Financial Security...for Life.

January 30, 2019

Commissioner David Altmaier
Florida Office of Insurance Regulation
Chair, NAIC Group Capital Calculation (E) Working Group
*via-email* ddaveline@naic.org

Re: NAIC Group Capital Calculation Field Testing Instructions and Template

Dear Commissioner Altmaier:

The American Council of Life Insurers (ACLI) is pleased to offer these comments on the NAIC Group Capital Calculation "E" Working Group's field-testing instructions and template. The ACLI advocates on behalf of 280-member companies, dedicated to providing products and services that promote consumers' financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers' products for peace of mind. ACLI members represent 95 percent of industry assets in the United States.

ACLI is grateful to have this opportunity to engage with the Working Group on the calculation. We have organized our comments on the exposure in two pieces. The first part is the body of this letter, with our high-level, thematic comments. The second piece is a set of technical comments on the instructions (Appendix A), the template (Appendix B), preliminary list of adjustments from legal entity rules in the GCC (Appendix C) and supporting material on scalars (Appendix D).

## I. GENERAL COMMENTS ON THE GCC FIELD TESTING EXPOSURE

**ACLI welcomes the publication of the draft field-testing specifications and template.** We appreciate the time and attention the Working Group has given to making the Group Capital Calculation ("GCC") a valuable tool. We note that the GCC field testing specifications allow multiple options to be tested. We support the Working Group's goal of preserving as much flexibility as possible during the testing period.

**As we have noted in previous comment letters, ACLI believes the GCC should be consistent with legal entity rules.** We believe that is critically important for state regulators to embrace their own state-based framework, without adjustment, for the credibility of the GCC and of the state-based system of insurance regulation. If the Working Group decides to pursue testing of adjustments from established legal entity rules, ACLI strongly encourages defining the baseline field test result to be consistent with legal entity rules. Adjustments from existing legal entity rules should be clearly stated in the instructions to aid in transparency, and impacts of

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each deviation should be easily discernable in field test output. The Working Group should publicly and broadly consult on all adjustments to legal entity rules. ACLI has attached an appendix with a preliminary list of areas in the GCC that we believe deviate from existing legal entity rules.

**ACLI also believes that field testing instructions should avoid pejorative or biased language.** ACLI appreciates Commissioner Altmaier's assurances at the 2018 Fall National NAIC meeting that the field-testing instructions will remove pejorative language regarding permitted practice and internal transactions. We believe the instructions on permitted practices (page 15, paragraph 36) on on-top adjustments (page 21) would benefit from further refinement to ensure that the instructions are presented equally and without bias towards existing state laws, regulations, etc. We appreciate your ongoing attention to this issue.

## II. ACLI ENHANCEMENTS TO THE GCC FIELD TESTING PROCESS

We appreciate the Working Group's efforts to develop a thoughtful GCC field testing process. ACLI respectfully suggests the following enhancements to the field-testing process:

- **The Working Group should establish mechanisms to assist volunteers in completing the template and gathering the data desired by the Working Group.** Some of our members have found it challenging to try to populate the template using the instructions provided. More specific guidance in the instructions, or additional definitions around some of the items in the template would be helpful. In-depth question-and-answer sessions with volunteers and stakeholders before and during field testing would also help. These difficulties could be overcome by providing definitions and explanations, hosting interactive webcasts, and establishing a bulletin board Q&A process like the process used with the IAIS Aggregation Method data collection. The bulletin board Q&A process should allow volunteers to submit written questions about the template/instructions during the field test period and receive a written answer from staff within a specified period (e.g., 7-10 days). The written answers should be publicly available and posted in a place where they are accessible to all stakeholders, not just those who are formal field testing volunteers. This process would improve the consistency and quality of data collected in the field test, as well as limit the burden on the NAIC's staff posed by repeat inquiries on similar topics.

- **We recommend the creation and inclusion of a qualitative questionnaire to accompany the field-testing specifications and data template.** The questionnaire should allow stakeholders to provide structured input on both their approach to the field test and more broadly, their perspective on the appropriateness of the approaches being explored and potential alternatives.

- **There should be opportunities for additional engagement with stakeholders on the GCC construct, both before and after field testing.** Although many aspects of the calculation have been shared through prior consultations, certain proposals have not been previously exposed, such as the specific adjustments to XXX/AXXX captives and the adjustments to non-admitted entities. ACLI believes that public consultation is needed on these elements and that further consultation on other elements is desirable, particularly after field testing is completed. We encourage the NAIC to be open to further feedback before, during, and after field testing.

