will be applied to all jurisdictions where a risk-sensitive capital requirement is in place.

84. Information on the Excess Relative Ratio (ERR) scalar methodology will be collected and applied in the “Summary 2 - Top Level” tab.

NOTE: See Appendix 1 for more information and examples on how the ERR scalars are calculated.

85. For jurisdictions without risk-sensitive capital requirements a 50% charge will be applied to adjusted carrying value.

#### CALC 2 – SCALING (NON-INS)

86. All entries in this tab are either calculation cells using data from within the tab or using data populated from elsewhere in the template. Calculated capital for all entities except insurers will be reported in this tab. The calculated values will be summarized by entity type in the “Summary 1 – Entity Level” tab.

87. In addition, one informational option for calculated capital for financial entities without an existing regulatory capital requirement and one informational option for calculated capital for non-financial entities will be reported in this tab. Those calculation will not be carried into the “Summary 1 – Entity Level” tab and will not be part of the GCC ratio.

88. Only amounts for entities that the filer and the Lead State Regulator agree should not be excluded **[Sch 1B Col 2]** will be brought into the calculation in this tab and the “Summary 1 – Entity Level” tab. Entities where the Lead State Regulator does not agree with the filer’s request to exclude an entity will be part of the GCC ratio.

#### SUMMARY 1 – ENTITY LEVEL

89. Summarized results by entity type for the GCC ratio will be reported in this tab. An on top adjustment for debt allowed as additional capital will be added at the bottom of the table. All informational sensitivity analysis will be reported in Summary 2 and will not impact the GCC ratio.

#### SUMMARY 2 – TOP LEVEL

90. Each sensitivity analysis will be shown on a stand- alone basis. It is expected that each informational sensitivity analysis will run automatically in the background and the results for each displayed in this tab. The results for the informational sensitivity analysis will not be included in the “Summary 1 - Entity Level” tab.

- **[Analysis 1]: GCC with RBC at 300% of ACL** – No additional data is needed in the tab. The overall GCC ratio will be presented at 300% x ACL level. This calculation will increase the calculated capital for most entity types by a factor of 1.5. However, entities with existing regulatory capital requirements (e.g., foreign insurers and banks) will be reported at the same level specified in these instructions for both the GCC and the sensitivity analysis (i.e., at 100% of the jurisdictional or sectoral PCR requirements).
- **[Analysis 2]: Excluded non-insurance/non-financial entities without material risk** – No additional data is needed in the tab. The data for entities where exclusion has been requested by the filer and the lead state does not agree (and changes to “include’ in Schedule1B, Column 2) will be populated based on entries in **[Sch 1B Col 3]** and data in Inventory B, Column 2 and Inventory C, Column 2. It will provide the regulator with the impact of excluding entities where the lead-State changes the status from “exclude” to “include” on the GCC ratio.
- **[Analysis 3 and Analysis 4]:** This information shows the impact of excluding the amount of U.S. permitted and prescribed practices as described in the Preamble of the Accounting Practices and Procedures Manual and the sensitivity analysis allows the state to understand the size of the practices related to the overall group capital position and their impact on the GCC ratio.
- **[Analysis 5]: Foreign Insurer Capital Requirements Scaled** – No additional data is needed in the tab. This information shows the amount of foreign insurer capital calculations scaled by applying scalars using the Excess Relative Ratio approach at a 200% x ACL RBC calibration level and at 300% x ACL for all non-U.S. jurisdictions where scalar data is available (see Appendix 1). The sensitivity analysis allows the state to understand the impact of this specific scaling method on the GCC ratio. This information is populated from the “Scalar” tab.
- **[Analysis 6]: Alternative Capital Calculation for Non-Financial Entities** – No additional data is needed in the tab. The values reported will represent the alternative revenue-based values for capital calculation that are being captured in the template. The data will be populated from Schedule 1 and Inventory B and the analysis will be applied and reported in the “Calc 2 - Scaling (Non-Ins)” tab.
- **[Analysis 7]: Captives other than XXX/AXXX** – all other U.S. captives shall make an asset adjustment as described on tab Input 5.

- **[Analysis 8]: Regulatory Discretion** – This analysis is designed to reflect other regulator adjustments including for transactions other than XXX/AXXX reinsurance where there are differences in regulatory regimes exist and there is a desire to fully reflect U.S. Statutory Accounting treatment or to reflect the lead state’s view of risk posed by financial entities without specified regulatory capital requirements or risk posed by non- insurance/non-financial entities that have been included in the GCC.

