Draft Pending Adoption

Draft: 12/15/23

Financial Stability (E) Task Force
and Macroprudential (E) Working Group
Orlando, Florida
December 1, 2023

The Financial Stability (E) Task Force met in Orlando, FL, Dec. 1, 2023, in joint session with the Macroprudential (E) Working Group. The following Task Force members participated: Nathan Houdek, Chair (WI); Judith L. French, Vice Chair (OH); Alan McClain represented by Chris Erwin (AR); Andrew N. Mais represented by William Arfanis (CT); Michael Yaworsky represented by Jane Nelson (FL); Doug Ommen represented by Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Tish Becker (KS); Gary D. Anderson represented by John Turchi (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Vanessa Sullivan (ME); Grace Arnold represented by Fred Andersen (MN); Chlora Lindley-Myers represented by John Rehagen (MO); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Justin Zimmerman (NJ); Adrienne A. Harris represented by Bob Kasinow (NY); Glen Mulready represented by Eli Snowberger (OK); Andrew R. Stolfi represented by Kirsten Anderson (OR); Elizabeth Kelleher Dwyer (RI); Michael Wise represented by Ryan Basnett (SC); Cassie Brown represented by Jamie Walker (TX); and Scott A. White represented by Dan Bumpus (VA). The following Working Group members participated: Bob Kasinow, Chair (NY); Carrie Mears, Vice Chair (IA); William Arfanis and Kenneth Cotrone (CT); Tom Hudson (DE); Roy Eft (IN); John Turchi (MA); Lynn Beckner (MD); Steve Mayhew (MI); Fred Andersen (MN); John Rehagen (MO); Lindsay Crawford (NE); Jennifer Li (NH); Kirsten Anderson (OR); Ted Hurley (RI); Rachel Hemphill and Jamie Walker (TX); Greg Chew and Dan Bumpus (VA); and Amy Malm (WI).

1. <u>Heard Opening Remarks</u>

Commissioner Houdek said materials for consideration and discussion for this meeting were emailed to Task Force members and are available on the NAIC website in the Committees section under the Financial Condition (E) Committee.

2. <u>Adopted its Summer National Meeting Minutes and 2024 Proposed Charges</u>

Director French made a motion, seconded by Andersen, to adopt the Task Force's Aug. 13 minutes (*see NAIC Proceedings – Summer 2023, Financial Stability (E) Task Force*). The motion passed unanimously.

The Task Force conducted an electronic vote on Oct. 20 to consider adoption of the 2024 Proposed Charges of the Financial Stability (E) Task Force and its Macroprudential (E) Working Group. The Task Force's 2024 charges remain consistent with 2023 with the exception of a reference tweak to Charge #2B for the Working Group to add clarity and specificity.

A majority of the Task Force members voted in favor of adopting the proposed 2024 charges. Greg Chew (VA) made a motion, seconded by Lindsay Crawford (NE) *(see Financial Condition (E) Committee for complete set of 2024 Adopted Charges*). The motion passed.

3. <u>Heard an Update on FSOC Developments</u>

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Superintendent Dwyer reported on a few Financial Stability Oversight Council (FSOC) discussions identified publicly that are most directly related to the NAIC's work.

FSOC staff and member agencies began reviewing the 2019 non-bank guidance, and a revised version was released for comment in April 2023. The FSOC characterized the changes as restoring the guidance to something closer to the pre-2019 version with some additional transparency and clarity. Among the changes, a cost/benefit requirement was removed, as was the requirement to determine the likelihood a firm posed a systemic threat, which was replaced with whether distress at the firm "could" lead to such risk. The FSOC also clarified that it would not prioritize the use of a particular approach to systemic risk, essentially creating parity between the activities-based approach and the designations approach. A number of interested parties commented on the guidance, including insurers and insurance trades. A common theme in insurance industry comments is that the industry is well-capitalized and well-regulated, and the traditional business of insurance does not pose a systemic risk.

The analytic framework describes "threats to financial stability" as events or conditions that could substantially impair the financial system's ability to support economic activity. The framework identifies eight vulnerabilities that most commonly contribute to risks to financial stability: 1) leverage; 2) liquidity risk and maturity mismatch; 3) interconnections; 4) operational risks; 5) complexity or opacity; 6) inadequate risk management; 7) concentration; and 8) destabilizing activities. The framework also considers risk transmission channels that could allow risks to flow throughout the financial system, including exposures, asset liquidation, critical function or service, and contagion.

The FSOC works with relevant federal and state financial regulatory agencies to seek the implementation of appropriate actions to ensure a potential risk is adequately addressed. If existing regulators can address a risk to financial stability in a sufficient and timely way, the FSOC generally encourages those regulators to do so. The FSOC can also spot legislative gaps and make recommendations to Congress on how to close them.

Of greatest interest to the insurance sector is the new non-bank designation guidance. The FSOC will continue to leverage existing data from public sources and regulators and will leverage the analytical framework to guide its analysis of activities, markets, and entities. Based on this ongoing review and analysis, the FSOC can opt to move a company into Stage 1. This could be a parent company and its subsidiaries together, or it could be independent of each other. The FSOC will use quantitative and qualitative analysis based on public and regulatory data. There is not an obligation to notify a company that it has entered Stage 1, but there is a requirement to notify a company 60 days prior to moving it to Stage 2. Upon receiving this 60-day notice, a firm can opt to provide information to the FSOC and/or meet with FSOC members.

- If a firm enters Stage 2, it will then be subject to extensive analysis and engagement with FSOC members and primary regulators. The FSOC will ask the firm for additional data and information, as necessary. At the end of Stage 2, the FSOC can vote on a proposed designation and provide a written explanation to the firm, and the firm can request a hearing. After a requested hearing, the FSOC can then vote to finalize the designation. Votes require two-thirds of FSOC voting members to be present, plus the chair. Once a firm is designated, it will be subject to enhanced supervision by the Federal Reserve, in addition to any existing supervision by primary regulators. Designations for a particular company will be reevaluated no less than annually.

4. <u>Adopted the Proposed 2023 LST Framework</u>

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Kasinow said that on Oct. 16, the proposed 2023 Liquidity Stress Testing Framework (LST Framework) was exposed for a 30-day public comment period. He added that similar to last year, this year's exposed draft does not include any substantial changes.

Kasinow mentioned that the items that were modified were due in part to recent discussions of separate accounts. The American Council of Life Insurers (ACLI) provided clarifying supportive comments, and revisions are shown in Attachment One. The original draft included terms specific to separate accounts that are often undefined and thus have the potential to cause confusion. The ACLI comment letter is posted on the Macroprudential (E) Working Group's web page.

Mears made a motion, seconded by Eft, to adopt the 2023 LST Framework. The motion was passed unanimously by the Working Group.

Director French made a motion, seconded by Rehagen, to adopt the 2023 LST Framework (Attachment One). The motion was passed unanimously by the Task Force.

5. Received an Update from the Macroprudential (E) Working Group

Kasinow summarized the aggregated 2022 LST submission and key findings (Attachment Two).

- NAIC staff reviewed and analyzed 25 submissions by life insurance groups.
- This year, the LST did not require insurers to provide detailed data for the worst-case scenario, so the interest rate spike scenario was deemed the most stressful scenario.
- Similar to last year's results, the largest asset sales emanated from investment-grade corporate bonds and U.S Treasury and Agency bond categories.
- The comparison to market data showed there should be no material impact on the capital markets from insurers' potential sales of these two asset classes.

Kasinow then spoke about separate account liquidity concerns. Other than the guaranteed portion included in the general account, separate accounts are currently excluded from the current LST Framework. The LST study group is in the process of considering if and how to address potential separate account asset sales in a stress scenario. The study group conducted a data call for lead states to require their participant life insurance groups to provide some context around the dollar amount of specific asset types in separate accounts. The data call was due Nov. 30.

