

Field Testing Q & A – August 2, 2019 Version

Schedule 1

Q1. Should Schedule BA entities that are not "financial entities" be listed outside of Schedule 1 and the Inventory Tab?

A. Yes, only financial entities that are reported in Schedule BA will be adjusted out of the balance for their Parent RBC filers and established with their own entity carrying values in the Inventory Tab. A section asking for a full list of all affiliated Schedule BA assets will be added to the Questions and Other Information tab with applicable instructions in order to account for all Schedule BA affiliates. Further clarity on this will be provided in a revision to the instructions along with any required adjustments to the template.

Q1A. The current Q&A document notes that some additional clarification regarding treatment of Schedule BA Affiliates will be added to the instructions. Has everything been added in the current version of the instructions, or is there anything additional on your list to add?

A. Yes, there have been clarifications on pages 17 (paragraph q); and 38 (paragraph 103) of the instructions to clarify that only financial entities owned directly and reported on Schedule BA and financial entities held indirectly through Schedule BA affiliates should be reported on Schedule 1 and in the inventory. The original instructions also discuss Schedule BA financial affiliates on Page 10 (Paragraph 35); Page 15 (Paragraph 56); Page 20 (Paragraph c) and Page 26 (Paragraph a). The remaining Schedule BA affiliates should be reported in a table in the Questions and Other Information Tab but will not be adjusted out of their Parent RBC filers.

Q2. On schedule 1, column 16; Can you address the intended differences between the drop-down choices for admitted other non-admitted direct and non-admitted indirect?

A. Admitted Other are entities that would otherwise have a reported carrying value per accounting rules but are reported at zero value per RBC instruction for both carrying value and capital requirements (the primary example is non-Canadian Foreign Insurers). Non-admitted Direct and Indirect are affiliates that are reported at zero value per accounting rules and are also reported at zero value and zero capital requirements for RBC purposes. Examples include directly owned entities that are required by SAP to use GAAP or adjusted GAAP reporting rules but have not been subject to an independent audit. Indirect entities in this category include affiliates below a non-admitted directly owned entity that are non-admitted as a result of the directly owned entity's non-admitted status. No indirectly held insurer may be non-admitted.

Q2a. Can you confirm that this column may apply only if the entity has an RBC filing parent?

A. Mostly YES, it is relevant to subsidiaries of all SAP based insurers (whether or not they are subject to RBC) on the available capital end, but only RBC filers on the capital requirements end in the Inventory B and Inventory C Sections.

Q2b. Should the field otherwise be left blank?

A. Yes

Q2c. It sounds like the three drop downs apply only to situations when an entity (with an RBC filing parent) is captured in STAT as an admitted or non-admitted investment in sub; but for RBC, the entity is reflected with zero RBC capital requirement. Is that right?

A. In most cases. It also covers entities that are admitted per SAP but are zero valued for **both Available Capital** and Capital Requirements per RBC instruction (e.g. (e.g. non-Canadian Foreign Insurers), as well as entities that are not admitted per SAP and consequently carry a zero-capital calculation.

Q2d. To determine which of the three options apply, is there a specific sections or schedules of the RBC filing and/or Statutory filing we should zero in on?

A. For admitted / other the focus should be on non-Canadian foreign insurance subsidiaries of Life RBC filers. For the “non-admitted direct” and “non-admitted indirect” I’d look at Schedule D Part 6, Section 1 in the Annual Statement. This should show direct subs that have been not-admitted. The indirect subs that have been not admitted as a result of the direct sub being not admitted may be reported on Schedule D, Part 6 Section 2. Otherwise, you’ll need to identify them from your Schedule Y or other internal records.

Q3. Can you add some color on what should be input into Schedule 1C, Column 5 (Prospective Risk)? The instructions also reference inputting something on the Questions tab, but I don’t see any questions related to that field.

A. The general concept is to get the firm’s take on prospective risks. If those are assigned values, then the values can be reported on Schedule 1. If not, a reference to, or an excerpt from, an ORSA or other internal document that the lead- State can review should suffice in the Questions and Other Information Tab. As far as a location for the description in the Questions and Other Information Tab, we could have included that but since the tab is already pretty free-form and there may be other information not currently referenced separately in the tab that a firm may wish to provide, Volunteers should simply add a section in the Questions and Other Information Tab and provide that information.

Q4. How should values for Canadian entities be reported in Schedule 1D and Inventory B Columns 1 and 2? Their basis of accounting is IFRS using the Canadian dollar. However, the template requests everything in U.S. dollars. Does the template require the IFRS values to be restated in terms of U.S. dollars?

A. Yes. Since it is the values prescribed by the foreign insurance regulator that should be reported, if Canadian REGULATORY (OSFI) reporting values are based on IFRS then the IFRS values should be converted to U.S. dollars and reported in Inventory B, Column 2. Conversion rates as of 12/31/18 are fine. If the valuation used for regulatory reporting is different from IFRS then convert the regulatory value to U.S. dollars and report that amount. Please note that the capital requirements In Inventory C Columns 1 and 2 should also be converted to U.S. dollars.

Similar treatment would apply to all non-U.S. entities.

Q5. We are working on defining materiality of risk for non-regulated / non-financial entities. Can you clarify the implication of “non-regulated with material risk” versus “non-regulated without material risk” in the template? How does this designation impact test results?

A. One of the decisions to be made is around scope of application of the eventual GCC. Non-regulated / non-financial entities that are characterized as not posing material risk will be designated as “Exclude” in Schedule 1B, Column 1 based on the entity type reported in Column 6 or an entry in Column 16. The tests applied to these entities type will be run with and without those entities included in the result. As part of analysis of the Volunteer’s submissions, the criteria described in the Q&A and Other Information Tab for determining whether there is material risk will be reviewed and assist in determining whether it is reasonable to use one or more of the methodologies to warrant exclusion of the designated entities in the eventual GCC.