- **The timeline should be sufficient for the industry to execute and provide input on the proposed construct.** We appreciate the Working Group's commitment to getting the GCC "right" rather than adhering to a rigid timeline. It is likely that the exposure of the field-testing template and instructions will generate many substantive comments, and stakeholders may wish to provide substantive technical data regarding some of the points that were exposed in greater detail than they were previously (e.g., the proposed on-top adjustments to XXX/AXXX reserves). We believe it is important that the Working Group leaves sufficient time to consider all the comments received and make the appropriate adjustments to the data template prior to the launch of field testing. We also request that volunteers receive an appropriate amount of time to complete the field test exercise; we suggest a minimum period of three months. Finally, we would appreciate understanding how the Working Group expects to share field tests results.

## III. METHODOLOGICAL ISSUES

While ACLI has attached several appendices with detailed comments on both the field-testing instructions and template, we would like to highlight several methodological issues that we believe need additional attention:

- **Additional clarity on guidelines or principles for determining the scope of application would be helpful.** The section titled "Guiding Principles and Steps to Determine the Scope of Application" (page 5-6) would benefit from further development regarding the "Guiding Principles" that the lead state regulators should use to determine which entities an insurance group should include and/or exclude from the GCC (e.g., whether a non-financial entity should be excluded or included from the GCC). Given the variety of company structures, size and complexity, we understand that there must be some flexibility built into the instructions, however, we believe that a GCC should include principles to guide field test volunteers and regulators on this aspect of the GCC to promote consistency across insurers. Insurance Core Principle 23 may be a good starting point for guidance on the scope of group for an insurance group and non-financial conglomerates.

- **If the NAIC opts to aggregate a non-RBC capital requirement into the GCC, then scalars should be applied consistently – including to approaches that leverage Basel III.** As we've noted before, ACLI believes the current RBC framework should be applied to any financial entity that is a subsidiary of an insurance company. However, our previous comment letter advocated testing multiple charges for non-insurance financial entities that are not a subsidiary of an insurance company, several of which were based on charges similar to U.S. or international Basel III and scaled to U.S. RBC.[1] We believe it was the Working Group's intent to test our recommendations; however, the draft specifications and template omitted key components, including the need to apply scalars to any approach that leverages Basel III.

[1] For additional information about how ACLI generated the recommended scalars for these non-financial entities, please see Appendix D.

We therefore request the following options be added to the tests outlined on page 17 of the draft technical specifications and to the data template:

a. For "All banks and other depository institutions" add the following:
   - The minimum capital required by their regulator scaled to 38.9%, which is equivalent to an RBC equal to 200% ACL
   - The minimum capital required by their regulator scaled to 67%, which is equivalent to an RBC equal to 300% ACL

b. For "All asset managers and registered investment advisors" add the following:
   - 12% of three-year average revenue scaled to 2.5%, which is equivalent to an RBC equal to 200% ACL
   - 12% of three-year average revenue scaled to 3.8%, which is equivalent to an RBC equal to 300% ACL
   - 2.0% after tax charge (2.53% pre-tax) to align with the existing NAIC C4 general business risk charge

c. For "Unregulated financial entities" add the following:
   - 12% of three-year average revenue, unscaled
   - 12% of three-year average revenue scaled to 2.5%, which is equivalent to an RBC equal to 200% ACL
   - 12% of three-year average revenue scaled to 3.8%, which is equivalent to an RBC equal to 300% ACL

- **The criteria for capital instruments may need to be reassessed to ensure that the results are appropriate.** We encourage the NAIC to carefully assess what the appropriate criteria are for including or excluding capital instruments. Some criteria, like requiring supervisory approval for extraordinary dividends or the ability to track down-streamed capital, may have unintended consequences. We believe additional dialogue on the intent and outcome of these criteria would be helpful. Please see the technical comments for examples of our concerns.

- **The Working Group should explicitly and thoroughly address its charge related to going/gone concern**.[2] The Working Group's original charge from the ComFrame Development and Analysis Working Group stated regulators "would need to determine whether the group capital calculation should target a similarly conservative view or whether greater emphasis should be placed on a going concern view. If more of a going concern view is desired, consideration needs to be given as to what potential adjustments would be appropriate to the RBC factors and/or calibration or whether the application of stresses could be useful for those factors." We believe further discussion on this topic is warranted. The adoption of a coherent going concern view requires a holistic and detailed review of multiple elements of "gone concern" legal entity statutory accounting and RBC, including tax issues, RBC charges, and policyholder dividend liability.

[2] https://www.naic.org/documents/committees_e_grp_capital_wg_related_cap_calc_reccomendation.pdf?44

## IV. Conclusion

Thank you, again, for allowing us the opportunity to share our views on the draft field-testing specifications and template. Please do not hesitate to contact us if you have any questions or concerns about our comments.