Kasinow then spoke on the Plan for the List of MWG Considerations – PE Related and Other. Since there was a detailed update provided at the Summer National Meeting on each of the referrals, the Macroprudential (E) Working Group plans to provide a detailed report at the Spring National Meeting as there will be more progress to report. Kasinow then spoke on item 5 and the Reinsurance Worksheet and how it is in place and in use by many states. For item 11, the Valuation of Securities (E) Task Force has had a lot of discussion and activity around this consideration.

Kasinow reported next on the counterparty project and provided updates on the progress. As a result of this project, it is now possible to identify exposures timelier and more accurately.

The project went smoothly, but it came with the following challenges:

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- There is an inconsistency when it comes to insurers reporting identifiers such as Committee on Uniform Security Identification Procedures (CUSIP) and legal entity identifiers (LEIs) in the investment schedules.
- For repurchase agreements, reverse repurchase agreements, and securities lending transactions, totals for these transactions are available, but specific counterparty data is lacking.
- Company custodians and investment managers have no information regarding the amount of assets under management for each.
- There is no regulatory reporting on lines of credit except for Federal Home Loan Bank (FHLB) advances.

Kasinow spoke on how there are plans to provide the counterparty data in Tableau on StateNet or some other automated access tool for state insurance regulators to access. Also, there are plans to research quantifying credit risk using counterparty data.

Kasinow spoke on the NAIC staff preparing a preliminary climate risk dashboard, and it has been presented to the Climate and Resiliency (EX) Task Force. The Macroprudential (E) Working Group plans to work with the Task Force in developing these metrics further.

Lastly, Kasinow spoke on the Working Group updating the Macroprudential Risk Assessment dashboard in 2024. This work will also include comparing the macroprudential framework to the FSOC's revised analytical framework.

6. Received a Valuation Analysis (E) Working Group Update

Andersen spoke on *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), which was adopted in 2022. The main purpose of AG 53 is to help ensure claims-paying ability even if complex assets do not perform as expected. This process requires disclosures and asset-related information for most life insurers. The first submissions were received this year.

Andersen reviewed what activity has been done to date:

- AG 53 filings have been received from 246 life insurers.
- An AG 53 Review Group was formed that consists of actuaries, investment experts, and other financial staff to perform reviews.
- The review process started with company prioritization, based on prior knowledge and template information.
- Companies with outlier yield assumptions have been identified.
- The AG 53 Review Group met frequently with various state insurance regulators to present and review findings.

Andersen then reviewed what is in progress:

- Engaging with domestic regulators, with the goal of decreasing highest net yield assumptions to remove companies from the outlier list.
- Reviewing responses from targeted companies that received inquiries on reinsurance collectability.
- Analyzing investment expense assumptions.
- Analyzing attribution analysis related to assumed excess net yield assumptions.

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Andersen spoke on aiming to reduce cases of understated asset risk. Asset adequacy analysis projections focus on if there is too much optimism and the assets underperform. In this case, reserves will turn out to be inadequate to support future claim payments. Another review being done is on reinsurance collectability. In target cases, there are questions such as how ceding companies are analyzing this risk, and what metrics are being relied on to provide the ceding company comfort.

Andersen also spoke on the two different aspects of investment expenses that are being analyzed. Are investment expenses sufficiently modeled in asset adequacy analysis? Is the amount of investment expenses leaving the insurer reasonable? If trending towards more complex assets with more attention and expertise needed, future investment expenses will likely be higher and should be modeled that way.

Andersen then reviewed the upcoming activities for AG 53:
- Continue current interactions with companies and their regulators.
- Add conservatism to outlier net yield assumptions.
- Better understand reinsurance collectability areas of comfort and vulnerability.
- Coordinate the review of investment expense assumptions and reasonability.
- Attain more refined information for year-end 2023 for the AG 53 guidance document.
- The Life Actuarial (A) Task Force is handling the equity risk issue, and there is a difference in common practice between modeling fixed income security risk and equity risk.

7. Heard an International Update

Tim Nauheimer (NAIC) reported that the International Association of Insurance Supervisors (IAIS) has completed its annual *Global Monitoring Exercise* (GME). One of the key deliverables is the *Global Insurance Market Report* (GIMAR). The GIMAR is the year-end report summarizing the two main components of the GME's data collection and analysis: 1) individual monitoring (IIM); and 2) sector-wide monitoring (SWM).

Nauheimer reported that the final year-end report elaborates on the mid-year GIMAR update and provides more context and analysis of key themes:

- Managing interest rate, liquidity, and credit risks in a challenging macroeconomic environment.
- Structural shifts in the life insurance sector, specifically the allocation of capital to alternative assets and cross-border asset-intensive reinsurance.
- A chapter on climate risk focusing on transition risk in insurers' investment portfolios and natural catastrophe exposures.

Nauheimer reported that the IAIS Macroprudential Supervision Working Group (MSWG) is currently reviewing holistic framework-related supervisory standards to address recommendations from last year's targeted jurisdictional assessment. Work will continue this year on the following ancillary indicators to refine systemic monitoring: level 3 assets, credit risk, derivatives, and reinsurance. Work will also continue on developing liquidity metrics, especially with regard to a liquidity stress test.

Nauheimer reported that the application paper that the IAIS Climate Risk Steering Group developed contains guidance on climate scenario analysis considerations related to Insurance Core Principle (ICP) 16 on enterprise risk management (ERM) and ICP 24 on macroprudential supervision. He said the paper was released Nov. 23.

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Nauheimer said there will be a public background session on Dec. 12 and an additional stakeholder session on Jan. 11 and to go to the IAIS website to register.

Having no further business, the Financial Stability (E) Task Force and Macroprudential (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/2023 Fall National Meeting/

Color Legend
Consideration addressed and closed
Significant progress, a few open items to be addressed.
Consideration is open-progress has been made, but work continues.

