The Investment Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met via conference call March 6, 2015. The following Working Group members participated: Elaine Wieche, Chair (CT); Philip Barlow, Vice Chair (DC); Greg Lieber (CA); Kerry Krantz (FL); Susan Christy (IL); Mark Birdsall (KS); Anna Taam (NY); and Richard Hinkel (WI).

1. **Adopted its Feb. 10 and Jan. 13 Minutes**

   Mr. Birdsall made a motion, seconded by Ms. Christy, to adopt the Working Group’s Feb. 10 and Jan. 13 minutes. The motion passed unanimously.

2. **Discussed Granularity of RBC Factors**

   Ms. Wieche said she wanted to discuss criteria to determine the level of accuracy for investment capital, or granularity. She said, generally, the more accurate the framework, the more it costs to implement. She said the Working Group decided not to add granularity to the real estate factor because real estate is currently only approximately 1% of life insurer portfolios. Ms. Wieche said it makes sense then that the more material the asset class, the greater the level of granularity warranted. She said bonds are life insurers’ most material investment at 73% of cash and invested assets, so the Working Group is considering an increase in the granularity of asset risk factors from five to 13 (excludes the category for bonds in or near default). She said by increasing the number of asset risk factors, the large increases or “cliffs” from one factor to another will be eliminated.

   Jerry Holman (American Academy of Actuaries—Academy) said the Academy has been analyzing the effects of higher or lower degrees of granularity. He said he compared two variations of consolidated rating categories, five and 13 buckets vs. 19 buckets of full granularity for each of the 19 underlying letter modifier ratings, using a measure called capital coverage. He said that measure is the difference of the consolidated categories to a fully granular system. He said the data used for this analysis was the same as that to construct the representative portfolio. Mr. Holman said using 13 buckets produced a better fit than five, meaning that the range of capital coverage is tighter. He said using five buckets, however, has overall better average capital coverage because companies had higher concentrations, on average, of investments in the higher quality end of the below investment grade letter rating categories. He also said small companies with high-quality portfolios would pay higher charges using five buckets because of the consolidation of seven ratings, AAA to A-, into one category. Mr. Holman said the preliminary view is that, on average, there are no significant differences in capital coverage between the five or 13 buckets, but the variation of the capital coverage is wider with five buckets. He said using 13 buckets is, therefore, better suited to capturing outliers and serves the purpose of identifying weakly capitalized companies. He said that system also provides stability of capital coverage over time because its greater granularity will capture portfolio changes that might occur in the future. Nancy Bennett (Academy) said from a risk-focused perspective, the 13-bucket system captures risk more accurately.

   Mr. Krantz asked what the additional administrative costs would be to implement a granular system. John Bruins (American Council of Life Insurers—ACLI) said the ACLI is exploring the issue, but it is too early to identify specific costs. He said there would be additional costs not only to the industry but to the NAIC as well. Ms. Taam said the costs to companies should also be considered; namely, if it is a more efficient use of capital, it could be an offset to the administrative costs. Mr. Barlow said it would be interesting to know if the cost varies depending on the degree of change. Ms. Wieche identified the costs of implementing a granular system—administrative costs as well as cost of capital—as an action item. Ed Toy (NAIC) said discussions need to continue with the vendors to make sure that any changes fit within their structure. Ms. Wieche said vendor communication would be an action item.

   Mr. Bruins said RBC’s focus is on undercapitalized companies, so it is looking for outliers in one direction. He said if the smaller number of factors is slanted toward the low end of the category, it might be more difficult to identify outliers in that one direction. He said, for example, if the NAIC 1 factor is set at single-A, there is not much variation on the downside, but there is a lot of variation on the upside; but RBC cares about the downside. Mr. Birdsall said other NAIC committees are investing resources to make the representation of capital requirements more granular.

3. **Discussed Plans for Implementation of a Potential Change to the Asset Risk Structure**

   Ms. Wieche said NAIC staff have begun discussions and coordination with other NAIC committees—including the Valuation

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of Securities (E) Task Force, the Blanks (E) Working Group, and the Statutory Accounting Principles (E) Working Group—
that will be affected by potential changes to the structure of the RBC framework. She said once the appropriate number
of factors has been determined, the Working Group can better plan for next steps. She said state laws and model laws might
require change if they refer to the current framework. Mr. Krantz said it would be helpful to know which model laws need to
be compared to statutes and to ensure that model laws’ references to state laws and regulations are up to date. Mr. Toy said
the focus will likely be primarily on the model that defines limits on investments. Mr. Bruins asked if model laws change,
what are the implications of the transition if some states have adopted and others have not? Ms. Wieche identified further
research into the model laws as an action item.