Regulated and other Financial entities are considered to pose material risk and will not be reported as “exclude” unless they also have an entry in Schedule 1B Column 16.

Q6. Does Insurance Group = Broader Group for purposes of the Field Test?

- Para 27 of GCC Field Test Instructions: “An insurance group is thus comprised of the head of the Insurance Group **and all entities under its direct or indirect control...** (see attached high-level org chart)

If the Insurance Group = Broader Group then Scope of Application = Broader Group?

A. While all entities fall within the Scope of the Group, the Insurance Group does not necessarily equate to the Broader for purposes of Scope of Application. Scope of Application will be tested with an opportunity for Volunteers to designate certain non-financial entities from the broader group as “exclude”. No entity within the insurance group can be designated as “exclude”. Values for all entities in the broader group must be provided and the tests will be run with and without those values for entities designated as “exclude”. GCC Working Group decisions on scope of application will occur post field testing.

Q6A. Para 19 of GCC Field Test Instructions: “All entities included within the Insurance Group should be included within (i.e. may not be designated as “excluded from”) the Scope of Application”.

The template allows or entities that are non-regulated / non-financial affiliates within the broader group to be reported as exclude in Schedule 1B, Column 1 in cases where the firm has applied criteria to determine that the entities do not present material risk. The criteria used for the material risk threshold must be explained in the Questions and Other Information Tab (See Paragraphs 12, 14, and 16 of the instructions). The field test will calculate results with and without these entities to inform the decision on scope of application. No regulated or other financial entities may be excluded no matter where held in the HC structure.

Q7. Apparently in at least some cases, Insurance Departments do not require RBC filings of its domestics, but they’re still required to submit RBC reports to the NAIC. On the Input 1 – Schedule 1A tab Entity Category (Col. 6), these should be treated as “RBC Filing,” correct?

A. Yes that is correct.

Q8. Treatment of the Entity for RBC Purposes (Schedule 1B, Column 16: If a non-RBC insurer owns SCAs and SSAP 48 entities some of which are admitted and others that are non-admitted for SAP should this field be left blank?

A. No, follow the instructions for Schedule 1B, Column 16 in the instructions on page 17 of the instructions. Also follow the instructions for Inventory B, Columns 1 and 2 on pages 19-20 and Inventory C, Columns 1 and 2 on page 22. The idea is that U.S. insurance Parents may report entities at zero values, but the entities will get values on a stand-alone basis. The filed test will calculate with and without those values if they are non-regulated / non-financial entities. The instructions have been revised on page 17 to clarify this point.

Q9. Schedule 1D - The instructions indicate "Only make entries for the non-insurance entities that are subject to the applicable tests"; however, many "No" entities have inputs for BACV in the sample data template...what is the requirement?

A. The purpose of Schedule 1D is to provide inputs for tests that are applied in Schedule 1E. These tests are applied to non-financial entities and some apply to Asset Managers. The entities to which the tests apply are described in paragraphs 60 and 61 on page 18 of the instructions. Data for entities that are designated as "Exclude" should be reported as the results will be compiled with and without the values for those entities.

Q9A. In Schedule 1D, Column 3, is BACV from the parent insurers point of view?

A. The intent was from the entity's point of view. A value that would mostly correspond to what is reported in Inventory B Column 2. However, input on what difficulties that might present are welcome.

Q10. In cases where a non-financial affiliated entity serves the same function as one reported on Schedule BA in the annual statement (not de-stacked in the field test template), but due to its corporate / ownership form is reported on Schedule D instead, should that entity be listed in Schedule 1 and de-stacked from its Parent in the Inventory Tab?

A. Yes, Schedule D affiliates have risk characteristics that may vary, but are generally all treated the same in RBC. In order to have consistent presentation across all volunteers, all affiliates reported on Schedule D should be listed in Schedule 1 and de-stacked from their Parent insurer. They will be subject to the calculated capital tests referenced in the field test instructions that apply to the specific entity type. Input on the level of de-stacking for such entities is welcome during the field test review process.

Q11. I don't see instructions for input 1 Sch 1D col 4. Could you explain me in detail what notional value mean for the unregulated financial entities?

A. The instruction for Col 4 should have its own line, but due to a format oversight it ended up as a continuation of the Col 2-3 instructions. That has been corrected. As used in the template, the notional value is the face value (or maximum value) of an agreement or contract or commitment for to the counterparty adjusted for probability of exercising that value. The probability is determined by the volunteer. In other terms it is the probability adjusted value of assets committed under the agreement or contract.

Q11a. To my understanding, instructions say that I need to BACV of unregulated company using notional value. Please let me if there are any percentage, I need to apply to notional value to have alternative BACV for unregulated company.

b. **[Sch1D Col 2 – 3] Equity and Book Adjusted Carrying Value (BACV).** Equity is the value based on net equity reported in the Balance Sheet. This may be the same in certain instances as BACV, but may be different due to equity adjustments (e.g. per SAP) of alternative valuations specified by accounting rules (e.g. market value under SAP) **[Sch1D Col 4] Calculation Based on Notional Value of Contract Notional value of the contract (e.g. a net worth guaranty/indemnification/guaranty multiplied by a probability factor as determined by the company based upon past historical experience) Only input this amount for Unregulated Financial Entities.**

A. The probability of paying the face amount or maximum amount on contracts or guarantees issued by the entity is assigned by the volunteer based on its own internal analysis. That probability is applied to the full notional value to arrive at the entry in this column.

Q12. What level of downstream affiliates should be shown on “Schedule 1” and on “Questions” tabs? Should it be Tier 1 level only (corresponding to the level of reporting on investment schedules)? OR should all entities (all tiers) appearing on Schedule Y be shown? (It seems that providing all the intermediate entities simply adds more data points without adding any useful information relevant to the purpose of the GCC.)