Sincerely,

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ACLI Appendices

- Appendix A – ACLI Technical Comments on the GCC Field Testing Instructions
- Appendix B – ACLI Technical Comments on the GCC Field Testing Template
- Appendix C – Preliminary list of contemplated adjustments from Legal Entity Rules
- Appendix D – Support for Calculation of Scaled Factors

**Appendix A – ACLI Technical Comments on the Instructions/Technical Specifications_01 24 2019**

| Ref # | Technical specification section | Template tab | Description of Question/Issue | ACLI Request (if applicable) |
|---|---|---|---|---|
| **I1** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 10: First Paragraph includes reference to a "Version of reporting" field that is not included in the template within the top section requiring input. | |
| **I2** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 11-12: Reference made to columns# 11-14 – which do not exist on the template. Applicable columns on the template are numbered 20 to 23. | |
| **I3** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12: Direct, Assumed, Ceded and New Written Premium paragraph: Provide a definition of acronym "A/S"? This item also appears on page 15 of presentation. | Please provide a definition of "A/S". |
| **I4** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12, last section - Instructions refer to columns 50-59 on the tab as test capital calculations. We believe that the correct columns should be 52-57 | |
| **15** | IV. Definitions | GCC18.Schedule 1 | Page 6 Bottom: We believe the definition of financial entity may unintentionally scope in assets-in mutual funds that are managed by the group. We have suggested minor edits to clarify the definition of "financial entity." ***"Financial Entity:*** *A non-insurance entity ~~financial institution~~ that engages in ~~makes~~ or facilitates financial intermediary operations (e.g., accepting deposits, granting of credits ~~and~~ or making loans, managing or holding investments, etc.). The primary examples of financial entities are commercial banks, intermediation banks, investment banks, saving banks, credit unions, savings and loan institutions, swap dealers, and the portion of special purpose and collective investment entities (e.g., investment companies, private funds, commodity pools, and mutual funds ~~swap dealers etc.~~) that represents the Broader Group's aggregate investment interest in such entities, without regard to any member of the Broader Group's general entity management responsibilities (e.g., investment advisory or broker/dealer duties) for those entities."* | Unless there was an intent to scope in assets in mutual funds that are managed by the group, please consider revising the definition of financial entity. |
| **I6** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 11, number 10 ("State/Country of Domicile"): The GCC codes do not necessarily match Schedule Y. For instance, the GCC would say "US-Florida" or "Brazil" but Sch. Y says "FL." or "BRA". If there is a consistent form of usage/codes for states/country of domicile on Sch. Y, the GCC should use the same codes as Sch. Y. | If there are already defined codes for jurisdictions in Sch. Y, please consider using the same in the GCC inventory so there is harmony between the Sch. Y and GCC. |
| **I7** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 11, bottom ("Primary Regulator or Contact"): Is this only for U.S. insurance companies? | Please clarify companies should submit this information for entities other than U.S. insurance companies. |

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| **I9** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Column X (or Col. 34) "Prospective risks". The field in the excel file lacks a corresponding section in the instructions. Additional guidance on the desired data would be helpful. | Please provide guidance on the desired data for "prospective risks" (column X). |
| **I10** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12, Direct, Assumed, Ceded and Net Written Premium. Additional clarification on whether it is correct to assume that this is "non consolidated" so it will only have values for the insurance companies- and a holding company (including UCP if holding co) will show "0". Is that correct? | Please confirm if it is correct to assume that this is "non consolidated" so it will only have values for the insurance companies, and a holding company will show "0". |
| **I11** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12, Debt, report value of all senior debt, hybrid debt and surplus notes issued and outstanding: Is this consolidated or non-consolidated? | Please clarify if the entry for "debt" (column 43 on schedule 1) is intended to be on a consolidated or non-consolidated basis? |
| **I12** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12, Greatest Net Loss in Past 5 years: Is this consolidated? | Please confirm if the entry for "Greatest Net Loss in Past 5 years" (column 44) is intended to be consolidated or not. |
| **I13** | VII. Detailed Instructions: Tab 1: GCC18. Schedule 1 | GCC18.Schedule 1 | Page 12, Book Adjusted Carrying Value. It is not clear how Book Adj. Carrying Value column (column 51) is different from the Equity column (column 50). | Please clarify the difference between Book Adjusted Carrying Value (column 51) and Equity (column 50). |
| **I14** | VII. Detailed Instructions: Tab 1-GCC18.Schedule 1 | GCC18.Schedule 1 | Page 11, Entity category: Some captives file RBC (and Annual Statements) with state of domicile, which in turn does not require that RBC be filed with the NAIC. The detailed instructions for column 6 (on page 11) do not have an Entity Description that fits an RBC filing captive. “RBC Filing U.S. Insurer (Life)” technically fits. It seems reasonable to assume that the NAIC in designing the template wants captives in a different category than that. | Please review the entity categories or clarify where insurers should place RBC-filing captives. |
| **I5** | VII. Detailed Instructions: Tab 2: GCC18.Inventory | GCC18.Inventory | Page 16: Korean subsidiaries is listed in the instructions (see "40viii") but not listed on the template within the “entity category” dropdown. We assume we must use a "blank” category to report it. | Please confirm that we must use a "blank" drop-down category for Korean subsidiaries. |
| **I15** | VII. Detailed Instructions: Tab 1: GCC18.Inventory | GCC18.Inventory | Page 17 Bottom: Last paragraph (a) seems to be pertaining to a different section than the Other Non-Insurance/Non-Financial Entities" that appears above it. Should it have a header similar to on page 19 that reads: "Please fill in columns as follows -"? | Please clarify. |
| **I16** | VII. Detailed Instructions: Tab 2: GCC18. Inventory | GCC18.Inventory | The instructions and template include a adjustment for the available (page 13) and required (page 19) capital of "non-admitted entities." To our knowledge, this adjustment has not been the subject of any previous exposure. Also, the term "non-admitted" is a statutory accounting term that is applied to assets that are "disallowed" in statutory accounting for various reasons; its use here is confusing. We request a comprehensive explanation of this adjustment and the opportunity to provide | We request:<br>1.) A comprehensive explanation of this adjustment<br>2.) The opportunity to provide feedback about its merits either prior to or during the field testing process.<br>3.) Add an option of "No Adjustment"<br>4.) Make "No Adjustment" the baseline |