Martin Carus (Martin Carus Consulting) said an analysis as to whether proposed changes would identify any other weakly
capitalized companies should be undertaken in order to conduct a cost/benefit analysis. Mr. Krantz said greater granularity
could identify a downward trend before a company becomes weakly capitalized.

4. Discussed Update of the AVR

Ms. Wieche said Asset Valuation Reserve (AVR) and RBC deal with the impact of credit risk on surplus, and so it is logical
that RBC and AVR factors be updated at the same time. She said the Academy is planning to suggest updates for AVR to be
consistent with changes in RBC. She said the Working Group should consider whether to use the same factors and structure
for both. She asked what the pros and cons are of updating the AVR factors without a comprehensive review. Ms. Bennett
said the Academy will be updating the AVR factors consistent with the proposed RBC factors for bonds. She said the
Academy is reaching out to folks who were involved in the development of AVR for further insight.

5. Discussed RBC for Affiliated Investments

Ms. Wieche said the discussion will be driven by a basic question: Should it make a difference in RBC if an affiliate is
issuing the insurer investment? She said the discussion will encompass all affiliate investments, including bonds, real estate
and Schedule BA investments. She said affiliated investments might pose a higher risk than those issued by an independent
third party. She said according to A.M. Best, 18% of life company impairments are due to affiliate issues. Ms. Wieche asked
if an affiliate investment should have a higher capital charge commensurate with its risk. Mr. Carus said in the efforts to
establish group capital requirements, affiliated investments play a large part in developing the capital requirement for the
group. He said there is, however, an opposing point of view that group capital requirements are not necessary because if the
group poses a risk to the individual insurance company, then the capital should reside at the insurance company level.

6. Discussed RBC for Sovereign and Municipal Bonds

Ms. Wieche said the Academy spoke about sovereign and municipal bonds carrying the same RBC factors as corporate bonds
at the 2014 Fall National Meeting. Ms. Bennett said the Academy’s position remains the same, and it believes the RBC
factors for municipal, private, 144A, sovereign and hybrid bonds should use the same factors developed based on corporate
bond experience. She said the conclusion was based upon the rating agencies’ global ratings process and regulators’ desire to
maintain an auditable RBC calculation based on reported financial statements.

Ms. Wieche said if the states or interested parties want to make a case that these bonds should be treated differently, they
would need a robust argument by the Summer National Meeting. She said a robust argument must include a model to develop
the capital factors, credible experience of default and recoveries, and a method for reporting and calculating capital that is not
based upon the rating. She said, in summary, credible data and a process is needed to consider the investment class separate
from corporate bonds. Mr. Birdsall said these standards might be too high, and it is unlikely a party would take on such
effort. Mr. Toy agreed with Mr. Birdsall and suggested the discussion continue at the Spring National Meeting.

7. Discussed RBC for Schedule BA Assets

Mr. Lieber said he will be looking into the materiality of each component of Schedule BA, evaluating trends of the industry’s
investments and reviewing disclosures. He said subclasses will be identified for further review.

Having no further business, the Investment Risk-Based Capital (E) Working Group adjourned.
Memorandum

To: Doug Slape, Chair of the Capital Adequacy (E) Task Force

From: Elaine Wieche, Chair of the Investment Risk-Based Capital (E) Working Group and Philip Barlow, Vice Chair of the Investment Risk-Based Capital (E) Working Group

Date: March 28, 2015

Re: Life Insurer RBC for Derivatives Report

The Investment Risk-Based Capital (E) Working Group is referring the Life Insurer RBC for Derivatives report to the Capital Adequacy (E) Task Force. The report discusses the review of RBC asset charges arising from life insurer derivative use. The asset risk factors for derivatives are equivalent to those for corporate bonds, with no change recommended to that basis. However, the report recommends the following:

1) A change to the potential exposure formula for written credit default swaps;
2) Changes to the RBC and Asset Valuation Reserve (AVR) calculations to bring them into alignment with the associated risk and transactional changes mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, specifically derivative collateral for over-the-counter, centrally-cleared derivatives. These changes are reflected in RBC Agenda Item #2014-32I that was exposed by the Task Force on Nov. 17, 2014; and
3) Referrals to other committee groups in an effort to achieve greater uniformity in reporting and compliance.

cc: Jane Barr – NAIC
    Michele Wong – NAIC
Memorandum

To: NAIC Investment Risk Based Capital (RBC) Working Group

From: Walter Givler – Northwestern Mutual Life, Mark Anderson – Met Life and other members of the ACLI Derivative Risk Mitigation Team (Andrew Melnyk/Khari Cook coordinating)

Date: March 29, 2013

Re: Life Insurer RBC for Derivatives

Executive Summary

In an effort to apply the most relevant knowledge and experience to a review of RBC asset charges arising from life insurer derivative use, we held a series of working sessions of industry derivative specialists, NAIC capital market experts and regulators. All of the relevant components of the current RBC calculation were reviewed. Most of these components have been updated within the last five years. However, we identified four areas for further inquiry.