### SUMMARY 3 – ANALYTICS

91. Summary results for metrics described in the Analytics Guidance and utilizing data collected in the “Input 4 – Analytics” tab or other tabs in the GCC will be calculated and presented here.

### SUMMARY 4 –GROUPING ALTERNATIVE

92. One sample alternative structure for grouping by entity type or jurisdiction in the GCC is displayed based on a suggested method. It can be modified, or other suggestions can be accommodated based on combining data from Schedule 1 and the Inventory in defined ways.

This tab is intended to be an additional analytical tool. The tool summarizes the GCC based on how a reporting entity views its organization, and provides regulators that view, to align it with regulatory information, other than what is reported elsewhere in the GCC template, that the reporting entity has submitted such as current filings, communications, etc. In this summary view, entities are organized into like regimes (e.g., RBC filers, foreign insurers, banks, financial, or non-financial entities) and multiple entities may be grouped together, in order to create a view of capital that is easy to review and analyze within each grouping. The intent of this approach is to provide an additional analytical tool designed to enhance dialogue between the Lead State Regulator and the company contemplated by the GCC filing. This view is transparent (no scalars, no adjustments, no de-stacking) so that financial information may be cross checked to other financial submissions such as RBC filings. However, it does contain double counting of available and required capital “(i.e., intra-company investments and transactions are not eliminated) and cannot be used to create a GCC ratio

93. The results are dependent on how the reporting entity populated. Input 1 – Schedule 1, Column 9 Alternative Grouping. For example, if you have a dozen small dental HMO businesses, you may wish to collapse the results to a single line called “Dental HMOs,” by populating Input 1 – Schedule 1, Column 9 Alternative Grouping for each dental HMO as “Dental HMOs.” Then right-click and select “Refresh” to see the results with the “Dental HMOs” combined.
94. For reference, the data for the Summary 4 – Grouping Alternative is from Calc 1 – Scaling (Ins), which is fed by the inputs made in Input 1 – Schedule 1, Input 2 – Inventory, etc.

### APPENDIX 1 – EXPLANATION OF SCALARS

95. The concept of a scalar is to equate the local capital requirement to an adjusted required capital level that is comparable to U.S. levels. The purpose of a scalar is to address the issue of comparability of accounting systems and capital requirements between jurisdictions. The following provides details on how the scalars

were calculated by the NAIC, or how they are to be used when the NAIC has not developed a scalar for a country due to lack of public data.

### Excess Relative Ratio Approach

96. Included below are various steps to be taken in calculating the excess relative ratio approach to developing jurisdiction-specific scalars. In order to numerically demonstrate how this approach could work, hypothetical capital requirements and financial amounts have been developed for Country A. Based on preliminary research that has been performed by NAIC staff, it appears that the level of conservatism built into accounting and capital requirements within a jurisdiction may differ significantly for life insurers and non-life insurers. Therefore, ideally each jurisdiction would have two different scalars based on the type of business. The example below includes information related to life insurers in the U.S. and Country A.

#### Step 1: Understand the Jurisdiction's Capital Requirements and Identify the First Intervention Level

- a. The first step in the process is to gain an understanding of the jurisdiction's capital requirements. This can be done in a variety of ways including reviewing publicly available information on the regulator's website, reviewing the jurisdiction's Financial Sector Assessment Program (FSAP) reports and discussions with the regulator.

In Country A, it assumes that the capital requirements for life insurers are based on a capital ratio, which is calculated as follows:

$$\text{Capital ratio} = \frac{\text{Total available capital}}{\text{Base required capital (BRC)}}$$

In the U.S., capital requirements are related to the insurer's RBC ratio. For purposes of the Relative Ratio Approach, an Anchor RBC ratio is used and calculated as follows:

$$\text{Anchor RBC ratio} = \frac{\text{Total adjusted capital}}{100\% \text{ Company Action Level RBC}^*}$$

\* 100% Company Action Level RBC is equal to the Total RBC After Covariance including operational risk, without adjustment or 200% Authorized Control Level RBC.