A. For the field test we are going for a full de-stacking. In order to remove the correct carrying value for a subsidiary from its immediate parent we will need that level of detail in Schedule 1 and in the Inventory Tab. The instructions do allow for a single total to be reported for certain entities in cases where a holding company or other entity owns entities that conduct the same business (e.g. a HC or asset manager owns a string of downstream asset managers – See page 14 of the instructions, Paragraph 55).

For Schedule A and Schedule BA affiliates that are listed only in the Questions and Other Information Tab. In the Carrying Value (Parent Regime) and Required Capital (Parent Regime) Columns amounts are only required for the directly owned affiliates. However, the indirectly owned affiliates must be listed entries made in all other columns in the table.

Q13. The instructions state the a financial entity is “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.)....[and] for purposes of this definition, a subsidiary of an insurance company whose predominant purposes is to **manage** the investments of the

insurance company and its affiliated insurance (greater than 90% of the investment subsidiary' assets are for these insurance affiliates) should NOT be considered a Financial Entity.” Why is this treatment not extended to those that **hold** investments of the insurance company?

A. This question should be discussed further during the review process. For purposes of the field test the distinction will be maintained. There is a distinction in RBC treatment between Life and P&C RBC filers. An investment affiliate of a Life insurer that holds the insurers investments is assigned a capital charge that is equal to the RBC on those investments (i.e. look thru) which gives it more a financial entity flavor. It used to be that way for P/C insurers as well but changed in 2017 RBC to a flat equity charge. Asset managers receive an equity charge in both formulas if they don't hold the assets. Hence the distinction. However even with the non -insurance tag, an insurer's asset manager is subject to additional tests beyond those applied to other non- insurance entities.

Q14. How does the template treat regulated entities that are non-financial in nature?

A. Currently there is no clear entity category for a regulated non-financial entity. Specific examples should be provided and assessed during the submission review process. The instructions do include a category called “financially regulated” and prescribe the field-testing treatment for those that have no specified regulatory capital requirement (see page 25 of the instructions). There is also a category called “Other Non-Insurance / Non-Financial” (see page 26 of the instructions). If the latter is applied to a regulated entity in the template, an explanation should be provided. A potential question that may be raised with the GCCWG is whether the term “regulated” should apply to an entity with no regulatory capital requirement.

Q15. How should LLC affiliates listed in Schedule A of an insurer's annual statement be reported in the template?

A. The treatment of such LLC entities should be similar to the way that Schedule BA assets are treated in the field test template. The same information should be included the Questions and Other Information Tab as for the non-financial Schedule BA assets. A second table (with the same information as the one for Schedule BA Affiliates) should be added to the Questions and Other Information Tab by volunteers that own this type of Schedule A affiliates for purposes of completeness. The existing template may be revised, later, but Volunteers should just add this informational table (where applicable) for now in order to avoid disruption in completing the template.

Q16. In Schedule 1, row 9 columns AG:AW: These columns are all set N/A for the ultimate parent, but if the ultimate parent is an insurer or revenue-generating entity, that may not be correct.

A. This schedule is for charges to non-insurance entities. That will mean entries are N/A if ultimate parent is insurer. N/A would be wrong if there is operating holding company that generates revenue. If that situation exists it will need to be addressed so that the operating HC is run through the appropriate tests.

Inventory Tab

Q1. In Column 1 in Section C (**Entity Required Capital – Immediate Parent Regime**) of the Inventory Tab, why are RBC filer's capital requirements reported at 150% while other non-RBC filing entities are reported at a 100% calibration level?

A. The intent is that the starting point from a calibration standpoint in Column 1 of Section C the Inventory tab for RBC filers is trend test level (150% x CAL / 300% x ACL) since that level carries through to the rest of the Inventory tab for required capital. The 100% in the instruction for Inventory Section C, Column 1 refers to the ownership percentage, and requires that regardless of ownership percentage, 100% the specified capital requirements should be entered in Column 1 (e.g. @150% x CAL / 300% x ACL level where applicable). The instructions on pages 22, 24 and 25 have been adjusted to reflect this. The capital requirement imposed by a non-U.S. the solvency regime in which their immediate Parent operates should be reported at 100% of that regime's PCR requirement for that entity. There may be a number of zeroes reported in this column for entities whose immediate Parent is not an insurer.

Q1A. What is the thought/rationale of testing the 300%, along with the 200%? Our understanding is that 200% is the true level for regulatory intervention, so curious why a higher level is being considered?

A. This was a decision by the GCC WG to test at trend test level (as the first intervention level for RBC filers). The template was set up to calculate at that level in the Inventory Tab and adjust back to 200% later. In retrospect we could have constructed it the other way around. Results will be calculated both ways and no decision has been made on what will be used in the final GCC.

Q2. Will there be an adjustment in this tab for prescribed / permitted practices related to XXX / AXX Captives?

A. No, the on top adjustment to assets will be entered in XXX / AXXX Tab. In addition, a section will be added to the Questions and Other Information tab with applicable instructions in order provide a description of each permitted or prescribed practice.

Q3. Please clarify what values should be reported in Column 1 of Inventory B for the Carrying Value (Parent Regime) and in Column 2, Carrying Value (Local Regime)

A. In most cases the value that is adjusted out of a Parent for a given entity in the investment in Subsidiary column (Column 3) is equal to the value carried by the Parent on its books (in Column 1) as reported per the accounting requirements in the Parent Regime. However, the full value of the entity under the Parent's valuation basis should be reported regardless of that Parent's ownership percentage. The full value is adjusted only to reflect the percentage of ownership within the group if less than 100%. No adjustment is made for ownership by other entities within the group. In cases where the entity is owned by more than one immediate parent within the group, use the valuation basis of the immediate Parent that owns the largest share of the entity.

The Local Regime carrying value in Column 2 should be based the value specified by the local regime in which the entity operates.

For example, for a regulated entity (including U.S RBC filer) owned by an unregulated entity or HC, the value reported in the Parent Regime column (Column 1) for that entity will be the accounting value carried by the Parent for that entity based on the accounting rules applicable to that Parent. The Local Regime (Column 2) value for the entity will be based on the regulatory reporting values prescribed by the local regulator for that entity.