This gave rise to one recommendation; change the potential exposure formula for written credit default swaps (sold protection) to reflect recovery experience consistent with the RBC formula for bonds. In this way the RBC approach will be as consistent as the fundamental credit risk inherent in both circumstances.

Background

The individuals who participated in the meetings which influenced the background, analysis and recommendations in this document are industry derivative specialists, NAIC capital market personnel and regulators. All of them have familiarity with derivative use and the associated regulation. Many were contributors on earlier projects which form the basis of current NAIC derivative risk based capital and reporting requirements.

The scope of the work reflected in this memorandum is informed by the charge of the Investment Risk-Based Capital Working Group and applied to the derivative asset class:

“evaluate relevant historical data and applying defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the risk-based capital formulas and delivering those recommendations to the Investment RBC Working Group.”

When evaluating the RBC asset charges arising from derivative use it is important to consider the appropriate regulatory context, characteristics and uses of derivatives.

The NAIC model investment laws and regulations establish specific constraints on the use of derivatives. Governance of derivative use starts with approved and documented authorities from the insurer’s Board
of Directors to management. These authorities are coordinated with and enhanced by limits established by the insurer’s domiciliary state.

Derivatives used to manage asset risk are interdependent with the affected assets. This means that the risks inherent in the derivative transaction itself and the effect of the transaction on overall asset risk must both be considered when determining the appropriate RBC. In most cases, the RBC impact is derived from factors applicable to the affected assets, or used elsewhere in the RBC calculation.

By way of example, under the current method, all derivative uses may attract RBC asset charges on:

- Derivative book /adjusted carrying value (“BACV”) net of collateral, which is based in large part on the credit quality of the derivative counterparty using existing NAIC designations;
- Off-balance sheet exposure;
- Replication of permissible assets;
- Collateral received from counterparties related to derivative agreements.

In the case of derivatives used in replications and derivatives used in hedging, the derivatives are paired with insurer assets or liabilities to produce a desired economic effect. Paired assets attract their own RBC charge, which may require adjustment in order to enable RBC to accurately reflect the resulting risk. In other words, if a cash instrument or counterparty NAIC designation changes, the derivative-related RBC also changes in a manner sensitive to the changing risk.

Review of the life RBC calculation indicates four areas which impact or give rise to RBC asset charges for derivative usage.

Miscellaneous Assets (LR012) – This part of the RBC formula computes the RBC applied to the amount held on the balance sheet, known as book adjusted carrying value (BACV) net of collateral received, exposed to loss upon default of the counterparty or exchange. The NAIC designation of the counterparty determines the RBC factor.

Replication Synthetic Asset Transactions (RSAT (LR013)) – RSATs involve the pairing of a cash instrument and derivative to synthetically create permissible investments that are otherwise too expensive to directly acquire or are unavailable in the cash markets. These transactions are a combination of a derivative(s) and one or more cash instruments such as U.S. Treasury securities, agency securities, or other fixed maturity holdings. They are monitored by the NAIC Securities Valuation Office (SVO) and reported in detail on Schedule DB Part C. The RBC is derived from the SVO designation of the RSAT as a package, as if it were a newly acquired asset. The RBC previously attributable to the cash instrument is credited at 100% in the RBC calculation and is in-effect replaced by the RBC attributable to the RSAT package.

Hedging (LR014, LR015) - Hedging is the process of using derivative instruments to most efficiently limit risk associated with a particular asset in a manner consistent with the insurer’s long term objectives. In order for regulators to distinguish between insurers that have effectively reduced their risks from those
insurers that have not, the risk based capital computation has been made sensitive to such differences. Increasing or decreasing exposure to different asset classes in relation to a benchmark asset allocation tailored to meet the long term obligations to policy owners is critical to successfully managing an insurance company. The relative advantage of using cash market transactions versus derivative market transactions depends upon market conditions. The RBC credit for the risk reductive effect of hedging bond and common stock asset risk is determined as a fraction of the RBC asset charge in order to provide for residual risks created by the hedging program. The maturity of the cash instrument versus that of the hedging instrument, counter party risk and general business risk are considered in the formula for determining the RBC credit.

Off Balance Sheet and Other Items (LR017) – A charge for off-balance sheet exposure is included in RBC for derivatives based on the credit risk of the counterparty or exchange. Schedule DB Part A and B include a calculation for potential exposure, which is a main component of the off-balance sheet calculation. Potential exposure is a statistically derived measure of the potential increase in derivative instrument credit risk exposure, for derivative instruments that generally do not have initial cost paid or consideration received, resulting from future fluctuations in the underlying interests upon which derivative instruments are based. For collars, swaps other than credit default swaps and forwards, potential exposure is expressed as a fraction of the notional amount with the RBC charge based on the NAIC designation of the counterparty. For written (sold protection) credit default swaps, used in replications, potential exposure is the full notional amount. For options and purchased (bought protection) credit default swaps, the potential exposure is zero. For futures, potential exposure is based on initial margin per contract and the number of futures contracts outstanding. The other main component of off-balance sheet exposure utilizes the calculation in Miscellaneous Assets (LR012).