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| | | | feedback about its merits either prior to or during the field testing process. | 5.) Re-program the template to make the impact of the adjustment discernable |
| **I17** | VII. Detailed Instructions: Tab 2: GCC18. Inventory | GCC18.Inventory | Page 14, (31) "Carrying Value (Local Regime)": The instructions say "[i]f the group is comprised entirely of U.S. based entities under a U.S. based Parent company, the entries in this will be the same as in Column 8." If we assume that this would be a mix of U.S. statutory (for U.S. insurers), international statutory accounting (for international insurers), US GAAP, and others, all based on the prevailing accounting basis for the entity. If that is correct, then the last sentence is not accurate. | Please confirm the accuracy of the statement if a group includes a mix of U.S. SAP, US GAAP, etc. |
| **I18** | VII. Detailed Instructions: Tab 2: GCC18. Inventory | GCC18.Inventory | Page 14, (35) "Other intragroup assets": The instructions say to enter amounts to adjust for and remove double counting of carrying value for other intragroup assets, which could include "dividends, coupons and other interest payments" and the "provision of services or agreements to share costs." It is not clear why the adjustments for these two items (listed in the last two bullets on page 14) are needed. For example, once a dividend is paid, the capital moves entities, but it isn't double counted. | Please consider removing, or articulating the purpose for the adjustments for "dividends, coupons, and other interest group payments, provisions of services or agreements to share costs". We do not believe these items are double counted. |
| **I19** | VII. Detailed Instructions: Tab 2: GCC18. Inventory | GCC18 Inventory | Page 15, para 36, 2): In the March 22, 2017 NAIC staff memo, this proposed adjustment was previously grouped, incorrectly, under permitted and prescribed practices and was not clearly described. The field testing instructions (paragraph 36) draw heavily from the staff memo and also incorrectly includes these under permitted and prescribed practices. Credit for reinsurance transactions that are consistent with the Accounting Practices and Procedures Manual are not a permitted or prescribed practice and do not circumvent the regulatory process. In addition, it is unclear which transactions would be included and how the adjustment would be calculated. Field testing participants will likely interpret the instructions and the scope differently. Further, any such internal reinsurance transactions would normally be reflected in the regulatory financial statements and the regulatory capital calculations of the respective assuming and ceding companies. For the GCC, the NAIC has proposed the use of jurisdictional scalars, the purpose of which is to adjust the regulatory capital results for non-US companies to be equivalent to those of a US company. If the jurisdictional scalars work as intended, then there is no need to make additional adjustments to unwind or otherwise limit internal reinsurance transactions as an on-top adjustment to the GCC. We strongly recommend deleting this item. | We recommend deleting this sentence because credit for reinsurance transactions that are consistent with Accounting Practices and Procedures Manuals are not a permitted or prescribed practice and do not circumvent the regulatory process. |