For entities owned by RBC filers the Local Regime in Column 2 the value should be reported as follows:

1. RBC Filers will report per SAP (so this should be the same value in both the Parent and local Regime columns)
2. U.S Insurers not Subject to RBC will report per SAP (so this should be the same value in both the Parent and local Regime columns).
3. Regulated entities report at Regulatory values applied by the local jurisdictional (e.g. foreign insurers) or sectoral (e.g. banks) regulator. This will most likely be different than what is reported in the Parent regime column
4. Non-regulated entities will be reported per SAP (which generally references U.S. GAAP for these entities). GAAP is ok and the values should be similar or the same as in the Parent Regime column.

The same is generally true for the capital calculations Section (Inventory C, Columns 1 and 2). However, zero values are expected in the Parent Regime column (Column 1) for non-regulated entities owned by non-regulated entities. Note that the capital calculation for an RBC filer in both Columns 1 and 2 will be reported at the 300% x ACL (1.5 x CAL) AFTER COVARIANCE, while capital calculations for other direct subsidiaries of RBC filers that are not included in Affiliate risk section are to be reported at a calibration level of 300% x ACL (1.5 x CAL) on a pre-covariance basis in the Inventory C section in the Parent Regime column (Column 1) and in Column 3. RBC Subs of RBC Parents should also be reported at that increased level in the Local Regime Column and in Column 3. Also note the following with respect to reporting in the Local Regime column (Column 2) for other than RBC filing Subs of RBC filing Parents:

1. For regulated entities owned by RBC filers the Local Regime column will report 100% of the local jurisdictional (e.g. foreign insurers) or sectoral (e.g. banks) capital requirement imposed by the applicable regulator without adjustment for covariance and **will not** be adjusted by the 1.5 factor. This will usually NOT be the same as what was reported in Column 1 for the entity.
2. For U.S. insurance entities not subject to RBC (e.g. Mortgage Guarantee and Title Insurers), report the specified capital calculation in the instructions **adjusted by a factor of 1.5**. This will usually be the same as what was reported in Column 1 for the entity.
3. Any other entity that is being reported (i.e. tested) based on a premium based charge in the inventory exhibit (e.g. asset managers) **will not** be adjusted by the 1.5 factor. This will usually NOT be the same as what was reported in Column 1 for the entity.
4. Non-regulated entities that are subject to an RBC based equity charge (e.g. 22.5% x Book Adjusted Carrying Value or GAAP Equity) will be reported at a value that **is adjusted by a factor of 1.5**. This will usually be the same as what was reported in Column 1 for the entity.

Q4. The instructions for Inventory C, Column 1 -Capital Requirements (Parent regime) and Column 2 - Capital Requirements (Local Regime) states that for U.S. insurance entities, the equivalent of one and a half times company action level RBC (or 3 times authorized control level RBC) should be reported. Please clarify how this impacts entries for non-RBC filing entities?

A. In Column 1 this will impact all entities owned directly by an RBC filer only. In Column 2 it will apply to the stand-alone entities as follows:

1. Any entity where the primary value entered on the Inventory tab to use as the capital calculation for that entity is based on a % of revenue (e.g. an asset manager) or where it is based on an existing regulatory requirement (e.g. banks and foreign insurers) **will not** be subject to the 1.5 calibration. If they are owned by an RBC filer, they **will be** removed from the RBC Parent at 1.5 x CAL in the investment in affiliate column but established for the stand-alone entity at the specified % of premium or applicable jurisdiction / sectoral capital requirement.
2. U.S. insurers that are not subject to RBC and any entity where the primary value entered on the Inventory tab to use as the capital calculation for that entity is based on an equity based charge (e.g. non-insurers subject to a 22.5% x Book Adjusted Carrying Value in P/C RBC) will be adjusted to the 1.5 calibration level. The increased amount will be removed from an RBC Parent in the investment in affiliate column based on percentage of ownership and established for the stand-alone entity. If the Parent is not an RBC filer and does not carry a charge for the entity, then zero will be removed from the Parent and the specified equity charge x 1.5 will be established for the stand-alone entity.

Q4A. Inventory C, Column 2, Entity Required Capital (Local Regime): The June 14 Q&A, page 4..."For US insurance entities not subject to RBC (e.g. Mortgage Guarantee and Title Insurers), report the specified capital calculation in the instructions adjusted by a factor of 1.5". Does this also apply to such subsidiaries of Parent U.S. insurers that are not subject to RBC?

A. No, it does not apply to any subsidiary of a non-RBC filing Parent unless that subsidiary is itself an RBC filer. The 1.5 multiplier was meant to orient RBC filers at Trend test level (300% x ACL RBC) rather than using Company Action Level (200% x ACL) as the first intervention level. The instructions have been revised on page 22 to clarify this point.

Q5. Please provide further information on the additional testing options Other Financial Entities as described on page 25 of the instructions.

These are additional tests applied outside of the Inventory Tab:

1. Reduce the equity-based factor back to a calibration of 1 x CAL. (22.5% x BACV).
2. Scale the 12% factor applied to revenue based on the RBC ratio for an average RBC filer. Example – Avg. life RBC ratio at CAL or 200% x ACL is 488%). The 2.5% scaled factor is derived by dividing 12% by 4.88 (956% Average RBC ratio / 2) and then rounding the result to 2.5%.
3. Scale the 12% based on the RBC ratio of an average RBC filer at 1.5 x CAL or 300% x ACL Example – Average life RBC ratio at this calibration level is 319%. The 2.5% derived by dividing 12% by 3.19 (956% Average RBC ratio / 3) and then rounding the result to 3.8%

Q6. Are descriptions of prescribed and permitted practices needed?