Each of the above areas was reviewed along with other matters put before the group as reflected in the meeting notes (Appendix 1). It was noted that much of the derivative RBC computation and related reporting had been updated during the last five years, however we concluded that several areas deserved attention as follows:

1. **Replications** – Is the 100% RBC credit on the cash instrument that is paired with the derivative in the replication appropriate, taking into consideration NAIC monitoring and the risk mitigated by substitutability?

2. **Fair value (FV) versus BACV** – Is one basis preferable to the other as the foundation for computing derivative-related RBC?

3. **Off balance sheet exposure** – Is the current approach effective in terms of measuring potential exposure and applying an RBC charge commensurate with the risk?

4. **Subsidiary counterparties** – Is the risk effectively reflected in RBC?
Analysis

Replications – Is the 100% RBC credit on the cash instrument that is paired with the derivative in the replication appropriate, taking into consideration NAIC monitoring and the risk mitigated by substitutability?

The replication, or RSAT, is subject to review any time the credit quality of the cash instrument changes or, at a minimum, annually under the requirements of the NAIC.

The specifics of the RSAT review requirements reflected in the SVO Purposes and Procedures Manual were reviewed. It was generally agreed that if these procedures are administered as designed there would be a timely identification of any material credit deterioration of the cash instrument and the insurer would be compelled to substitute another cash instrument consistent with the existing NAIC designation of the RSAT, or the SVO would change the designation as appropriate thus adjusting RBC to reflect the new risk. In this way, RBC remains responsive to the risks involved. This would also obviate the need to seek additional conservatism by reducing the RBC credit attributed to the cash instrument to an amount less than 100%, and avoid duplicate RBC (some left on the cash instrument and a full charge on the RSAT).

A representative of the NAIC Capital Markets and Investment Analysis Office (a/k/a SVO) was invited to review the administration and conduct of the procedures around monitoring the credit quality of the RSAT cash instrument. A deck of material was provided and is in Appendix 3. The presentation was entitled Replication Transactions- The Cash Component. After the procedures were explained it was our conclusion that the credit quality of the cash instrument is monitored along with the RSAT package. The monitoring is done at least annually and evaluated against an appropriate standard of effectiveness.

We observed that as a package the RSAT is effectively monitored under existing NAIC procedures and if the components of the RSAT were reported separately they would each attract an appropriate asset charge under the current RBC structure. On that basis we concluded that the 100% RBC offset/credit for the cash component is appropriate and no change would be recommended.

FV versus BACV – Is one basis preferable to the other as the foundation for computing derivative-related RBC?

We used research done by the NAIC Capital Markets Bureau to address this question. A 2011 sample of the largest life insurers suggested that using FV as a basis for asset charges applied to Off Balance Sheet and Other Items (LR017) produced 22% higher RBC for the industry when compared to BACV. For Miscellaneous Assets (LR012) it produced 2% lower RBC for the industry. These results gave rise to a conceptual discussion around the advisability of using a measurement basis other than the BACV reflected in the regulatory financial statements. It was noted that at any point in time the use of FV could produce higher or lower industry RBC when compared to using BACV. It was also noted that using FV could make RBC more pro-cyclical or volatile. For other assets, we understand that BACV will continue to be the basis on which RBC asset charges are applied. No one felt that a strong basis for change is indicated and none is recommended.
Off balance sheet exposure – Is the current approach effective in terms of measuring potential exposure and applying an RBC charge commensurate with the risk?

Representatives from MetLife provided observations on their review of various approaches for determining economic capital related to counterparty credit risk (off and on balance sheet) for various derivative instruments. This enabled us to compare and contrast certain Monte-Carlo and Add-on approaches, including the NAIC approach, to determine the potential case for change.

They highlighted two components of counterparty credit risk (CCR):

Current exposure = replacement cost of the transaction if the counterparty defaults immediately

Potential exposure = future replacement cost or the extent to which the value of a position could become positive

Two approaches for estimating potential exposure were compared:

Monte Carlo simulation = simulation of underlying market risk factors over the life of a trade at selected time intervals to maturity

Add – on = current market value plus an add-on factor found in a look-up table multiplied by the notional amount of the contract

Included in Appendix 5 is a list of pros and cons for each approach and a more detailed comparison of the respective methodologies. Key findings were also summarized indicating, in general, that the Monte Carlo based approaches were more sensitive to concentration risk and produced a wider range of capital requirements while the Add-on approaches tended to be less difficult to implement and produced a narrower range of capital requirements. The Monte-Carlo based approaches are considered more sophisticated and data intensive. Use of Add-on approaches is less complex and less resource intensive. Both yield generally understandable results.