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| Ref # | Technical specification section | Template tab | Description of Question/Issue | ACLI Request (if applicable) |
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| **I20** | VII. Detailed Instructions: Tab 2: GCC18. Inventory | GCC18 Inventory | Page 14, para 30, i, states that "non XXX/AXXX captives shall adjust their basis of assets as required for XXX/AXXX captives. Unlike XXX/AXXX, this will not be a top-sided adjustment, but rather an adjustment directly to carrying value." This is an adjustment to legal entity rules with no option to make no adjustment. | 1.) Add option of "No Adjustment"<br>2.) Make "No Adjustment" the baseline<br>3.) Re-program the template to make the impact of the adjustment discernable |
| **I21** | VII. Detailed Instructions: Tab 3: GCC18 Capital Instruments | GCC18.Capital Instruments | Page 19. Criteria for subordinated senior debt (and hybrid dent): The criteria for capital instruments may need to be reassessed to ensure that the results are appropriate. We encourage the NAIC to carefully assess what the appropriate criteria is for including or excluding capital instruments. Some criteria, like requiring supervisory approval for extraordinary dividends, may have unintended consequences. For example, if a U.S.-only group decides they want to begin operating globally, they may test the waters with a small company in an emerging market, where the regulator may not require approval of extraordinary dividends. Under the GCC as currently envisioned, the formerly U.S. only group could suffer deep declines in their capital ratios as soon as they start operating in the emerging market because their holding company debt would no longer be countable as a source of capital for the entire enterprise. If that outcome is inconsistent with the will of the Working Group, we believe the criteria could benefit from further evaluation. One possible solution is to insert "U.S." so the sentence reads: "Supervisory approval is required for any extraordinary dividend or distribution from any U.S. insurance subsidiary to fund the repurchase…" We are unsure what was intended and would appreciate clarity on whether the requirement for supervisory approval for extraordinary dividends is intended to apply to non-U.S. jurisdictions. | We would appreciate clarity on whether the requirement for supervisory approval prior to the payment of extraordinary dividends is required for entities outside of the U.S. If yes, we respectfully request additional dialogue on whether such a requirement could result in unintended consequences. |
| **I22** | VII. Detailed Instructions: Tab 3: GCC18 Capital Instruments | GCC18.Capital Instruments | Page 20, (j): "Amount downstreamed" Tracking is not currently possible and should not be a criterion for counting down streamed debt as available capital. Tab 3 instructs volunteers to enter in the amount of debt proceeds that was infused into the regulated entities surplus "if available and tracked." Down-streamed debt in the U.S. is not currently tracked, nor is it an existing requirement. We think the insertion of this data collection point is not necessary for the United States and it should not be an eligibility criterion for counting the down-streamed debt proceeds as a capital instrument. We would welcome additional dialogue on this criterion. | We would appreciate guidance on how groups should track the downstreamed debt, as well as further dialogue on the intent and objectives of this requirement. |

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| Ref # | Technical specification section | Template tab | Description of Question/Issue | ACLI Request (if applicable) |
|---|---|---|---|---|
| **I23** | VII. Detailed Instructions: Tab 6: GCC18 Scaling (Ins.,Fin) | GCC18 Scaling (Ins.,Fin) | We believe the NAIC intended to field test several options proposed by the ACLI however, some aspects of the proposed approaches were not carried through to the draft technical specifications. The tests ACLI requested are applicable to the "All banks and other depository institutions", "All asset managers and registered investment advisors", and "Unregulated financial entities" categories on page 17 of the draft specifications and should be explored on both an unscaled and scaled basis. Similar to other elements of the GCC, we believe scaled factors for these entities are appropriate and necessary to ensure that the overall GCC results are comparable and anchored to the level of conservatism in U.S. RBC. | We request the following options be added to the tests outlined on page 17 of the draft technical specifications and to the data template:<br><br>**"All banks and other depository institutions" add the following**:<br>**1)** The minimum capital required by their regulator scaled to 38.9%, which is equivalent to an would be the same for RBC equal to 200% ACL<br>**2)** The minimum capital required by their regulator scaled to 67%, which is equivalent to and RBC equal to 300% ACL<br><br>**For "All asset managers and registered investment advisors" add the following:**<br>**1)** 12% of three-year average revenue scaled to 2.5%, which is equivalent to an RBC equal to 200% ACL<br>**2)** 12% of three-year average revenue scaled to 3. 8%, which is equivalent to an RBC equal to 300% ACL<br>**3)** 2.0% after tax charge (2.53% pre-tax) to align with the existing NAIC C4 general business risk charge<br><br>**For "Unregulated financial entities" add the following:**<br>**1)** 12% of three-year average revenue, unscaled<br>**2)** 12% of three-year average revenue scaled to 2.5%, which is equivalent to an RBC equal to 200% ACL<br>**3)** 12% of three-year average revenue scaled to 3.8%, which is equivalent to an RBC equal to 300% ACL |
| **I24** | VII. Detailed Instructions: Tab 6: GCC18. Scaling Options | GCC18 Scaling (Ins,Fin) | Page 27, Relative Ratio Approach and Excess Capital Ratio Approach. Scalars are applied using the RBC Trend Test threshold 300% of ACL RBC as the first intervention level instead of using CAL. This is an adjustment to legal entity rules. There is also no way to adjust the 300% ACL RBC requirement for captives (page 17 of instructions). | 1.) Add option of "No Adjustment" for captives<br>2.) Make "No Adjustment" the baseline<br>3.) Re-program the template to make the impact of the adjustment discernable |