- b. Similar to legal entity RBC requirements in the U.S., Country A utilizes an early intervention approach by establishing target capital levels above the prescribed minimums that provide an early signal so that intervention will be timely and for there to be a reasonable expectation that actions can successfully address difficulties. Presume that this target capital level is similar to the U.S. Company Action Level (CAL) event, both of which can be considered the first intervention level in which some sort of action—either on the part of the insurer or the regulator—is mandated. A separate sensitivity calculation will be applied in the GCC template using trend test level RBC.
- c. For Country A, the target capital level is presumed to be a capital ratio of 150%. That is, the insurer's ratio of total available capital to its BRC should be above 150% to avoid the first level of regulatory

intervention. Again, this is similar to the U.S. CAL event, which is usually represented as an RBC ratio of 200% of Authorized Control Level (ACL) RBC (ignoring the RBC trend test). In the Relative Ratio approach, the Anchor RBC ratio represents the Company Action Level event (or first level of regulatory intervention) as 100% CAL RBC (instead of 200% ACL RBC), because CAL RBC is the reference point that is used to calibrate against other regimes. The Anchor RBC Ratio (Total Adjusted Capital ÷ 100% CAL RBC) tells us how many “multiples of trigger level capital” that the company holds. Conceptualizing the CAL event as 100% CAL RBC allows the consistent definition of local capital ratios that are calibrated against a “multiples of the trigger level” approach, to ensure an “apples-to-apples” comparison.<sup>2</sup>

### Step 2: Obtain Aggregate Industry Financial Data

97. The next step is to obtain aggregate industry financial data, and many jurisdictions include current aggregate industry data on their websites. Included below are the financial amounts for use in this exercise.

*U.S. Life Insurers – Aggregate Data*  
 Total Adjusted Capital = \$495B  
 Authorized Control Level RBC = \$51B  
 Company Action Level RBC = \$102B

*Country A Life Insurers – Aggregate Data*  
 Total Available Capital = \$83B  
 BRC = \$36B

### Step 3: Calculate a Jurisdiction’s Industry Average Capital Ratio

98. To calculate a jurisdiction’s average capital ratio, the aggregate total available capital for the industry would be divided by the minimum or base capital requirement for the industry in computing the applicable capital ratio. In Country A, this would be the BRC. In the U.S., this base or minimum capital requirement is usually seen as the ACL RBC, but because the Relative Ratio Approach is using 100% CAL RBC as a reference point to calibrate other regimes to, the Relative Ratio formula uses 100% CAL RBC as the baseline and the first-intervention level to calculate the Average Capital Ratio and Excess Capital Ratio. As a result, the scaled ratio of a non-U.S. company should inform regulators how many multiples of first-intervention level capital the non-U.S. company holds. Included below is the formula to calculate a jurisdiction’s industry average capital ratio:

#### *Calculation of U.S. Industry Average Capital Ratio – Life Insurers*

$$\frac{\$495\text{B (Total Adjusted Capital)}}{\$102\text{B (CAL RBC)}} = 485\%$$

<sup>2</sup> While it is mathematically equivalent to use 200% ACL RBC as the denominator, the Approach is designed to use the representation of first-intervention level capital levels as the conceptual underpinning of the Relative Ratio Approach, where 100% CAL RBC is the reference point to calibrate against other regimes.

*Calculation of Country A Industry Average Capital Ratio – Life Insurers*

$$\frac{\$83\text{B (Total Available Capital)}}{\$36\text{B (BRC)}} = \mathbf{231\%}$$

Step 4: Calculate a Jurisdiction's Excess Capital Ratio

99. The next step is to understand the level of capital the industry is holding above the first intervention level. Therefore, to calculate a jurisdiction's excess capital ratio, one would first need to calculate the amount of the capital ratio carried in excess of the capital ratio required at the first intervention level. This amount would then need to be divided by the capital ratio required at the first intervention level.

*General Excess Capital Ratio Formula*

$$\frac{\text{Average Capital Ratio} - \text{Capital Ratio at the First Intervention Level}}{\text{Capital Ratio at the First Intervention Level}}$$

100. Based on the formula above and information provided in Step 2 and Step 3, included below are how to calculate each jurisdiction's excess capital ratio.

NOTE: The first intervention level in the U.S. is defined in the Relative Ratio Approach as 100% CAL RBC, while the first intervention level in Country A is a capital ratio of 150%.<sup>3</sup>

*Calculation of U.S. Excess Capital Ratio – Life Insurers*

$$\frac{485\% \text{ (Average Capital Ratio)} - 100\% \text{ (Capital Ratio at the First Intervention Level)}}{100\% \text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{385\%}$$

*Calculation of Country A Excess Capital Ratio – Life Insurers*

$$\frac{231\% \text{ (Average Capital Ratio)} - 150\% \text{ (Capital Ratio at the First Intervention Level)}}{150\% \text{ (Capital Ratio at the First Intervention Level)}} = \mathbf{54\%}$$