It was noted that the Basel III regime for banks allows for the use of more sophisticated capital measurement techniques for those entities inclined to seek regulatory approval. For other banks not so inclined, less sophisticated techniques are applied.

We recognize that an approach suitable for insurance regulatory purposes must be effective and feasible for all sizes and sophistication of insurers. All recognized that the Monte Carlo approaches require a substantial investment and sophistication and it is not feasible at this time to expect smaller insurers to accommodate such a requirement. This narrowed the field of feasible approaches to the two Add-ons: “current exposure method” (CEM) and the NAIC method used today. There were no strong opinions that the CEM represented enough of an improvement over the status quo to recommend a full change of approach.

However, reflecting on the RBC approach for bonds, it was noted that expected losses used to establish capital charges should reflect recovery experience (loss given default). We agreed that using 100% of the
notional amount for written (sold protection) credit default swaps when calculating the potential exposure overestimates the risk. Our recommendation is that this formula be changed to reflect recovery experience consist with the RBC approach for bonds, when the updated information is finalized.

Subsidiary counterparties – Is the risk effectively reflected in RBC?

In order to evaluate the completeness of existing requirements, we inquired of the NAIC as to the diligence and procedures performed with respect to the SVO’s “List of Counterparties Rate by the SVO for Schedule DB – Part E – Section 1”.

It was noted that the SVO’s process involves a standard review of ratings described in Part Six Section 3 of the Purpose and Procedures Manual, stated as follows: “The SVO will convert the counterparty’s or the guarantor’s financial strength ratings as assigned by an NAIC CRP (e.g., S&P Financial Programs Ratings, Moody’s Counterparty’s Ratings or Fitch Counterparty Risk Ratings) into an equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength rating, the SVO may convert the counterparty’s senior unsecured rating as assigned by an NAIC CRP, into the equivalent NAIC Designation. In the absence of an NAIC CRP counterparty financial strength or senior unsecured rating, the SVO will conduct a review of the counterparty’s financial statements to assign an NAIC Designation.”

In order for RBC to be sensitive to changes in counter-party credit quality, Companies must ensure that the specific counterparty entity to be listed on Schedule DB—Part E—Section 1 has been assigned a current rating. The following documents are to be submitted for SVO review to allow for a current rating:

- A Counterparty Rating ATF Initial Filing Form
- Form CRR-1, as discussed in Part Two, Section 9(b) of the Purpose and Procedures Manual of the NAIC Securities Valuation Office
- Evidence of an NAIC CRP counterparty rating, an NAIC CRP senior unsecured rating or a copy of the most recent Audited Financial Statement for the counterparty, or the counterparty’s guarantor, so that the SVO can assess credit quality and assign an NAIC Designation.

We concluded that these requirements, if complied with, assure that RBC will be sensitive to changing counterparty credit risk whether the counter party is a stand-alone entity or member of a group. No changes are recommended.

Recommendation

Our one recommendation is that the potential exposure formula included in the Schedule DB Part A instructions for written (sold protection) credit default swaps be changed to reflect recovery experience consistent with the RBC approach for bonds.
Appendices

1 – Meeting notes

NAIC C-1 for derivatives call notes.

2 – Materials used for background on Miscellaneous Assets, RSATs, Hedging, Off Balance Sheet and Other Items

LR012 Counterparty BACV RBC excl MetLife.pptx
LR013 RSAT RBC excl MetLife.pptx
LR017 RBC Counterparty off-balance sheet exposure excl MetLife.pptx
NAIC RBC 2011 Instructions LAH.pdf

3 – Materials used for RSAT analysis

RSAT Summary.docx
Replication (Synthetic Asset) Transactions (The Cash Component).pdf

4 – Materials used for FV compared to BACV analysis

LR017 RBC BV-FV analysis.pdf
LR012 RBC BV-FV analysis.pdf

5 – Materials used for off balance sheet/potential exposure analysis

PotentialExposure_E exclMetLife.pptx

6 – Materials used for counterparties and subsidiaries analysis

See: Part Six Section 3 of the SVO Purpose and Procedures Manual - 2012
Memorandum

To: NAIC Investment Risk Based Capital (RBC) Working Group

From: Walter Givler – Northwestern Mutual Life, Mark Anderson – MetLife and other members of the ACLI Derivative Risk Mitigation Team (Andrew Melnyk/Khari Cook coordinating)

Date: December 11, 2013

Re: Life Insurer RBC for Derivatives – addendum to memorandum of March 29, 2013 (our report) for re-deliberation of public comments

Executive Summary

There were two topics raised in connection with the public comment period regarding our report dated March 29, 2013.