Tracking for the List of 13 MWG Considerations – PE Related and Other

Original exposure of 13 considerations: March 16, 2022

Consideration	Update Date	Update Date	Update Date	Update Date	Update Date	Update Date	Most Recent Update
1. Holding Company Structures:	8/4/2022	3/22/2023	3/22/2023	6/15/2023	7/12/2023	12/11/2023	
Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated/related party agreements impacting the insurer's risks may be structured to avoid disclosure (for example, by not including the insurer as a party to the agreement).	Sent a referral for new work to the Group Solvency Issues (E) Working Group.	***GSIWG Update:*** *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*		**GSIWG Update:** The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.		**GSIWG Update:** In November 2023, the GSIWG adopted regulator-only sound practice guidance for use in reviewing complex ownership structures of insurers (see attached PDF). The Sound Practices document has been posted to StateNet for regulator review and use. In addition, the GSIWG referred proposed additions to the NAIC's Financial Analysis Handbook to the Financial Analysis Solvency Tools (E) Working Group for further consideration in 2024. These edits include additional Form A (Change of Control) review procedures, as well as new guidance for use by regulators in evaluating Disclaimer of Control/Affiliation filings. See the attached Word docs for the referral to FASTWG, as well as the proposed Handbook edits. These documents will be exposed for public comment by FASTWG in 2024 and then adopted for inclusion in the 2025 FAH. Finally, the Risk-Focused Surveillance (E) Working Group has formed an Affiliated IMA Drafting Group to discuss the development of additional guidance related to regulator review of affiliated investment management agreements and related services. The Drafting Group is currently developing additional guidance for	**RFSWG Update:** *1-29-24* The RFSWG finalized updated guidance on regulator review and monitoring of affiliated services at the NAIC's 2023 Summer National Meeting. This guidance was subsequently adopted for inclusion in the 2024 publications of the NAIC's Financial Analysis Handbook and Financial Condition Examiners Handbook. At that same meeting, the RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.
2. Ownership and Control:							
Control is presumed to exist where ownership is >=10%, but control and conflict of interest considerations may exist with less than 10% ownership. For example, a party may exercise a controlling influence over an insurer through Board and management representation or contractual arrangements, including non-customary minority shareholder rights or covenants, investment management agreement (IMA) provisions such as onerous or costly IMA termination provisions, or excessive control or discretion given over the investment strategy and its implementation. Asset-management services may need to be distinguished from ownership when assessing and considering controls and conflicts.	Sent a referral for new work to the Group Solvency Issues (E) Working Group.	***GSIWG Update:*** *The GSIWG plans to discuss this issue at its Dec. 14 meeting to determine next steps in addressing the referral.*		GSIWG Update: The GSIWG formed a drafting group to develop best practices for regulatory review in this area. The drafting group has met multiple times and continues to work on the development of written best practices. After the best practices are developed, the drafting group will consider whether any should be proposed for inclusion in NAIC Handbooks or other action should be considered.		See update above that covers this topic as well.	See update on #1 above that covers this topic as well.
3. Investment Management Agreements (IMAs):							
The material terms of the IMA and whether they are arm's length or include conflicts of interest —including the amount and types of investment management fees paid by the insurer, the termination provisions (how difficult or costly it would be for the insurer to terminate the IMA) and the degree of discretion or control of the investment manager over investment guidelines, allocation, and decisions.	Sent a referral to the **Risk-Focused Surveillance (E) Working Group** to add this consideration to existing work involving affiliated agreements and Form D filings. Also sent a referral to the **Valuation of Securities (E) Task Force (VOSTF)** to highlight the regulatory discussion involving topics it administers.	***RFSWG Update:*** The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023. **VOSTF:** discussed the referral and decided RFSWG was in the best position to address this concern.		**RFSWG Update:** The RFSWG is nearing the completion of its project to update general guidance in NAIC handbooks related to affiliated service agreements, which is expected to be completed by the 2023 Summer National Meeting. After the general guidance is completed, the Working Group plans to begin work on more targeted guidance related to affiliated investment management agreements.			**RFSWG Update:** *1-29-24* The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop more specific guidance for use in reviewing investment advisory services provided by an affiliate. The Drafting Group plans to present proposed handbook guidance to the RFSWG for review at the NAIC's Spring 2024 National Meeting.
4. Owners of Insurers with Short-Term Focus and/or Unwilling to Support a Troubled Insurer:							
Owners of insurers, regardless of type and structure, may be focused on short-term results which may not be in alignment with the long-term nature of liabilities in life products. For example, investment management fees, when not fair and reasonable, paid to an affiliate of the owner of an insurer may effectively act as a form of unauthorized dividend in addition to reducing the insurer's overall investment returns. Similarly, owners of insurers may not be willing to transfer capital to a troubled insurer.	Sent a referral to the Risk-Focused Surveillance (E) Working Group to add this consideration to existing work involving affiliated agreements and fees. Also sent a referral to the Life Actuarial (A) Task Force recognizing its existing work to ensure the long-term life liabilities (reserves) and future fees to be paid out of the insurer are supported by appropriately modeled assets.	***RFSWG Update:*** *The RFSWG received and discussed this referral during its Nov. 1 interim meeting. During the meeting, the RFSWG agreed to defer further work on this issue until its ongoing project to update general guidance in NAIC handbooks related to affiliated service agreements is completed in early 2023.*	***LATF Update:*** *Asset adequacy analysis requirements in NAIC Model #820 and VM-30 require that company Appointed Actuaries perform testing to ensure that the reserves held for the company's liabilities are adequate in light of the assets supporting the business. Regulators review associated company Statements of Actuarial Opinion periodically .*	**LATF Update 6/23:** Actuarial Guideline 53 – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves (AG 53) became effective for year-end 2022. AG 53 requires additional disclosures related to life insurance and annuity company investment return assumptions for complex and high yielding assets. Regulators are conducting targeted reviews of the AG 53 disclosures to ensure that company investment returns for complex			**RFSWG Update:** *1-29-24* The RFSWG formed an Affiliated Investment Management Agreement drafting group to develop guidance related to the reasonableness of investment management fees. Proposed guidance on this topic is expected to be discussed at the Spring 2024 National Meeting. In addition, the RFSWG referred the considerations related to capital maintenance agreements over to the Financial Analysis Solvency Tools Working Group.

				and high-yielding assets are not overly optimistic.			**LATF/VAWG Update:** *12-1-23* AG 53 reviews are in progress and focus on 4 areas related to this consideration of a potential conflict of interest of ST owners and an insurance co. The 4 areas are: -high net yield assumptions -attribution analysis of net yield assumptions -investment expense assumptions -reinsurance collectability
5. Operational, Governance and Market Conduct Practices:							
Operational, governance and market conduct practices being impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. For example, a reliance on TPAs due to the acquiring firm's lack of expertise may not be sufficient to administer the business. Such practices could lead to lapse, early surrender, and/or exchanges of contracts with in-the-money guarantees and other important policyholder coverage and benefits.	The MWG will keep developing more specific suggestions before likely referring this consideration to the Risk-Focused Surveillance (E) Working Group.	***MWG Update:*** *No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration .*		**MWG Update:** No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.			**MWG Update:** No new action has occurred for this consideration as the regulators have focused on the reinsurance consideration.
6. Definition of Private Equity (PE):							
No uniform or widely accepted definition of PE and challenges in maintaining a complete list of insurers' material relationships with PE firms. (UCAA (National Treatment WG) dealt with some items related to PE.) This definition may not be required as the considerations included in this document are applicable across insurance ownership types.	The MWG determined it was not feasible to determine a definition. Therefore, no further work on this consolidation shall be conducted and is considered closed or resolved.						**Closed**-item considered and addressed.
7. Identifying Related Party-Originated Investments (Including Structured Securities):							
The lack of identification of related party-originated investments (including structured securities). This may create potential conflicts of interests and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. For example, a CLO which is managed or structured by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)	Sent a referral to the Statutory Accounting Principles (E) Working (SAPWG) Group recognizing its existing work regarding disclosures for related-party issuance/acquisition. Once MWG regulators work with these SAPWG disclosures and regulatory enhancements from referrals to other groups, further regulatory guidance may be considered as needed.	**SAPWG Completed Actions:** Ref #2021-21 included revisions that clarified guidance for related parties and developed a blanks proposal which provided new investment schedule column with reporting codes to identify investments that involve related parties. (Adopted May 2022) Ref #2021-22BWG added six related party reporting codes effective for year-end 2022. The investment schedule disclosures include codes that identify the role of the related party in the investment, e.g., a code to identify direct credit exposure as well as codes for relationships in securitizations or similar investments. (Adopted May 2022)			**SAPWG Completed Actions:** Ref #2022-15, included revisions to clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment. (Adopted March 2023)		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete.
8. Identifying Underlying Affiliated/Related Party Investments and/or Collateral in Structured Securities:							
Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. This would include, for example, loans in a CLO issued by a corporation owned by a related party. (An agenda item and blanks proposal are being developed by SAPWG.)	Sent a referral to the Statutory Accounting Principles (E) Working Group in recognition of existing work to develop disclosures to identify the role of the related party in the investment and codes for relationships in securitizations or similar investment. Also sent a referral for new work to the Examination Oversight (E) Task Force for the CLO/structured security considerations.	**SAPWG Completed Actions:** See above descriptions (Ref # 2021-21 and Ref #2021-22 BWG) on investment reporting codes for year end 2022 reporting. Ref #2019-34 included revisions that clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a "related party" and the disclosure of material transactions. This agenda item also resulted in the creation of a new Schedule Y Part 3, which was effective for year-end 2021. This schedule identifies all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation and identifies the ultimate controlling party. (Ref #2019-34 and Ref #2020-37BWG, both adopted March 2021)	**EOTF/VAWG Update:** The EOTF delegated work on this referral to its Financial Analysis Solvency Tools (E) Working Group and its Financial Examiners Handbook (E) Technical Group. Both groups developed new guidance for inclusion in 2023 NAIC handbooks related to the new related party investment disclosures developed by SAPWG and the AG 53 standards developed by LATF that will be in place for 12/31/22 reporting. The groups may develop additional guidance for NAIC handbooks, as well as supporting regulatory reports and tools, as work proceeds in this area.		**SAPWG Completed Actions:** *See above descriptions (Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG)*		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. **EOTF/VAWG Update: 12-1-23** AG 53 Guidance Document – more refined information to be attained for year-end 2023 e.g., structured asset information by tranche
9. Asset Manager Affiliates and Disclaimers of Affiliation:							

Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. (A new Sc Y, Pt 3, has been adopted and will be in effect for year-end 2021. This schedule will identify all entities with greater than 10% ownership – regardless of any disclaimer of affiliation - and whether there is a disclaimer of control/disclaimer of affiliation. It will also identify the ultimate controlling party. Additionally, SAPWG is developing a proposal to revamp Schedule D reporting, with primary concepts to determine what reflects a qualifying bond and to identify different types of investments more clearly, including asset-backed securities.)	MWG regulators are comfortable waiting to realize the benefits of the recently implemented Schedule Y, Part 3, along with the changes other NAIC committee groups will make for several of the previously listed referrals, before determining if additional work is needed. Also, a referral was sent to the Statutory Accounting Principles (E) Working Group recognizing its existing work to revamp Schedule D reporting along with the previously mentioned code disclosures will assist with this consideration.	***SAPWG Completed Actions:*** See above descriptions of Schedule Y Part 3. (Ref #2019-34 and Ref #2020-37BWG).	***SAPWG Ongoing Work:*** Ref #2022-15, which clarifies affiliated investment reporting, is planned for adoption consideration at the 2023 Spring National Meeting . It adds guidance on reporting of affiliated investments. As part of a project known as the bond project, the SAPWG is developing a proposal to revise Schedule D reporting, which intends to determine what is considered a qualifying bond and to identify different types of investments more clearly. For example, the current bond proposal would divide Schedule D-1 into a Schedule D-1-1 for issuer credit obligations and a Schedule D-1-2 for asset-backed securities. The proposal includes more detailed reporting lines to provide more granularity on the actual types of investments held. The effective date of the bond proposal, and the reporting changes, is anticipated for January 1, 2025. Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023. Updated revisions to the statutory accounting guidance are planned for exposure by the Statutory Accounting Principles (E) Working Group at the 2023 Spring National Meeting. · Ref #2022-17, which clarifies interest income disclosures, is planned for adoption consideration at the 2023 Spring National Meeting.		**SAPWG Completed Actions:** *See above descriptions Ref # 2021-21, Ref #2022-15 and Ref #2021-22 BWG; Ref #2022-17, incorporated revisions to data-capture interest income disclosures, and established new disclosures for aggregate paid-in-kind interest and deferred interest. (Adopted March 2023). SAPWG Ongoing Work: Reporting changes to reflect the Schedule D-1 proposed changes were exposed by the Blanks (E) Working Group on March 7, 2023, and updated revisions are anticipated for exposure shortly after the 2023 Summer National Meeting. The statutory accounting revisions to incorporate a new principles-based bond definition in SSAP No. 26R—Bonds and SSAP No. 43R—Asset Backed Securities will be presented for adoption at the 2023 Summer National Meeting.*		**SAPWG Update: Closed** No further work deemed necessary. Previous initiatives have addressed the PE concern, the referral objective and are complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.
10. <u>Privately Structured Securities</u>:							
The material increases in privately structured securities (both by affiliated and non-affiliated asset managers), which introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. (The NAIC Capital Markets Bureau continues to monitor this and issue regular reports, but much of the work is complex and time-intensive with a lot of manual research required. The NAIC Securities Valuation Office will begin receiving private rating rationale reports in 2022; these will offer some transparency into these private securities.)	Sent a referral to the Life Actuarial (A) Task Force recognizing its existing work on an Actuarial Guideline including disclosure requirements for the risks of privately structured securities and how the insurer is modeling the risks. Sent a referral to the VOSTF highlighting the MWG regulators' support for the blanks proposal to add market data fields for private securities being considered by the Valuation of Securities (E) Task Force (VOSTF). MWG regulators will wait on any further work or referrals until they have an opportunity to work with the results of the VOSTF proposal and the SAPWG Schedule D revamp project. Sent a referral for new work to the RBC Investment Risk and Evaluation (E) Working Group to address the tail risk concerns not captured by reserves.	***LATF Update:*** *Actuarial Guideline 53 (AG 53) has been adopted by the NAIC's Executive (EX) Committee and Plenary and was effective for year-end 2022 reporting. Starting in Spring 2023, regulators on the Valuation Analysis (E) Working Group will be conducting AG 53 reviews. This will involve a targeted review of asset adequacy analysis related to modeling of business supported with projected high net yield assets.*	***VOSTF Update:*** The VOSTF sent referrals to the Financial Condition (E) Committee, Financial Stability (E) Task Force, Macroprudential (E) Working Group, Capital Adequacy (E) Task Force, Risk-Based Capital Investment Risk and Evaluation (E) Working Group, Life Actuarial (A) Task Force, Financial Analysis (E) Working Group, Statutory Accounting Principles (E) Working Group and Valuation Analysis (E) Working Group requesting feedback on a proposal to have the NAIC's SVO develop the analytical capability to produce risk metrics for bond investments, and model measures of interest rate sensitivity and project investment cash flows and estimated losses for any given interest rate or economic scenario for regulator use. These groups were asked if they support the proposal and to describe different ways they envision being able to take advantage of such a capability within the NAIC.	***RBCIREWG Update:*** *The Risk-Based Capital Investment Risk and Evaluation (E) Working Group added this item to its working agenda. While not specifically addressing privately structured securities, the Working Group's current work on collateralized loan obligations may contribute to addressing this item.* ***SAPWG Ongoing Work:*** • *As discussed above, the Schedule D bond proposal is planned for 2025 reporting.*			**RBCIREWG Update:** *1-30-24* The Academy finalized their principles for structured securities with input from the working group at the 2023 Fall NM. As previously indicated, this work may inform the work the Working Group does on the MWG item but it is still pending discussion by the group. **VOSTF Update:** *2-6-24* In 2023 the Securities Valuation Office (SVO) proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&P Manual) to make all Structured Equity and Funds, which captures a subset of the privately structured securities market, ineligible for filing exemption. The Task Force deferred action on that proposal and instructed the SVO to instead draft a new proposal that was more limited in scope and which would enable the targeting of individual securities with material risk assessment differences. Privately structured securities with material differences in assessment between Credit Rating Providers and the SVO would be captured in the discussion on Reliance on Rating Agencies in 11, below. The proposal for the SVO to develop the analytic capability to collect and analyze risk metrics is currently on hold. ***SAPWG Update:*** No further work deemed necessary. Previous initiatives have addressed the PE concern and the referral objective is complete. The bond proposal and the reporting changes have been approved and will become effective January 1, 2025.
11. <u>Reliance on Rating Agencies</u>:							
The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability, and transparency). (VOSTF has previously addressed and will continue to address this issue.)	Sent a referral to the VOSTF indicating the MWG regulators' agreement to monitor the work of its ad hoc group addressing various rating agency considerations.	***VOSTF Update:*** • The Task Force adopted an amendment at it Feb. 21 meeting that effective Jan. 1, 2024, financially modeled collateralized loan obligations (CLO) will not be eligible to use credit rating provider ratings to determine an NAIC Designation. • The Task Force has drafted a list of questions to discuss with each rating agency in future regulatory-only meetings. The questions are in the materials for the Spring National Meeting and will likely being exposed for public comment.			VOSTF received referral responses from the Financial Condition (E) Committee, the Life Actuarial (A) Task Force, the Financial Analysis (E) Working Group and the Valuation Analysis (E) Working Group. The Life Actuarial Task Force and Valuation Analysis Working Group supported the proposal and provided examples of risk metrics which would be useful to their groups. The Financial Analysis Working Group supported the VOSTF investigating various products because it said the risk metrics could be more effective in helping financial analysts and examiners to fully evaluate and assess investment risks. The	*VOSTF has drafted a list of questions to discuss with each rating agency in future regulator-only meetings. The SVO has received comments from certain rating agencies and is incorporating those comments into a final list of questions to be agreed to by the Task Force. At the 2023 Spring National, during the discussion of the proposed amendment on Structured Equity and Funds, the Task Force deferred action on the Structured Equity and Funds amendment and directed the SVO staff to draft a distinct process on how it would recommend challenging an NAIC Designation assigned from a credit rating*	**VOSTF Update:** *2-6-24* The Securities Valuation Office (SVO) has proposed an amendment to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (the P&P Manual) to authorize procedures for the SVO's discretion over NAIC Designations assigned through the Filing Exemption (FE) process. The amendment would grant the SVO staff some level of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. It also addresses the Financial Condition (E) Committee's charge to the Task Force to: Establish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency,