A. Yes, a section has been added to the Questions and Other Information Tab where the practices will be described.

Q7. RBC equity-based charges for subsidiaries in Inventory C Columns 1 and 3, and those applied to entities in GCC in Inventory C Column 2, are not the same. As a result, the sum of the subsidiaries amounts in GCC (Inv. C Col. 2) is not same with that of subsidiaries RBC charge currently included in an RBC filer. Following is to demonstrate the differences. \$33,750 is the sum of subsidiary amount total for GCC. \$21,330 is the RBC charge included in an RBC filer’s capital requirement.

Please let me know which amount I need to populate in Inventory C Column. 3 in the following example:

GCC Inv				RBC						
Sub	Base Amount	GCC Capital Requirement %	Inv C Col. 2	RBC factor	Post Tax	Covariance effect	RBC charge after covariance	GCC RBC multiplier	RBC Charge for GCC	
	A	B	C=A x B	D	E	F	G=A x D x E x F		H	I = G x H
1	10,000	33.75%	3,375	30%	79%	60%	1,422	1.5	2,133	
3	20,000	33.75%	6,750	30%	79%	60%	2,844	1.5	4,266	
3	30,000	33.75%	10,125	30%	79%	60%	4,266	1.5	6,399	
4	40,000	33.75%	13,500	30%	79%	60%	5,688	1.5	8,532	
Sub's Capital Requirement Total			33,750	Sub's RBC Charge Total						21,330

A. You are correct they will not be exactly the same for Life RBC filers. For subsidiaries that will be subject to the 33.75% x BACV calculation when you are doing the calculation at 1.5 x CAL (3x ACL), you should report that amount in in Column 2. However, the amount reported in Columns 1 and 3 and will be 35.5% ((30% x 1.5) x.79) x BACV. So, in column 3 you would deduct 35.5% x BACV from the Parent’s Capital Requirement (in your sample chart that would total \$35,500) and in Column 2 establish a charge of 33.75% x BACV for the affiliate (in your sample chart that would total \$33,750). A difference of \$1,750.

Remember, the capital calculation in Inventory C Column 2 for every RBC filer and every sub of an RBC filer will be at the 1.5 x CAL (3 x ACL) calibration level and the subs must be de-stacked on the same basis in column 3. However, the capital calculation for financial entities in Column 2 will be established on a different basis per the field test instructions (e.g. OCC requirement for banks) vs. how they are deducted from the Parent RBC filer in Column 3 at values specified per the RBC filing.

When we test subsidiaries that will be subject to the 22.5% x BACV charges calibrated at 1 x CAL (2x ACL) you would report 23.7% x BACV in Column 1 for the subsidiary (30% x.79 = 23.7% and deduct that amount from the Parent’s Capital Requirement in Column 3 (in your sample chart that would total \$23,700) The amount established for the Subsidiary in column 2 would be 22.5% x BACV for the affiliate (in your sample chart that would total \$22,500). A difference of \$1,200.

We are not accounting for covariance on either end at this point. However, in the Questions and Other Information tab, a Volunteer may provide its method for establishing a covariance impact (in your example 60%). Such information will be considered at the in the analysis of the field test results.

Q8. Could you clarify following instructions? Based on the instructions, the adjustments in Investment B Column 6 is to adjust BACV or equity value. Thus, the assets in the instructions are the ones currently in BACV or equity section such as additional paid in capital, not the amounts in asset side in balance sheet.

f. **[Inv B Col 6] Other Intra-group Assets** – Enter the amounts to adjust for and **to remove double counting of carrying value for other intra-group assets**, which could include intercompany balances, such as (provide an explanation of each entry in The Questions and Other Information Tab):

- loans, receivables and arrangements to centralize the management of assets or cash;
- derivative transactions;
- purchase, sale or lease of assets; and
- other (describe).

A. The idea of this column is only to adjust for intragroup assets (other than capital instruments) that result in double counting of available capital. Intragroup assets that are offset by another affiliate’s liabilities (e.g. reinsurance balances, service agreements) do not need to be included in this column. Balances related to intragroup contractual agreements are reported in Schedule 1B, Col 15. The type of assets or agreements should be described in the Questions and Other Information Tab and will be reviewed after submission and may generate further questions or adjustments.

Q9. How will negative values for the top non-operating holding companies and downstream holding companies reported in Inventory B, Column 8 be treated for field testing? What capital calculation will be applied to holding companies with negative values?

A. Negative stand-alone values will be brought into the field test calculations. They will be adjusted by testing allowances for senior debt. However, the issue of negative values (particularly for holding companies) will be raised to the GCCWG members at the end of the field test to the extent it negatively impacts the test ratios. The field test results will be calculated with any residual negative values for HCs and other non-financial entities included and also with those values floored at zero.

The capital calculation for any entity with a negative residual value will be floored at zero. A capital calculation for the top non-operating holding company has not been selected and should be a subject of discussion with each Volunteer’s Lead-State.

Q.10. When the Parent is an RBC filing insurer, for the subsidiaries insurance companies listed in Inventory C Column 1 (Parent Regime), should I use the 3 times ACL taken directly from the subsidiary insurance company's RBC report PR034, including the 3% operational risk charge that was effective for 2018?

A. The amount reported in the Parent regime column should be at 3 x ACL but should exclude the 3% operational risk charge as that operational risk charge is not carried into the Parent's RBC calculation. In Column 2, the 3 x ACL calculation should be reported including the entity's 3% operational risk charge.

Q10A. For the noninsurance affiliates owned by an RBC filing insurer, should Column 1 (Parent Regime) should the calculated capital reported in the Parent's RBC filing increased by the 3% operational risk charge?

A. This is technically correct since each direct non-RBC filing subsidiary of an RBC filer does contribute to the 3% operational risk charge of the Parent RBC filer. However, the 3% is applied after covariance, while the charge for the entity is recorded on a pre-covariance basis in the template. For simplicity, it is acceptable to report the actual pre-covariance charge **without** the 3% add-on for that entity as calculated in the RBC formula.