The first comment suggested a re-examination of the risks inherent in replications, particularly the RBC treatment of the C-1 charge applied to the cash instrument component. We concluded that the risks inherent in replications are satisfactorily addressed as we described them in our report. However, we would supplement our report with the fact that the current RBC instructions allow the reporting entity to apply a C-1 RBC credit for the cash instrument only when the replication transaction eliminates the C-1 risk.

The second comment suggested that we expand our review to include updated treatment of derivative collateral for over-the-counter (OTC) centrally cleared derivatives in light of changes arising from the Dodd-Frank Wall Street Reform and Consumer Protection Act (DF). To accomplish this end, this part of the addendum to our report is necessarily more extensive and includes suggested changes to the RBC and Asset Valuation Reserve (AVR) calculations to bring them into alignment with the associated risk and transactional changes brought about by DF which are currently emerging. In short, DF generally requires the standardization of terms and use of central clearing to reduce the transactional risk in the OTC derivative market. Our analysis and recommendations generally parallel the treatment of exchange traded derivatives as they already benefit from similar risk reduction requirements.

We have also suggested some referrals intended to bring about more uniformity in reporting and compliance.

Replications

The group researched the history of replications (RSAT) utilizing ACLI documents and historic Annual Statement Instructions. An RBC instruction from 1998 was first reviewed. The instructions require the preparer of the RBC calculation to determine if the replication transaction provided for the elimination of the C-1 risk associated with the cash instrument. The instructions went on to allow an RBC credit for the C-1 otherwise assigned to the cash instrument if the transaction eliminates that asset risk. If not, no credit is allowed. Our group confirmed that such a requirement exists in current RBC instructions such
that an RBC credit for the cash instrument C-1 charge is allowed only when the replication transaction eliminates that C-1 risk.

Recommendation - Replications

We have concluded that all risks inherent in replications are sufficiently addressed by current RBC instructions such that no change is necessary.

Derivative Collateral and Related AVR Matters

Please recall from our report that insurers use derivatives to manage risks such as interest rate risk, foreign currency exchange rate risk, credit and equity market risk. Derivative hedges are designed to reduce risk on an economic basis while consideration is given to their impact on accounting results and statutory capital. Historically, insurance companies have entered into various collateral arrangements with counterparties, which require both the pledging and accepting of collateral in connection with its bilateral over-the-counter (OTC-bilateral) derivatives. These collateral arrangements may allow the exchange of cash or securities. Generally, collateral is exchanged between an insurer and a counterparty based on the net derivative position at the end of each day. If the insurance company has a net asset when valuing all of its derivative positions with a counter party and that net asset value exceeds a pre-determined threshold, if one exists in the collateral arrangement between companies, then the insurance company will receive collateral from the counterparty. Conversely, if the insurance company has a net liability position, the insurance company posts collateral with the counterparty.

In 2013 DF required companies to start transacting swaps (a form of OTC derivative) through central clearinghouses. Central clearing is a critical component of DF’s regulatory regime and is expected to be one of the primary ways of reducing systemic risk in the financial markets. It is designed to standardize certain swaps, promote transparency, and allow market participants to mitigate their counterparty credit risk to dealers. A central clearinghouse will be the counterparty to all centrally cleared swaps and will be required by the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) to have the appropriate tools and procedures for risk mitigation — thereby, greatly reducing counterparty risk.

Please note that DF does not change the transacting of exchange-traded derivatives (e. g. futures) or the associated risks so we do not believe that changing their reporting or RBC treatment is necessary at this time. By way of background, futures have their own statutory accounting and reporting treatment for both initial margin and variation margin such that variation margin on futures are considered settlements, not collateral, and no interest is earned on the variation margin.

In general, DF requires initial and variation margin for OTC transactions to be posted with the central clearinghouses. Initial margin collateral requirements can be met with either cash or securities. Currently, initial margin requirement rules under DF have only been implemented for certain over-the-counter standardized centrally cleared (“OTC-cleared”) derivatives. It is expected that initial margin will be required for OTC-bilateral derivatives as well; however, the rules for initial margin for OTC-bilateral derivatives have not been finalized. Initial margin is required to protect the clearinghouse from the gap
risk arising between the time of default and the expected time for the clearinghouse to close out of the trade. For OTC-cleared trades, the gap risk set by the clearinghouse is five days of value at risk. For OTC-bilateral trades, once the rules are finalized, the gap risk is expected to be greater than five days of value at risk. DF also requires a daily variation margin, reflecting the daily change in the derivative fair value, to be exchanged between the insurer and the central clearinghouse, typically through a clearing broker. The variation margin concept is similar to the OTC-bilateral collateral arrangements but the threshold for posting collateral is essentially zero. In effect, the parties are exchanging collateral to the extent of their daily gains and losses. Currently, variation margin must be exchanged in cash. It is anticipated that the amount of collateral, including cash collateral, will significantly increase over the next few years as more derivatives are handled and cleared in this manner.