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| Ref # | Technical specification section | Template tab | Description of Question/Issue | ACLI Request (if applicable) |
|---|---|---|---|---|
| **I25** | VII. Detailed Instructions:<br>Tab 1: GCC18. Inventory<br>"Additional clarification on capital requirements where a US formula (RBC) is not required" | GCC18 Inventory<br>GCC18 Schedule 1<br>GCC18 Non-Ins, Non-Fin | Page 12, Multiple options that adjust legal entity rules are being tested for subsidiaries of insurance legal entities. There is also no differentiation by location under the Holding Company, e.g., sibling vs. subsidiary. Not always clear how to make no adjustment to legal entity rules for treatment of subsidiaries. | 1.) Add option of "No Adjustment"<br>2.) Make "No Adjustment" the baseline<br>3.) Re-program the template to make the impact of the adjustment discernable |
| **I26** | VII. Detailed Instructions:<br>Tab 2: GCC18. Inventory | GCC18 Inventory | Page 15, para 37, There is an adjustment for the value of non-admitted entities for available and required capital. This is an adjustment to legal entity rules. | 1.) Add option of "No Adjustment"<br>2.) Make "No Adjustment" the baseline<br>3.) Re-program the template to make the impact of the adjustment discernable |
| **I27** | VII. Detailed Instructions:<br>Tab 3: GCC18. Capital Instruments | GCC18.Capital Instruments | Page 19, "1. Surplus Notes …"<br>It appears that the instructions for how to treat surplus notes has changed since Round 2 of the last baseline exercise. The change in the instructions may have broadened the scope of the adjustment. In Round 2, some believed the adjustment applied only to affiliate purchasers who were SAP/RBC filers. In the current exposure, the proposed instructions appear to apply to all affiliated purchasers, including non-RBC/non-SAP filers, like holding companies or offshore reinsurance. | Additional clarity over the scope of the adjustment would be helpful, as well as clarification on whether or not this is intended to be a change from how surplus notes were treated in Round 2 of the baseline exercise. If it is a change, additional dialogue on the rationale, need for and impact of the change would be helpful. |

Appendix B – ACLI Technical Comments on the GCC18 Template – 01 24 2019

| Ref # | Template Tab | Table Name | Question/Issue |
|---|---|---|---|
| **T1** | GCC18.Schedule 1 | Financials | Column 51, Book Adjusted Carrying Value. This column is coded yellow (meaning formula) but there is no formula. |
| **T2** | GCC18.Schedule 1 | N/A | Please clarify if "book value" of assets means the carrying value on the balance sheet (which is MV for companies using GAAP accounting), or the actual book value. |
| **T3** | GCC18.Schedule 1 | N/A | Columns should be renumbered, as the current numbering is either missing or out of sequence. The column numbers do not correspond to instructions. For example, Columns go from #1-10, than skip to #20, file is missing columns 11-19. |
| **T4** | GCC18.Schedule 1 | N/A | For Column #51 (Book Adj Carrying Value): cells are yellow but does not include any formula- is this column supposed to be a calculation or pull from the inventory tab? |
| **T5** | GCC18.Schedule 1 | N/A | For Columns #54 (Test 2a Avg ) and #55 (Test 2a Trend), the existing formulas incorrectly looks to excel column AT" in logic for the parent entity correct formula should reference "AS". |
| **T6** | GCC18.Schedule 1 | N/A | According to page 13 of the instructions, Col. 54 is to pick up 5 year average revenue (AE). However, the current formula seems to only pick up current year revenue (AF), which is inconsistent with instructions. |
| **T7** | GCC18.Schedule 1 | Financials | Column 34. The field in the excel file lacks a corresponding section in the instructions. Additional guidance on the desired data would be helpful. |
| **T8** | GCC18.Schedule 1 | N/A | Column 32 - the Moody's Rating (Column 32) drop down does not have ratings format for Moody's – it looks more like S&P or AM Best ratings. |
| **T9** | GCC18.Schedule 1 | N/A | Cells V8:W14 have the incorrect lookup to the GCC18.Param tab. Column V on Schedule 1 should reference W5:W22 on the GCC18.Param tab; Column W on Schedule 1 should reference X5:X22 on the GCC18.Param tab. |
| **T10** | GCC18.Schedule 1 | N/A | On Schedule 1, U8:U14 is missing the correct lookup ratings on the GCC18.Param tab in cells V5:14. The NAIC needs to add the following: aaa, aa+, aa, aa-, a+, a, a-, bbb+, bbb, bbb-, bb+, bb, bb-, b+, b-, ccc+, ccc, ccc0, cc, c |
| **T11** | GCC18.Inventory | N/A | Columns need to be renumbered, column numbers are missing or out of sequence. |
| **T12** | GCC18.Inventory | N/A | For Excel col U (Adj Carrying Value (wo Perm Practices) - between #39 and #40 -Column number needs to be assigned, currently not numbered. |
| **T13** | GCC18.Inventory | N/A | For Columns #39 (Adj. Carrying Value) and # 58 (Adj. Capital Calculation), the existing formulas do not include all the adjustments in the total.<br>- For Column #39, the corrected formula should be =L8-SUM(M8:S8) to properly include columns 37 and 38. |