Q11. Can you explain where we should be tax effecting entries in the spreadsheet? I'm asking this based on Q7 from the Q&A document.

A. The capital charge for subsidiaries of Life RBC files that are subject to an equity-based charge will be tax affected (as dictated in the Life RBC formula and Instructions) in Columns 1 and 3 in Inventory C in order to reflect the Parent's net effective RBC charge before covariance. The capital calculation reported for the entity in Column 2 will be different since it is based on a flat charge of 33.75% (22.5% x 1.5) The response to Q 7 was simply to demonstrate that there is not a material difference between the 35.5% ((30% x 1.5) x.79) reported charge from the life formula reported in Column 1 and the selected 33.75% applied for all insurer types that is reported in Column 2.

Q12. For Inventory C, Column 1, Please confirm that zero values can be inputted for all types of entities directly under a holding company that is not subject to a regulatory capital requirement for that entity, excluding RBC filing insurance companies?

A. Confirmed. Report zero in Inventory C, Column 1 for subsidiaries of Parent's with no capital requirements for the subsidiary. Zero treatment in Column 1 would never apply to an entity that has an RBC filing Parent and it may not apply to subsidiaries of other regulated financial entities (e.g. foreign insurers). The amount reported in Column 1, would be adjusted out of the Parent's line in Column 3. Paragraph 65 (page 22) as previously revised and Paragraph 69a (page 26) may be helpful.

Q13. Please clarify appropriate values on the Inventory B for an RBC-filing U.S. Insurance entity with a non-insurance U.S. GAAP filing parent: It seems clear that the local regime carrying value (Inventory B, col 2) reported for the Insurer should be SAP-based. Should the parent regime carrying value (Inventory B, col 1) reported for the insurer be SAP or GAAP-based?

A. Report GAAP value. In this case the amount removed from the Parent in Column 3 will be different than the value established in the local regime column (Column 2 for the U.S. Insurer). The concept is that the full value carried by a Parent for an entity must be removed from the Parent before establishing a stand-alone value for the entity.

Q13A. For the non-insurance parent, should the carrying value adjustment for its Investment in Subsidiary (Inventory B, col 3) be SAP or GAAP-based, and should the required capital adjustment for its Investment in Subsidiary (Inventory C, col 3) be zero or 300% ACL RBC? More generally, should the Investment in Subsidiary values reported for the parent mirror the Immediate Parent Regime Carrying Value and Required Capital reported for the insurer?

A. In general, the amounts in Inventory B, Columns 1 and 3 should be the same. Same for Inventory C Columns 1 and 3. The amounts in Inventory B are based on what the Parent carries as a value for the subsidiaries. On Inventory C, zero would be reported if the non-insurer is not itself subject to capital requirements

Q13B. Are any of these responses different if the non-insurer parent is itself the subsidiary of an RBC-reporting U.S. insurer?

A. We are aware that U.S insurers with downstream HCs that own U.S. insurers carry the value of those indirectly held insurers on the books of the downstream HC are carried at SAP value. That would be a difference in reporting for Inventory B (i.e. the amount in Column 1 for the indirect insurer would be the SAP value). There should be no difference for Inventory C. Zero would be reported.

Q14. It seems clear that the local regime required capital (Inventory C, col 2) reported for the Insurer should be RBC-based at 300% ACL. Should the parent regime required capital (Inventory C, col 1) reported for the insurer also be the 300% ACL RBC value, or should it be zero, since the GAAP-reporting parent has no capital requirement?

B. If the Parent is an entity that is not subject to a capital requirement then zero should be reported in Column 1.

Capital Instruments Tab

Q1. Should the amount reported in Column 8 on the Capital Instruments Tab tie to the 10k footnote on debt?

A. No, but the instructions to Schedule 1 (column 12 in Schedule 1C) will be adjusted to require that all types of debt instruments are included in that column in order to make that tie to the 10K or alternative consolidated financial statements.

Q2. Should Short-term credit facilities, short term commercial paper or capital leases be reported in the Capital Instruments Tab?

A. No, these instruments do not meet the current requirements (e.g. a minimum 5-year term) for consideration as additional capital resources. They should be included in Schedule 1 (column 12 in Schedule 1C).

Q3. What is the difference between Columns 8 and 9 on the Capital Instruments Tab?

A. The outstanding principal balance of the capital instrument at year end 2018 is reported in Column 8. Column 9 should only include the portion of the o/s principal on the instrument that is specifically recognized as additional available capital (if any) in the local jurisdiction. This would mostly be for foreign financial entities which may not apply to some Volunteers. Surplus notes issued to entities outside the group would ordinarily qualify but are already picked up in the in values reported in the inventory tab.

Q4. Please Clarify what should be reported in Columns 9 and 10.

A. Column 9 is used to report proceeds from senior or hybrid debt that has been specifically down streamed into the U.S. insurers within the group. It includes cases where debt has been subsequently refinanced without further distribution to the insurers. If the amount is fully tracked, then the entire amount downstream will be reported in Column 17 and allowed as additional capital to the issuer of the debt in the field test.

Column 10 is a Yes / No entry column. Entries indicate whether the debt has been issued to an affiliate or used to capitalize an affiliate. If there is a "Y" entry in this Column, it ordinarily would trigger a "Y" response in Column 11. In such cases, the value debt would be included in 15 and not brought into the tests that allow additional capital to the debt issuer.

NOTE: Slight revisions have been made to the instruction on Page 29 and the column references in the instructions have been changes to the Column number references rather than the worksheet column letters.

There are two different methods for calculating an additional allowance for additional capital resources:

- Any "tracked" proceeds that are down streamed to the insurance entities (reported in Column 9 in the Capital Instruments Tab) will be allowed in full.

- “Non-tracked” proceeds (populated in Column 16 in the Capital Instruments Tab) will be tested at the various levels noted in the Calc 2 - Select Options

The greater of the two calculations will be counted as additional capital in the testing. The template and instructions are being adjusted to reflect this treatment.