		• The Securities Valuation Office (SVO) has proposed an amendment to remove Structured Equity and Funds transactions from being eligible to use credit rating provider (CRP) ratings to assign an NAIC Designation. The SVO has proposed defining Structured Equity and Funds investments as investments which, through the insertion of an intervening entity such as a special purpose vehicle (SPV) or limited partnership, enable underlying assets that may not qualify as 'bonds' or be eligible to receive an NAIC Designation under the current regulatory guidance, to be reported as 'bonds' because the intervening entity issues notes and those notes receive a credit rating provider rating. The SVO identified multiple regulatory reporting arbitrage opportunities with these investments that circumvent regulatory guidance using a CRP rating to accomplish that result. • The Task Force adopted a new charge for 2023 to stablish criteria to permit staff's discretion over the assignment of NAIC designations for securities subject to the FE process (the use of CRP ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The criteria have not yet been proposed.			Financial Condition Committee said it was worthwhile for the VOSTF to continue to investigate the various products which could be made available to the SVO staff and state regulators that provide some of the alternative investment risk measures as they could obviate the need for the NAIC to collect that information form NAIC Annual Statements. However, the E Committee said that before it could sponsor the proposal it would need more information to fully understand the costs and benefits of such products. This is an ongoing initiative.	*provider ("CRP") rating pursuant to the Filing Exemption ("FE") process which the SVO thinks is not a reasonable assessment of risk for regulatory purposes. The SVO subsequently proposed an amendment which would grant the SVO staff a limited amount of discretion over the FE process to address the NAIC's current blind reliance on credit ratings. The amendment would establish strict due process requirements before the SVO could over-ride a CRP rating including a materiality threshold of a 3-notch difference in order to flag a CRP rating and sufficient notice to insurers to provide time for insurers to appeal SVO assessments. This amendment will continue to be discussed by the Task Force and interested parties.*	uniformity, and appropriateness to achieve the NAIC's financial solvency objectives. The proposed process would include: • Establishment of a materiality threshold required to flag a CRP rating. In order to limit the SVO's use of this process to only what would be considered truly material differences of opinion, the SVO would only be able to change a Designation assigned through the FE process if it were 3 or more notches different than the SVO's assessment. • Inclusion of a subgroup of the Task Force in the review process before any rating would be removed. • Procedural steps to ensure insurers are given due process: ample notification to insurer, an opportunity for the insurer to provide full documentation to the SVO and explain its analysis of the investment, an opportunity to get an alternate CRP rating, and sufficient time to file the security, if needed. VOSTF is currently reviewing comments from interested parties and discussion is ongoing.
12. <u>Pension Risk Transfer (PRT) Business Supported by Complex Investments.</u>							
The trend of life insurers in pension risk transfer (PRT) business and supporting such business with the more complex investments outlined above (**LATF has exposed questions aimed at determining if an Actuarial Guideline** is needed to achieve a primary goal of ensuring claims-paying ability even if the complex assets (often private equity-related) did not perform as the company expects, and a secondary goal to require stress testing and best practices related to valuation of non-publicly traded assets (note – LATF's considerations are not limited to PRT). Additionally, enhanced reporting in 2021 Separate Accounts blank will specifically identify assets backing PRT liabilities.) Considerations have also been raised regarding the RBC treatment of PRT business. a. Review applicability of Department of Labor protections resulting for pension beneficiaries in a PRT transaction. a. Review state guaranty associations' coverage for group annuity certificate holders (pension beneficiaries) in receivership compared to Pension Benefit Guaranty Corporation (PBGC) protection.	LATF's Actuarial Guideline Sent a referral to the LATF recognizing its work on an Actuarial Guideline which should address the reserve considerations of pension risk transfer (PRT) business. Sent a referral to the SAPWG to address the related disclosure considerations as the goal was to have them in the Notes to Financial Statements.	***LATF Update:*** *The PRT Drafting Group of the VM-22 SG is considering the development of PRT/longevity risk mortality factors. The DG hopes to share data with the Longevity Risk Subgroup of LATF that the Subgroup could consider for C-2 RBC for PRT products and longevity risk transactions.*	**SAPWG Completed Actions:** Ref #2020-37: Separate Account – Product Identifiers and Ref #2020-38: Pension Risk Transfer - Separate Account Disclosure, which did not result in statutory accounting revisions but instead resulted in modifications to the reporting of PRT transactions in the annual financial statements, was adopted by the SAPWG May 2021. Ref #2021-03BWG was adopted by Blanks (E) Working Group in 2021. Comment – The 2022 review of the initial 2021 disclosures noted that although the instructions were clarified to require by product reporting including the use of a distinct disaggregated product identifier for each product represented; most entities are still broadly grouping PRT activity in the disclosures. Review of 2022 data is planned to be completed in the first half of 2023.	**LATF Update:** The VM-22 Subgroup of LATF is currently developing a new reserving framework for non-variable annuities. As part of this effort, there is a distinct methodology being developed for longevity reinsurance/PRT. This has been the most controversial aspect of the VM-22 project. VM-22 is expected to go live no sooner than 2026. There is also a separate Longevity Risk (E/A) Subgroup of LATF that will work to develop a longevity reinsurance/PRT related capital charge. This work is on hiatus until the VM-22 reserving framework is adopted	**LATF Update:** The PRT drafting group hasn't met since January 2023, and the Longevity Risk Subgroup is holding off on meeting until the VM-22 Subgroup finalizes the VM-22 methodology		**SAPWG Update:** *1-30-24* Review of 2022 data was completed by NAIC staff in 2023 and continued data and reporting issues were identified. Review of 2023 YE data will be completed in the second quarter of 2024. This will allow for regulator review and input in determining if addition instruction or other follow-up is needed. LATF Update: 2-5-24 Confirmed no change in status since July 12, 2023 due to the VM-22 methodology not being final.
b. <u>Department of Labor Protections</u>:	***MWG Update:*** *NAIC staff are continuing to hold discussions with Department of Labor representatives.*				***MWG Update:*** Discussions with DoL continue. DoL is in the process of updating their fiduciary requirements under 95-1, which require due diligence in assessing an insurer prior to a PRT transaction.		**MWG update: Closed** DOL revised their fiduciary standards (95-1) and duties to evaluate an insurance company prior to approving a PRT.
c. <u>State Guaranty Funds Compared to PBGC Protection – NOLHGA 2016 Study</u>:	No further action was deemed necessary ***MWG Update:*** *However, NAIC staff have contacted PBGC representatives to inquire if they have any items they wish to address with the MWG.*						**Closed** It appears state guaranty funds provide adequate protections for PRT business according to NOLHGA study and other research.. No further action was deemed necessary
d. <u>RBC Treatment of PRT Business</u>:	Sent a referral to the Longevity Risk (E/A) Subgroup recognizing its work will also address PRT business and indicating the MWG regulators will monitor this work.	***LATF Update:*** *The Longevity Risk (E/A) Subgroup will review the currently exposed VM-22 PBR methodology once it is finalized and adopted. The Subgroup will consider whether to develop and recommend longevity risk factor(s) for the product(s) that were excluded from the application of the current longevity risk factors.*			***LATF Update*** : No change in this item as the VM-22 framework is not final yet.		**LATF Update:** *1-30-24* The VM-22 Subgroup is still working on assumptions and other aspects, so the work on the framework continues. With that, the work of the Longevity Risk (E/A) Subgroup is pending this outcome
13. <u>Offshore/Complex Reinsurance</u>:					**July 11, 2023**		
Insurers' use of offshore reinsurers (including captives) and complex affiliated sidecar vehicles to maximize capital efficiency, reduce reserves, increase investment risk, and introduce complexities into the group structure.	***MWG Update:*** *MWG regulators are wrapping up the confidential discussions with industry participants and other jurisdictions regarding the use of offshore reinsurers and complex affiliated reinsurance vehicles. They are continuing discussions to identify the best mechanism to ensure reviewing/approving regulators can identify the true economic impacts of the reinsurance transaction. MWG regulators will consider further work and/or referrals once they have concluded these discussions.*	At the Spring NM 2023 The Working Group released for comment the reinsurance comparison worksheet designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved. We believe the cross-border reinsurance worksheet will enhance state insurance regulators' ability to monitor these transactions. The comment period ended Apr 28 and the MWG is in the process of addressing comments received.			***MWG Update:*** The Reinsurance Worksheet was adopted on a joint FSTF/MWG virtual meeting on June 20, 2023.		**MWG Update:** Continue to monitor offshore reinsurance market, meet with BMA and enhance ReWS. Monitor and asses ceded reserves offshore by transaction type, i.e., ModCo, Coinsurance, Funds WH and asset intensive reinsurance. **LATF Update:** *2-8-24* Proposal being considered to require Asset Adequacy Testing for Reinsurance transactions.