For OTC-bilateral derivatives and OTC-cleared derivatives, collateral is exchanged to protect the party (insurance company, counterparty or central clearinghouse) that has a positive derivative position from default by the other party to the derivative transaction. If the insurer has to pledge collateral, other than initial margin, that means the insurer’s position is a net liability. If the counterparty or central clearinghouse defaults, the collateral posted by the insurer will be used to settle the outstanding obligation owed by the insurer. Since collateral is exchanged daily, the risk of loss to either party from an uncollateralized position is limited.

Questions used to develop discussion and recommendations for OTC-bilateral and OTC-cleared derivatives impacted by DF:

1. How should an insurance company report initial and variation margin?
2. How should the insurer report collateral pledged to its counterparties?
3. What are the risks and related RBC implications of cash pledged as collateral versus securities pledged as collateral?

Discussion

Based on discussion and conclusions reached by our group both the initial and variation margin amounts posted by parties to the derivative transaction are in our view most accurately characterized as collateral since they essentially secure amounts owed by the relevant parties at various points during the term of the derivative contract. Interest accrues on the collateral posted suggesting that until the derivative contract reaches maturity or is otherwise terminated it represents an ongoing relationship between the parties.

We examined how to align the C-1 RBC charge with the associated asset risks. The risk is a function of the assets involved and the need for counter-parties and clearing houses to perform in accord with the terms of the derivative contract. The introduction of clearinghouses approved and mandated by DF prompted a question about whether transacting with the clearinghouses, including the posting of collateral, is risk free. After some discussion we concluded that the risk was reduced to a very low level, but not reduced to zero because the clearinghouses are not backed by the full faith and credit of the
U.S. Government. Depending on the type of collateral pledged, there are reporting considerations and implications for RBC:

**Securities Pledged as Collateral** - Securities collateral pledged by the insurer is reported on Schedule D as bonds and receives an RBC charge on LR002, Bonds. The RBC charge is based on the bond’s NAIC designation. If the bond is exempt (e.g. U.S. Treasury), the RBC factor is zero. The remaining bond RBC factors are listed below by NAIC designation.

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<th>NAIC Designation</th>
<th>Factor</th>
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<td>Exempt</td>
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<td>0.230</td>
</tr>
<tr>
<td>6</td>
<td>0.300</td>
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</table>

**Cash Pledged as Collateral** – Cash and cash equivalents attract a C-1 RBC charge of 0.4%. However, cash pledged for OTC-bilateral and OTC-cleared derivatives reduces a company’s cash balance and is offset on the statutory balance sheet asset page by a receivable for the return of that cash collateral. In practice, insurance companies are recording this cash collateral receivable on different lines of the asset page. Based on industry discussions, the two main categories are Line 9 - *Receivables for Securities* and Line 11 - *Aggregate Write-ins for Invested Assets*.

Regardless of which of the two lines on the asset page is used to report the cash collateral pledged, balances from those lines are reflected in lines 5 and 6.1, respectively, of the RBC schedule LR012, *Miscellaneous Assets*. The C-1 RBC factor applied to those lines is 6.8%. To our group, that factor seemed unusually high for collateral posted to a central clearing house that is approved and mandated under DF. The 6.8% falls between an NAIC designated 3 bond (4.6%) and NAIC designated 4 bond (10.0%). By comparison, cash on line 1 of LR012, and securities collateral received from a NAIC 1 counterparty, line 8 of LR012 *Collateral Off Balance Sheet*, have factors of 0.4%.

In practice, for initial margin, in most cases only NAIC bonds designated as exempt or NAIC 1 are acceptable forms of securities collateral (some collateral agreements allow NAIC 2 bonds, which are still investment grade). Currently, variation margin for OTC-cleared trades is required to be posted in cash.
In addition, under current rules for OTC-bilateral and OTC-cleared derivatives collateral pledged, both cash and securities, are included in line 7, Pledged as Collateral of LR017 Off-balance Sheet and Other Items. On line 7, the RBC factor for all pledged collateral is 1.3%. Therefore the total impact of pledging cash as collateral for derivatives is 8.1% (6.8%+1.3%), yet it is 1.3% if, for example, an exempt bond is pledged as collateral.

Modifications to the derivative instruments section of the AVR annual statement reserve calculation were discussed and developed in order to separately identify the book adjusted carrying value of centrally cleared derivatives and apply appropriate AVR factors. We concluded that the same basic contribution (0.04%), reserve objective (0.23%) and maximum reserve (0.3%) AVR factors should be used as those applied to exchange traded derivatives and NAIC 1 counterparties. This conclusion was supported by the fact that DF requires expanded use of standardized terms and the use of qualified clearinghouses.