| Ref # | Template Tab | Table Name | Question/Issue |
|---|---|---|---|
| | | | - For Column #58, the corrected formula should be =Y8-SUM(Z8:AF8) to properly columns 56 and 57. |
| **T14** | GCC18.Inventory | N/A | Column AO (Row 7 - Adj. Carrying Value/Adj Capital) format needs to be adjusted as it is incorrectly formatted as a %. |
| **T15** | GCC18.Inventory | N/A | Summary related to Investment in Sub columns. Formula in column 70 (column AI-Sum of Subs) refers to column 30 (column J-Parent carrying values) for available capital yet the required capital formula in column 73 (col. AL/"Sum of Subs") is using the local values from column 50 (column Y-Entity Required Capital)– inconsistent. Please advise. |
| **T16** | GCC18.Inventory | N/A | Column 30, Carrying Value (Parent Regime): it may be clearer to call this "Carrying Value (UCP Regime)" |
| **T17** | GCC18.Inventory | N/A | Column 36 (permitted practices) are subtracted out of both "Adjusted Carrying Value" (column 39) and "Adjusted Carrying Value (wo Perm Practices) (column U). Are the columns mislabeled? If not, then permitted practices (column 36) probably needs to be added back into Adjusted Carrying Value (column 39). |
| **T18** | GCC18.Inventory | N/A | Inventory tab. Please confirm that Column 36 (Permitted practices) includes prescribed practices as well. |
| **T19** | GCC18.Inventory | N/A | Please clarify that permitted/ prescribed practices for AXXX/XXX captives should not be included in column 36 of the inventory tab since these adjustments are included in the “over the top” adjustments. |
| **T20** | GCC18.Capital Instruments | N/A | Please confirm how to handle debt issued by HoldCos, domestic insurers in col J (Col 9)? We assume all debt should be excluded from that field for holding companies. |
| **T21** | GCC.18 OnTopAdj | N/A | Cells M12, M13 : 1. We believe there is an error in the XXX/AXXX liability adjustment. The current formula for Test 1 includes the amount of AG48 Required Level of Primary Security (tax-effected) in the liability adjustment (cells M12, M13). We believe the intent is to capture the difference between the existing XXX/AXXX reserves and the Required Level of Primary Security as a liability adjustment. Additional clarity is requested. |
| **T22** | GCC.18 OnTopAdj | N/A | The asset adjustment in the example worksheet is shown as a positive adjustment (cells D5 and D10). Our understanding is this is expected to be a negative adjustment. Please advise. |
| **T23** | GCC.18 OnTopAdj | N/A | Column N "Economic Reserve/Required Level of Primary Security": It is unclear how companies should handle partial financing under the “Economic Reserve” (column N) for “All other XXX reserves” (row 8) and “All other AXXX Reserves” (row 11) in order to provide a meaningful comparison. Please advise. |
| **T24** | GCC.18 Scaling (Ins.,Fin.) | N/A | Additional generic scalar regimes may need to be created. The template provides 5 spaces (A-E) for countries that are not listed in the scalar tab (GCC18 Scaling- Fin, Ins tab). Tab 6 lists scalars for 11 countries and has space holders for 5 generic regimes (Regimes A-E). Will the list of non-specific regimes (A-E) expand automatically depending on the entries on the Inventory page? For example, if a company operates in 48 |

| Ref # | Template Tab | Table Name | Question/Issue |
|---|---|---|---|
| | | | jurisdictions, will they be able to add another twenty regimes in Tab 6, or should they try and lump those countries in one of the generic regimes (A-E)? |
| **T25** | GCC.18 Scaling (Ins.,Fin.) | N/A | Does the template support volunteers assigning their own scalar value for a regime if the NAIC has not calculated one for the jurisdiction? If companies have the data and are so inclined to create a scalar (in accordance with the scalar methodologies outlined in Appendix 1) it may be useful to have that functionality in the spreadsheet. |
| **T26** | GCC18.Summary (Subord Debt) | Testing Options on Subord Debt | In the chart for Testing Options on Subord Debt", Hybrid Debt Options are shown twice. We think the last section should be "Other Subordinated Debt" based on the breakouts on the capital instruments tab. |
| **T27** | GCC18.Summary (Top Level) | Sample Table 2 | The total available capital for the base option is calculated inconsistently in table 1 and 2. In table 1 (cell D8), the formula includes the on top adjustment, while the on top adjustment is excluded in table 2. The on top adjustment should be included in the US insurance line (cell M6), as US insurers include all US insurers and Non RBC filing US. Insurer (AG48 Captive). Please clarify. |
| **T28** | GCC18.Summary (Top Level) | Sample Table 3 | Available capital (AC) for Scalar Option 1 (both in all entities and only included entities columns) in table 3 is linked to the wrong cell, as it shows AC option 1 instead. The formula refers to cell H50 and H51, but should be L50 and L51. |
| **T29** | GCC18.Summary (Top Level) | Sample Table 3 | Required Capital (RC) for scalar option 1 line in table 3 (for all entities and only included entities sections) is linked to cell I50 and I51, but should be linked to cell M50 and M51 instead |