Clarifications for the MWG Reinsurance Worksheet

1. **OPTIONAL TOOL**: This worksheet is designed as an **OPTIONAL** tool to assist lead state/domiciliary regulators when reviewing reinsurance transactions to allow them to obtain the information necessary to understand the economic impacts, typically upon initial review of the proposed transaction but also potentially when the lead state/domiciliary regulator is performing a historical review of the transaction for some specific purpose.
2. **NOT AN ONGOING FILING**: This worksheet is **NOT** for use as an ongoing filing with the NAIC and/or the lead/domiciliary state. It is an **EDUCATIONAL** tool for lead state/domiciliary regulators to use on an ad hoc basis as needed.
3. **ONLY USED IF NEEDED**: The worksheet is **NOT** designed to be used with **EVERY** reinsurance transaction. It is designed as a consistent tool for lead state/domiciliary regulators to use when reviewing reinsurance transactions for which they need to determine the economic impacts of said reinsurance transactions. If a reinsurance transaction is easily understood without the use of this worksheet, then a worksheet would not be used by the lead state/domiciliary regulator.
4. **NOT A FIXED TEMPLATE**: The worksheet is **NOT** a fixed template which **MUST** be used to answer the lead state/domiciliary regulators' information needs. If an insurer has materials used in its own assessment of the reinsurance transaction which answer the information needs of the lead state/domiciliary regulator expressed in the worksheet, then those materials may be accepted by the lead state/domiciliary regulator rather than requiring the insurer to use the worksheet format. Every effort should be made to **avoid duplicate requests** for information.
5. **OPEN TO REINSURANCE TYPE**: The worksheet **was designed with life reinsurance transactions** as the initial focus, but there is **no reason to limit this tool to life reinsurance transactions**. If the lead state/domiciliary regulator has a P/C reinsurance transaction for which they are struggling to understand the economic impact (despite any existing notes, interrogatories, and Schedule F disclosures for already approved transactions), the lead state/domiciliary regulator would be able to use the worksheet to request the needed information, with appropriate edits. Again, this worksheet should not be used if the lead state/domiciliary regulator has a clear understanding of the transaction from data already provided. a. Similarly, the worksheet was designed with affiliated transactions as the initial focus, but a lead state/domiciliary regulator should use the template for unaffiliated transactions if existing information does not provide a clear understanding of the transaction.
6. **NOT REINSURANCE POLICY**: The Macroprudential (E) Working Group is working in coordination with the Reinsurance (E) Task Force. This optional, informational tool is **not intended to impact any of its reinsurance policies or procedures**, such as the qualified/reciprocal jurisdiction evaluation process or the U.S. Covered Agreement.
7. **ONLY REFERENCED IN HANDBOOKS**: The worksheet is **not included in the Financial Analysis Handbook or the Examination Handbook**, although it may be referenced there as an optional tool. The worksheet will be available on StateNet.
8. CONFIDENTIALITY: The worksheet would be confidential under a lead/domiciliary state's existing confidentiality laws and regulations in place to allow the regulator to assess such transactions.
9. BALANCE SHEET: users can complete one of three balance sheet formats. The state regulator should direct the preparer as to which format they want completed. **i.** Balance Sheet 1 tab-accounts for pre transaction and 1 year of Post Transaction Stat for US. **ii.** The Balance Sheet 2 tab-accounts for 3 years of Post Transaction Stat for US. **iii.** The third format includes a Balance Sheet (Balance sheet 3 tab), P&L statement, and Cash Flow statement projections for 3 years. These financial statements are the same ones used in UCAA filings.
10. Asset Listing: For any level 3 assests as defined in SSAP 101 reported on the assets page, please provide the source or methodology for valuation.