Step 5: Compare a Jurisdiction's Excess Capital Ratio to the U.S. Excess Capital Ratio to Develop the Scalar

101. Based on the information above, the U.S. excess capital is 385%. In other words, life insurers in the U.S. carry approximately 385% more capital than what is needed over the first intervention level. Country A's

<sup>3</sup> 100% CAL RBC translates to an ACL RBC level of 200%, but for conceptual purposes, the Relative Ratio Approach refers to the U.S. first intervention level as 100% CAL RBC, as 100% CAL RBC is the reference point to which the Relative Ratio Approach calibrates other regimes. In other words, 100% CAL RBC ensures that the scaled ratio of Country A results in a ratio that determines how many multiples of first-intervention level capital that the company in Country A is holding.



excess capital ratio is 54%. That is, life insurers in Country A carry approximately 54% more capital than what is needed over the first intervention level.

102. To calculate the scalar, one would divide a jurisdiction's excess capital ratio by the U.S. excess capital ratio. Therefore, the calculation of Country A's scalar for life insurers would be  $54\% \div 385\% = 14\%$ . Therefore, Country A's scalar for life insurers would be 14%.

Step 6: Apply to the Scalar to the Non-U.S. Insurer's Amounts in the GCC

103. In order to demonstrate how the calculation of the scalar works, it would be best to provide a numerical example. For the purposes of this memo, it assumes that a life insurer in Country A reports required capital of \$341,866 and total available capital of \$1,367,463. (These are the amounts previously used in a hypothetical calculation example that was discussed by the Working Group during its July 20, 2016, conference call.) As noted previously, the above information and calculation suggests that U.S. life insurers carry capital far above the minimum levels, while life insurers in Country A carry capital far closer to the minimum. Therefore, to equate the company's \$341,866 of required capital, we must first calibrate the BRC to the first regulatory intervention level by multiplying it by 150%, or Country A's capital ratio at the first intervention level. The resulting amount of \$512,799 is then multiplied by the scalar of 14% to get a scaled minimum required capital of \$71,792.
104. Further, the above rationale suggests that the available capital might also be overstated (because it does not use the same level of conservatism in the reserves) by the difference between the calibrated required capital of \$512,799 and the required capital after scaling of \$71,792, or \$441,007. Therefore, we should now deduct the \$441,007 from the total available capital of \$1,367,463 for a new total available capital of \$926,456. These two recalculated figures of required capital of \$71,792 and total available capital of \$926,456 is what would be included in the group's capital calculation for this insurer. These figures are further demonstrated below.

*Calculation of Scaled Amounts for GCC*

Amounts as Reported by the Insurer in Country A

Total available capital = 1,367,463

Minimum required capital (BRC) = 341,866

Calibration of BRC to 1<sup>st</sup> Regulatory Intervention Level 341,866 (BRC)

\* 150% = 512,799

Scaling of Calibrated Minimum Required Capital

512,799 (Calibrated BRC) \* 14% (Scalar) = 71,792 (Difference of 441,007)

Scaled Total Available Capital

1,367,463 (Total Available Capital) – 441,007 (Difference in scaled required capital) = 926,456


105. Given these scaled amounts, one can calculate the numerical effect on the company's relative capital ratio by using the unscaled and scaled amounts included below.

	Unscaled Amounts from Table Above	Scaled Amounts from Table Above
Total Available Capital (TAC)	1,367,463	926,456
Base Required Capital (BRC)	341,866	71,792
Capital Ratio (= TAC ÷ BRC)	400%	1290%

106. Considering the fact that life insurers in Country A hold much lower levels of capital over the first intervention level as compared to U.S. life insurers, the change in the capital ratio from 400% (unscaled) to 1290% (scaled) appears reasonable and consistent with the level of conservatism that we understand is built into the U.S. life RBC formula driven primarily from the conservative reserve valuation.

NOTE: In the above example, the company has an unscaled ratio (400%) that is above the industry average in Country A (231%) and a scaled ratio (1290%) that is higher than the US life industry average (485%). If the company had an unscaled ratio that was lower than the industry average in Country A, its scaled ratio would be lower than the US life industry average. company with an unscaled ratio equal to its own country's industry average will have a scaled ratio equal to the anchor RBC ratio."

Data for industrywide U.S RBC ratios is sourced from the aggregate RBC Statistics maintained by the NAIC. Data for industrywide capital ratios for foreign insurance jurisdictions was derived from publicly available aggregate industry data. If this scalar methodology is retained, then the data will require periodic updating.



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