# Appendix C
# Contemplated Adjustments to Legal Entity Rules in NAIC Group Capital Calculation Field Testing
## ACLI Preliminary List

| Item | References | Labeled as On Top Adjustment | Nature of Adjustment | Is “No Adjustment” an Option? | Previously Exposed? |
|---|---|---|---|---|---|
| **XXX/AXXX Liabilities** | I: pp. 21-23<br>T: OnTopAdj tab | Yes | 3 possibilities: No adjustment, 40/90 for XXX/AXXX, NPR-based Adjustment | Yes | Concept yes; specific adjustments no |
| **XXX/AXXX Captives-Assets** | I: pp. 24<br>T: OnTopAdj tab | Yes | Remove Soft Assets, e.g. LOCs | Yes | Yes |
| **Non-XXX/AXXX Captives** | I: pp. 14<br>T: Inventory Tab-carrying value | No, entered net of adjustment | Remove Soft Assets, e.g. LOCs | No | Yes |
| **Non-Admitted Entities** | I: pp. 15<br>T: Inventory Tab | No | Quantify value of non-admitted entities | No | No |
| **Certain Internal Reinsurance Transactions** | I: pp. 15<br>T: Inventory Tab-Permitted Practices | Option to be considered | Quantify transactions that may “circumvent regulatory processes.” Possible cap (3-5%) | Yes | Yes |
| **Treatment of Subsidiaries of Insurance Legal Entities** | I: pp. 12, 13, 17<br>T: Schedule Tab, Non Ins, Non-Fin tab | No | Testing 6 alternatives for banks, asset managers, other. No differentiation between for location under Holding Co. | Sometimes but not clearly | Yes |
| **Permitted Practices** | I: pp. 15<br>T: Inventory Tab | Option to be considered | Quantify differences between NAIC and Permitted | Yes | Yes |
| **Prescribed Practices** | 12/6 NAIC Slide Deck, slide 9 | Option to be considered | Quantify differences between NAIC and Prescribed | Yes | Yes |
| **RBC Intervention Levels** | I: pp. 17, 27<br>T: Inventory, Scaling Ins | No | Using trend test level of 300% of ACL instead of CAL for captives and testing 300% of ACL for scalars | No for captives (p.17)<br>Yes for scalars (p. 27) | Yes |

# Appendix D- Support for Calculation of Scaled Factors

## Appendix - Support for Calculation of Scaled Factors

| | | RBC Equal to 200% ACL | RBC Equal to 300% ACL |
|---|---|---|---|
| **U.S. Data - Life** | | | |
| Average Capital Ratio | **A** | 477% | 318% |
| Ratio at 1st Intervention Level | **B** | 100% | 100% |
| Excess Capital Ratio | **C**=(A-B)/B | 377% | 218% |
| Avg Cap Ratio Calibrated to 1st Intervention Level | **D**=A/B | 477% | 318% |
| **"All banks and other depository institutions" (i.e., Basel III)** | | | |
| Average Capital Ratio | **E** | 14.8% | 14.8% |
| Ratio at 1st Intervention Level | **F** | 6.0% | 6.0% |
| Excess Capital Ratio | **G**=(E-F)/F | 147% | 147% |
| Avg Capital Ratio Calibrated to 1st Intervention Level | **H**=E/F | 247% | 247% |
| **Scaled Factor** | **I**=G/C | **38.9%** | **67.4%** |
| **"All asset managers and registered investment advisors" & "Unregulated financial entities"** | | | |
| Basel III Operating Risk Factor for Asset Management | **K** | 12% | 12% |
| **Scaled Factor** | **L**=K/A | **2.5%** | **3.8%** |

**Additional notes on factors for "All asset managers and registered investment advisors" & "Unregulated financial entities":**

a. The initial calculation of the ratio @ 200% used a 485% Average Operating Ratio. In 2018, the NAIC updated the Operating Ratio to 477%, thus slightly affecting the scaled factor (from 2.47% to 2.52%).
b. In the NAIC Baseline Exercise #2, the instructions required to use a scaled factor of 3.75% @ 300%, which was the result of using a rounded RBC average operating ratio of 320%, rather than 318%.