Cross-border Affiliated Reinsurance Comparison Worksheet - by Product.						Additional Guidance/Notes
Date:						Insert appropropiate date; "As of" date or date of transaction.
Category	US Stat. Pre-Transaction	Impacts of Transaction (Col's B-D)	US Stat. Post-Transaction	Reinsurer's Jurisdiction (Book Value)	Reinsurer's Jurisdiction (Market Value)	
Other Jurisdiction Name:						Please provide the name of the other jurisdiction in the "other Jurisdiction" column A
BALANCE SHEET COMPARISON:						
Asset Grouping 1 (e.g., Cash/Investments)						Please list the asset types and amounts backing the ceded business in the asset listing tab and indicate whether they meet the statutory accounting definition of admitted assets
~~Asset Grouping 2 (e.g., Policy Loans)~~						
Asset Grouping 3 (e.g., Separate Accounts)						
Other Assets						
TOTAL ASSETS *						
Liab. Grouping 1 (e.g., Gen. Acct. Reserves)						
~~Liab. Grouping 2 (e.g., Gen. Acct. Policy Loan Reserves)~~						
Liab. Grouping 3 (e.g., Separate Accounts)						
Unauthorized Reinsurance Liability (FwH payable)						
Collateral Held by Cedant						
Other Liabilities (*See NOTES SECTION*)						(If Asset Adequacy Testing is included in "Other Liabilities," additional regulatory guidance may be needed, e.g., on counterparty asset assumptions where access is limited.)
TOTAL LIABILITIES						
TOTAL ASSET REQUIREMENT COMPARTISON:						
Reserve Grouping 1 (e.g., Separate Account Reserves)						
Reserve Grouping 2 (e.g., GA Policy Loan Reserves)						
Reserve Grouping 3 (e.g., GA Policy Reserves)						
Modified Coinsurance Reserves						
Reserve Credit						The reserves for some lines of business, and for newer policies for certain lines of business, may be based on an allocation of modeled reserves that are calculated on an aggregate basis. Please provide information regarding the aggregate calculations, both on a pre-reinsurance and post-reinsurance basis.
TOTAL RESERVES						
Capital Grouping1 (US RBC ACL Ratio)						
Capital Grouping2 (e.g.,Company target level capital)						
Capital Grouping3 (Reinsurers Jursidiction Capital Ratio)						Please enter in the blue cells only
TOTAL CAPITAL						
TOTAL ASSET REQUIREMENT						Please provide a description and/or high-level attribution of key factors driving the difference in "Total Asset Requirement" between jurisdictions.
CHANGE IN CAPITAL AND SURPLUS:						
Capital and Surplus						
Net Income						
Change in Liability for Unauthorized Reinsurance FWH						
Aggregate Write Ins for gains and losses in surplus						
Capital Contribution/(Dividends)						
Other Changes in surplus						
TOTAL LIABILITIES & CAPITAL						
SOLVENCY RATIO						
* Supported by listings of asset categories and amounts to highlight differences in supporting assets after the transaction.						
NOTES SECTION:						
(e.g., explain product line, describe transaction and any unique aspects)						

Cross-border Affiliated Reinsurance Comparison Worksheet - by Product.								Additional Guidance/Notes
Date:								Insert appropopiate date; "As of" date or date of transaction or pro forma date.
Category	US Stat. Pre-Transaction (Year 0)	Impacts of Transaction (Col's B-D)	US Stat. Post-Transaction (Year 1)	US Stat. Post-Transaction (Year 2)	US Stat. Post-Transaction (Year 3)	Reinsurer's Jurisdiction (Book Value)	Reinsurer's Jurisdiction (Market Value)	
Other Jurisdiction Name:								Please provide the name of the other jurisdiction in the "other Jurisdiction" column A
BALANCE SHEET COMPARISON:								
Asset Grouping 1 (e.g., Cash/Investments)								Please list the asset types and amounts backing the ceded business in the asset listing tab and indicate whether they meet the statutory accounting definition of admitted assets
~~Asset Grouping 2 (e.g., Policy Loans)~~								
Asset Grouping 3 (e.g., Separate Accounts)								
Other Assets								
TOTAL ASSETS *								
Liab. Grouping 1 (e.g., Gen. Acct. Reserves)								
~~Liab. Grouping 2 (e.g., Gen. Acct. Policy Loan Reserves)~~								
Liab. Grouping 3 (e.g., Separate Accounts)								
Unauthorized Reinsurance Liability (FwH payable)								
Collateral Held by Cedant								
Other Liabilities (*See NOTES SECTION*)								(If Asset Adequacy Testing is included in "Other Liabilities," additional regulatory guidance may be needed, e.g., on counterparty asset assumptions where access is limited.)
TOTAL LIABILITIES								
TOTAL ASSET REQUIREMENT COMPARTISON:								
Reserve Grouping 1 (e.g., Separate Account Reserves)								
Reserve Grouping 2 (e.g., GA Policy Loan Reserves)								
Reserve Grouping 3 (e.g., GA Policy Reserves)								
Modified Coinsurance Reserves								
Reserve Credit								The reserves for some lines of business, and for newer policies for certain lines of business, may be based on an allocation of modeled reserves that are calculated on an aggregate basis. Please provide information regarding the aggregate calculations, both on a pre-reinsurance and post-reinsurance basis.
TOTAL RESERVES								
Capital Grouping1 (US RBC ACL Ratio)								
Capital Grouping2 (e.g.,Company target level capital)								
Capital Grouping3 (Reinsurers Jursidiction Capital Ratio)								Please enter in the blue cells only
TOTAL CAPITAL								
TOTAL ASSET REQUIREMENT								Please provide a description and/or high-level attribution of key factors driving the difference in "Total Asset Requirement" between jurisdictions.
CHANGE IN CAPITAL AND SURPLUS:								
Capital and Surplus								
Net Income								
Change in Liability for Unauthorized Reinsurance FWH								
Aggregate Write Ins for gains and losses in surplus								
Capital Contribution/(Dividends)								
Other Changes in surplus								
TOTAL LIABILITIES & CAPITAL								
SOLVENCY RATIO								

* Supported by listings of asset categories and amounts to highlight differences in supporting assets after the transaction.

NOTES SECTION:

(e.g., explain product line, describe transaction and any unique aspects)

Transaction Details

Please identify the following transaction details if applicable:	Contract 1 (if needed)	Contract 2 (if needed)	Contract 3 (if needed)	Contract 4 (if needed)	Net Reserve with the contract	Net Reserve w/o the contract
Which party of the contract are you (assuming or (retro)ceding)?						
Description risk category covered (mortality, longevity, Cat Risk, etc.)						
Start date						
End date						
Currency						
Sum Insured / Gross Notional amount / PML*						
Capital at risk*						
Line of Business (e.g. annuities, term, participating guarantee, etc.)						
Risks covered (e.g. longevity, mortality, etc.)						
Type of reinsurance treaty (XoL, Quota share – proportionate, etc.)						
Collateral value*						
Special treaty covenants or triggers that prompt recapture* (credit downgrade, bankruptcy of reinsurer, unilateral changes in valuation methodology)						
Value of guarantee*						
Name(s) of the reinsurer(s) (please only include top 3 by premium share if more than one)						
Rating of reinsurer(s)						
Countries of reinsurer(s)						
Assets pledged by reinsurer						
Initial premium						
Initial fees						
Value of reserves						

Ceding commission structure		If yes, please provide a brief description
Any experience refund or loss carryforward features		If yes, please provide a brief description
Do you use or plan to use any form of derivatives for reinsurance purposes (e.g. longevity or mortality swaps)?		If yes, provide description of these derivatives
Was any debt or surplus note issued in connection with the transaction? Ex. Such as in an embedded value securitization		If yes, please provide a brief description

Please identify and describe if any of the following types of arrangements are associated with this transaction:	Description	
Trust		
Funds Withheld		
Coinsurance		
Modified Coinsurance		
Sidecars		Please describe Exit mechanism if known
Any other Joint Venture or SPV		
Third-party capital		

Ceded and Retroceded Details	Reinsurer Name	Jurisdiction
If ceding to an offshore affiliate please identify the assuming affiliated reinsurer(s) and their regulatory jurisdiction		
If ceding to an offshore affiliate and that affiliate is going to retrocede to another reinsurer, please identify the ultimate assuming reinsurer(s) and their regulatory jurisdiction		

Modified Coinsurance Reserves and Reserve Credit	Amount
Modified coinsurance reserves reported in General Account	
If the modified coinsurance reserve reported in General Account was the result of an allocation of an aggregate reserve calculation, what would the General Account reserve for the ceded business have been in the absence of the reinsurance agreement	
Reserve credit reported in the General Account	
If the reserve credit in the General Account was the result of an allocation of an aggregate reserve calculation, what would the General Account reserve for the ceded business have been in the absence of the reinsurance agreement	

Key Definitions (*)
PML-Probable Maximum Loss
Capital at risk-required capital or capital charge.
Collateral value-the market value of securities pledged as collateral if a trust is set up in connection with the transaction.
Value of the guarantee – For example, third party guarantees in non-standard types of reinsurance. e.g. an MGA owns affiliated insurers, an unaffiliated reinsurer reinsures with the MGA affiliate with a guarantee from the MGA.