Q5. Paragraph 71 of the instructions uses the term “Subordinated Senior Debt”, which is not one of the “Type of Financial Instrument” options and appears to conflate Senior Debt and Subordinated Debt. Are there any differences between Subordinated Debt and Senior Debt with respect to the criteria for recognition as additional capital?

B. No difference. The reference to “subordinated” is meant to reinforce that principal for purposes of allowance as additional capital.

Q6. Do the instructions mean that Senior Debt with original term <5 years is not eligible to be treated as a capital instrument? Has the intended treatment of short-term Senior Debt changed over the course of the Field Test development?

A. There has been no change since the 5-year criteria was originally exposed over a year ago. That exposure contained other criteria that were later either eliminated or modified. The template is being adjusted to account for the difference between issue (or refinance date and maturity date). Data on instruments with shorter durations will be collected but not included in the base for calculating additional allowances for capital resources.

AXXX/XXX Captives Tab

Q1. Will the On-top Adjustment - XXX/AXXX Tab requires entries only for Captives?

A. No, all volunteers that write XXX Term/AXXX U/L with secondary guaranty contracts will need to fill out this tab. Said differently, this tab should be completed if the group has an insurer that either directly writes this type of business, or assumes it as a captive. The idea of the tab is to provide information on the estimated amount of overstated XXX Term/AXXX U/L reserves, but at the same time also provide information on the estimated overstated assets that may exist within captive insurers if they were otherwise required to follow the NAIC *Accounting Practices and Procedures Manual*.

Q2. Does that mean we need to input ceded amount outside holding company structure as long as they are XXX/AXXX in the Schedule S, Part 3 of the annual statement?

A. No, the intent is to estimate the adjustment that would be needed when all other things are left the same, which currently would pull in reserves net of reinsurance. Since RBC is calculated on a net of reinsurance basis, the adjustment should also reflect the net change. More specifically, the amount included in the template would include net figures from the direct writer plus net figures from the captive insurer. In the case of test 1, the company would apply the overstatement factors to each of these net figures. While the ceded figures outside of the holding company structure would be considered in the net figures, the template does not require inputting ceded amounts into the schedule.

Q3. Should there be a tax affect calculated for the asset adjustment in Tests applied to XXX / AXXX business?

A. No, the instructions on Page 33 that reference a tax affect related to the asset adjustment will be deleted.

Questions and Other information Tab

Q1. On the Input 5-Questions sheet of the GCC field test template that has the questions for the participants to answer in a free form manner, when the ultimate Parent is a U.S. insurer can the specific applicable note from the Notes to the Financial Statements be referenced as the response to the question?

A. It seems appropriate to refer to the pertinent note(s) in such cases for this field test. However, the field test is in large part an incubator for decisions about the most relevant information to include / request in the GCC template. As part of the submission review process it will be up to the lead-State regulator as to whether the information provided in the note is enough or requires follow-up.

Scaling Tab:

Q1. **Relative Ratio Approach:** Very much appreciate the instructions providing a tangible example of how the Excess Relative Ratio is computed. Regarding the Pure Relative Ratio is calculated, is an example explicitly shown in the instructions? My thought is that it may be 48% per the below (231%/485%), but if it is something else, please let us know.

124. Based on the formula above and data obtained in Step #2, included below are how to calculate each jurisdiction's industry average capital ratio.

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

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

Calculation of Country A Industry Average Capital Ratio – Life Insurers

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

A. You are correct in your assumption as to the scalar of 48% on the Pure Relative Ratio (and that there is no example). For the Excess Relative Ratio there is a description and Example on Pages 44-46 of the Template instructions. It basically looks at the ratio of excess capital over first intervention level and compares the jurisdictions where a scalar could be calculated from public data to the excess capital over U.S. required capital at both Company Action Level (200% x ACL RBC) and Trend Test Level (300% x ACL RBC). Under the Pure relative ratio approach, no adjustments to available capital are made for insurers in the applicable foreign jurisdictions. While for the excess relative ratio approach, available capital is also adjusted.

Q2. **Excess Relative Ratio Approach:** We are struggling to validate that the math in the Tab. The difference appears to be that the template doesn't make an adjustment for the differing first intervention level between regimes, while the example does. (We tried to create a composite factor that was basically the product of the compute scalar and needed intervention level adjustment; we called this the "modified scalar" but it was only successful at yielding the correct CAL, but not TAC.)

A. The issue here is a disconnect between the examples in the instructions and the template. The template was constructed based on the 300% x ACL RBC level, while the examples are constructed based on a 200% x ACL RBC level, so the columns do not align with the examples. When conducting the calculation at either the 300% or 200% levels only RBC is adjusted, TAC is not adjusted.

Q3. Option Three Calculation: In the second table labeled ‘Scalar Calculations’, in column [21] for “Scaled TAC”, relating to Option 3. Why is it that it opts to use the TAC from Option 1? It seems doing so yields an outcome that is really a mix of 200% and 300% ACL.

A. Where the scalars are keyed to a 300% RBC calibration. TAC is not adjusted. The idea is to look at U.S. RBC requirements at trend test level which does not implicate the amount of TAC available.

Q4. Underlying Data for Insurance Scalars: Would it be possible for you to share the average industry data used in deriving the scalars?

A. Where the data is publicly available, we can share it upon request. Where it was provided by the jurisdictional regulator based on non-public data, we cannot. Most scalars are based on data or information from calendar year 2016 or 2017. As a reminder all jurisdictions where no data was available are reported (scaled) at 100% of the jurisdictional values.

Q5. What is the background on the 23% scalar for the Non-Insurer Holding companies?