*-Please provide a narrative around recapture provisions in the space below

For modified coinsurance and funds witheld reinsurance transactions invested assets typically stay on the books of the cedant. Please list those assets backing the ceded business and indicate with a * if they do not meet the statutory accounting definition of admitted assets.

As of Date:

Asset Listing				
Security Description	**Book Value**	**Market Value**	**NRSRO Rating**	**Source or Methodology for Valuation**
	`			

		Years			
		0	1	2	3
	Admitted Assets				
1.	Bonds				
2.	Stocks (Preferred and Common)				
3.	Real Estate/Mortgage Loans on Real Estate				
4.	Cash/Cash Equivalents/Short-Term Investments				
5.	Other Invested Assets				
6.	Aggregate Write-Ins for Invested Assets				
7.	Separate Account Assets				
8.	All Other Assets				
9.	Total Assets (1+2+3+4+5+6+7+8)	-	-	-	-
	Liabilities				
10.	Reserve for Life Contracts				
11.	Reserve for Accident and Health Contracts				
12.	Contract Claims (Life and Accident and Health)				
13.	Other Amounts Payable on Reinsurance				
14.	Payable to Parents, Subsidiaries & Affiliates				
15.	All Other Liabilities				
16.	Asset Valuation Reserve (AVR)				
17.	Separate Account Liabilities				
18	Total Liabilities (10+11+12+13+14+15+16+17)	-	-	-	-
	Capital and Surplus				
19.	Capital Stock				
20.	Gross Paid In and Contributed Surplus				
21.	Surplus Notes				
22.	Unassigned Surplus				
23.	Aggregate Write-Ins for Other-Than-Special Surplus Funds				
24.	Aggregate Write-Ins for Special Surplus Funds				
25.	Less Treasury Stock (Common and Preferred)				
26.	Surplus (19+20+21+22+23+24-25)	-	-	-	-
27.	Liabilities and Surplus (18+26)	-	-	-	-
			Risk-Based Capital Analysis		
27.	Authorized Control Level Risk-Based Capital				
28.	Calculated Risk-Based Capital (26+16/27)	0.0%	0.0%	0.0%	0.0%

	Years			
	0	1	2	3
1. Net Premiums (All Business)				
2. Net Investment Income				
3. Reinsurance Ceding Commissions				
4. Miscellaneous Income				
5. Total (1+2+3+4)	-	-	-	-
6. Death Benefits				
7. Matured Endowments				
8. Annuity Benefits				
9. Accident and Health Policy Benefits				
10. Surrender Benefits and Other Fund Withdrawals				
11. Group Conversions				
12. Interest on Policy and Contract Funds				
13. Commissions on Premiums, and Annuity Considerations (Direct Business Only)				
14. Commissions and Expense Allowances on Reinsurance Assumed				
15. Increase in Aggregate Reseves				
16. Net Transer (to) or from Separate Accounts Net of Reinsurance				
17. Other Expenses *				
18. Total Expenses (sum6…17)	-	-	-	-
19. Net Gain (Loss) from Operations Before Dividends and Federal Income Taxes (5-18)	-	-	-	-
20. Federal Income Taxes				
21. Net Realized Capital Gains (Losses)				
22. Less Capital Gains Tax				
23. Net Income((19-20)+(21-22))	-	-	-	-
24. Prior YE Surplus				
25. Net Income	-	-	-	-
26. Capital Increases				
27. Other Increases (Decreases)				
28. Dividends to Stockholders				
29. YE Surplus	-	-	-	-

*Itemize in Assumptions

		Years			
	Cash From Operations	**0**	**1**	**2**	**3**
1.	Premiums Collected Net of Reinsurance				
2.	Net Investment Income				
3.	Miscellaneous Income				
4.	Benefit and Loss Related Payments				
5.	Net Transfers to Separate Accounts, Segrated Accounts and Protected Cell Accounts				
6.	Commissions, Expenses Paid and Aggregate Write-Ins for Deductions				
7.	Dividends Paid to Policyholders				
8.	Federal and Foreign Income Taxes Paid (Recovered)				
9.	Net Cash From Operations (1+2+3-4-5-6-7-8)	-	-	-	-
	Cash From Investments				
10.	Net Cash from Investments				
	Cash From Financing and Miscellaneous Sources				
11.	Surplus Notes, Capital Notes				
12.	Capital and Paid in Surplus, Less Treasury Stock				
13.	Borrowed Funds				
14.	Net Deposits on Deposit-Type Contracts and Other Insurance Liabilities				
15.	Dividends to Stockholders				
16.	Other Cash Provided (Applied)				
17.	Net Cash from Financing and Miscellaneous Sources (11+12+13+14-15+16)	-	-	-	-
18.	Net Change in Cash, Cash Equivalents and Short -Term Investments (9+10+17)	-	-	-	-

Updates on Actuarial Guideline 53

Fred Andersen, FSA, MAAA

3/16/2024

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AG 53 provides uniform guidance for the asset adequacy testing applied to life insurers and is effective for reserves reported with respect to the Dec. 31, 2022, and subsequent annual statutory financial statements. A statement of actuarial opinion on the adequacy of the reserves and assets supporting reserves after the operative date of the Valuation Manual is required under Section 3B of the NAIC Standard Valuation Law (#820) and VM-30 of the Valuation Manual. Section 14A of Model #820 provides that actuarial opinions and related documents, including an asset adequacy analysis, are confidential information, while Section 14B provides that such confidential information may be shared with other state regulatory agencies and the NAIC. The asset adequacy analyses required under AG 53 reviewed in the preparation of this report were shared with the Valuation Analysis (E) Working Group and the NAIC in accordance with these requirements and continue to remain confidential in nature.

AG 53 Review Activities

- Actuarial Guideline 53 was adopted in 2022
- Main purpose: help ensure claims paying ability even if complex assets do not perform as expected
- Requires disclosures and asset-related information for most life insurers over a size threshold
  - An opportunity for companies to tell their stories regarding:
    - Their complex assets & associated risks
    - How their cash-flow testing models address those risks
- First submissions were received in 2023

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AG 53 Reviews – Progress

- Net yield assumptions
  - Lessen reliance on high net yields to pay claims
  - Targeted companies to have conservatism added
  - Ensure moderately adverse conditions testing requirement is being met
    - Above certain yields there would be an offsetting risk

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AG 53 Reviews – Progress

- Net yield assumptions:
  - Most cases:
    - Companies will add all the recommended conservatism
    - Will be removed from outlier list.
  - Several other cases:
    - Company will significantly increase the conservatism
    - OK for year-end 2023 but will re-address for year-end 2024
  - A few exceptions
    - e.g., financial exams currently in place
    - Will follow up on these cases

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AG 53 Review Activities

- Companies with non-outlier net yield assumptions: not necessarily out of the woods.
  - May not be in line with moderately adverse conditions
  - Plan to address in 2024
  - Even if not on the outlier list, some companies may be assuming levels of net yields that many regulators are not comfortable with, just not to the extent of the outlying companies.

- For filings due in a few weeks, there will be more granular data provided regarding their assets, including the tranche level, and the associated assumed net yields. That will trigger more refined reviews by our regulator group.

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AG 53 Review Activities

- Also, we were able to make recommendations to LATF including:

- Proposal to increase the justification needed regarding assumed equity net yields.
- Proposal to require more analysis being provided to regulators in certain cases where the life insurer cedes business through reinsurance.

- Main purpose: help ensure claims paying ability even if complex assets do not perform as expected

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AG 53 Reviews – other activities

- Reviewing responses from targeted companies that received inquiries on reinsurance collectability
- Analyzing investment expense assumptions
- Analyzing attribution analysis related to assumed excess net yield assumptions

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