A. This is meant to apply to a top-level Holding Company (i.e. one that is above the insurers in the HC structure). The default for a non-operating upstream HC is zero capital required. However, we will test a 22.5% x carrying value (or any other option suggested by a lead-State). The scalar tab is where we put that test. It shows a rounded % of 23%, but in the tab 22.5% x carrying value is applied. Since the default is zero, we did not differentiate between the 200% RBC and 300% RBC calibration for these Holding Companies.

Q6. How was the 120% PCR level listed in column 1 for Bermuda insurers determined?

A. The required level that was presented to us by the Bermuda Monetary Authority in 2018 as the first level of intervention for the Bermuda BSCR (enhanced requirement). We are aware that there were some changes to the BSCR in 2019, and it will be updated after the field test if necessary. If a Volunteer is aware of a change in the first intervention level for the BSCR in 2019, please let us know.

Q7. With respect to the Scaling tab, what information will be provided to participants about the development of the scalars? Recognizing that some scalars may be based on non-public information that cannot be disclosed, there are concerns about the transparency of the scalar process and their ability to comment on the scalars.

A. The scalars provided in the template are based on public information or information provided by the jurisdiction directly. If a Volunteer has information related to a jurisdiction in which it operates that does not have a scalar in the template and wishes to propose one, it should provide the source and supporting information for its proposed scalar. The same information would be required if an alternative scalar is proposed for a jurisdiction that does already have a scalar included in the Calc 1 – Scalars Tab.

Summary Tabs

Q1. Are the various summary views going to be updated for volunteers during the course of the field test? Or is this something that will be done behind the scenes by the NAIC staff and the working group?

A. All summary views may be generated, but given the large number of potential combinations, a subset of "base cases" may initially be selected. All volunteers can generate results under all possible combinations.

Q2. Why will "specific individual company" data points being shared with the full GCCWG? What is the reason for identifying the specific company?

A. Sharing of Volunteer specific information will only be used to demonstrate anomalous impacts of specific tests or to demonstrate impact of a firm specific approach used by the Volunteer to the working group members. Otherwise the companies will be de-identified; data points aggregated, and summary data / results provided by insurer type (e.g. life, P/C / Health) and in total.

Other Questions

Q1. How will data collected from this field test flow into the IAIS' ICS data collection for the Aggregation Method (AM)?

A. While the AM template is less detailed than the GCC template, they are collecting similar data and are structured similarly. After the GCC template is completed, it should be possible to paste inputs directly into the AM template. Note that the AM questionnaire is different from the GCC questionnaire and so some further work may be needed.

Template Technical / Formula Issues

Q1. Schedule 1E – Column 8 “parent entity category”

“Parent Entity Category” is a formula, but the lookup range only spans rows 7 to 62, whereas our data set spans beyond Row 62. Can we just adjust the formula to capture all data rows? The instructions were to not touch the calculated cells, so we’re hesitant to just drag the formula down the whole data set (but we think this will fix the problem).

=IFERROR(VLOOKUP('Input 1 - Schedule 1'!I52,'Input 1 - Schedule 1'!\$D\$7:\$G\$62,4,FALSE), "")

A. Yes, this is a formula error. We will be fixing this on the templates after we receive them. In the meantime, leave the formula in the template unchanged.

Q2. There appear to be three formulas in the template that return incorrect results. In the *Calc 2 - Select Options* tab, the formulas in cells F40, F41 and F42 end with a #REF! as the reference indicator and are consequently returning \$0:

Book	Sheet	Name	Cell	Value	Formula
cmte_e_grp_capital_wg_field_testing_2019_template.xlsx	Calc 2 - Select Options		\$F\$40	0	=SUMIFS('Calc 1 - Scaling (Ins,Bank)'!H\$57:H\$456,'Calc 1 - Scaling (Ins,Bank)'!\$E\$57:\$E\$456,#REF!)
cmte_e_grp_capital_wg_field_testing_2019_template.xlsx	Calc 2 - Select Options		\$F\$41	0	=SUMIFS('Calc 1 - Scaling (Ins,Bank)'!H\$57:H\$456,'Calc 1 - Scaling (Ins,Bank)'!\$E\$57:\$E\$456,#REF!)
cmte_e_grp_capital_wg_field_testing_2019_template.xlsx	Calc 2 - Select Options		\$F\$42	0	=SUMIFS('Calc 1 - Scaling (Ins,Bank)'!H\$57:H\$456,'Calc 1 - Scaling (Ins,Bank)'!\$E\$57:\$E\$456,#REF!)

We believe these formulas should be amended to refer to cells B40, B41 and B42 respectively for the formulas to return the appropriate values. Do you agree with the suggested amendment to these formulas?

A. Yes, the formulas should be revised as suggested.

Q3. Input 4 – XXX-AXXX, cells H14:H15: For these two cells, the difference formula is reversed from rows 16-20. This should have no effect on the results, since the factor is 100% for these two rows, but they should be made consistent.

A. Agree, an updated template will have fixed the formula.

Q4. It appears that in order for “Other” capital instruments to be picked up properly by the applicable SUMIF and VLOOKUP formulas, the text in: i) cell B23 of the Summary 3 – Subord Debt tab; ii) cell B56 of the Calc 2 – Select Options tab; and iii) cell T8 of the Input 3 – Capital Instruments tab all need to match, but all three are different.

A. Agree, an updated template will have fixed the names.

Q5. Input 3, column D: The drop-down box also includes “Capital Instruments” as an option. Should that be there, and if so, where is that option defined?

A. No, an updated template will have fixed the entry.

NOTE TO VOLUNTEERS: As a general rule Volunteers are asked to not change formulas in the template. This is in order to maintain consistency in the templates that are submitted by all Volunteers. NAIC staff will be sending a revised template out to address the above issues and a couple of additional issues of this nature that have been brought to our attention. Each of the issues will be identified.

If a Volunteer is already well into filling out the current template, please continue to complete the work with the template as is and the formulas will be corrected when the template is submitted. If desired, a Volunteer may save a second version template for its own records and make the technical / formula changes only on that version.