Recommendations – Collateral and related AVR matters

Our group recommends that the disparities noted above, which will be accentuated by the further implementation of DF, be remedied as follows:

#1 - We believe that insurers should report the following as collateral in a way that will enable the proper calculation of RBC and AVR:

- Initial margin for OTC-bilateral derivatives
- Initial margin for OTC-cleared derivatives
- Variation margin for OTC-cleared derivatives
- Collateral pledged for OTC-bilateral derivatives

#2 - Concerning cash collateral pledged for OTC-bilateral and OTC-cleared derivatives we suggest making changes to LR012 Miscellaneous Assets to avoid the double charging of cash collateral noted in the discussion. To accomplish this we propose that the pledged cash collateral for derivatives be excluded from a RBC charge on LR012 and included in the Pledged as Collateral RBC charge on LR017 Off-balance Sheet and Other Items. This involves subtracting cash collateral amounts pledged for derivatives from line 6, Aggregate Write-ins for Invested Assets on LR012 Miscellaneous Assets prior to applying the RBC charge for Aggregate Write-ins for Invested Assets.

In a related change to LR012, we propose that the book adjusted carrying value of derivative balances subject to central clearing be identified in the AVR schedule and imported to the derivative instruments section of LR012 Miscellaneous Assets so that a C-1 charge of 0.4% may be applied to that balance which coincides with the Cash, NAIC 1 bond, and Derivatives Instruments Over-the-Counter Class 1 RBC factor of 0.4%.
In addition, the reference in the instructions and schedule for line 8 Collateral – Off Balance Sheet and line 9 Collateral – On Balance Sheet should be updated to reflect the proper line on Schedule DB Part D Section 1 which was revised beginning in 2013 to report centrally cleared derivatives.

This is accomplished by modifying the schedule and instructions for lines 6, 8, 9 and 17 of LR012 Miscellaneous Assets with treatment described in the revised instructions and calculations attached.

Enabling changes to AVR instructions and schedules are also attached.

#3 - For cash collateral pledged for OTC-bilateral and OTC-cleared derivatives, we propose modifications to reduce the RBC charge on LR017 Off-balance Sheet and Other Items from 1.3% to 0.4% for collateral pledged for derivatives.

Our support for this conclusion is based upon the following summarized from the previous discussion:

- Initial margin is required to be posted to central clearinghouses under the Act, to protect the central clearinghouses from gap risk in case of the default of companies that clear derivatives with the central clearinghouses. The concept of using approved and mandated central clearinghouses mitigates risk for insurers and the RBC factor used should reflect that fact.

- Variation margin for OTC-cleared derivatives is required to be posted by the party in a net liability (loss) position on any given day for the benefit of the counterparty to the transaction in a net asset (gain) position. A similar scenario exists for collateral pledged for OTC-bilateral derivatives. This requirement is also mitigates risk for insurers.

- Collateral is exchanged daily limiting the risk of loss to the insurance company due to default by the central clearinghouse or counterparty.

In a related change, we propose that the Off-balance Sheet Exposure for Centrally Cleared derivative balances should be included in the derivative instruments section of LR017 Off-balance Sheet and Other Items so that a C-1 charge of 0.4% may be applied to that balance which coincides with the Cash, NAIC 1 bond, and Derivatives Instruments Over-the-Counter Class 1 RBC factor of 0.4%.

This is accomplished by modifying the schedule and instructions for lines 7 and 20 of LR017 Off-balance Sheet and Other Items with treatment described in the revised instructions and calculations attached.

Technical corrections not directly related to the project’s scope

In connection with the research and findings described above, two matters were noted for further analysis and possible referral to other working groups.

Referral #1 - In reviewing the Annual Statement Instructions for LR017 - Off Balance Sheet and Other Items, it was noted that the instructions for Lines (3) through (11) of this schedule state:
Non-controlled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (7) include assets pledged as collateral reported in the General Interrogatories Part 1 Line 25.25 other than assets related to the Federal Reserve’s Term Asset Loan Facility (TALF).

The Blank for LR017 also includes a footnote † which states:

For Column (2) Line (7), include assets pledged as collateral related to the Federal Reserve’s Term Asset Loan Facility (TALF).

The statements in the Blank and the Annual Statement Instructions appear to be contradictory. We believe this matter should be referred to an appropriate NAIC group for consideration.

Referral #2 – Cash collateral pledged for OTC-bilateral and OTC-cleared derivatives should be reported on the Asset page as a write-in on Line 11 - Aggregate Write-ins for Invested Assets. This accounting treatment should be referred to the Statutory Accounting Principles Working Group (“SAPWG”).

In connection with the recommendation and work related to the changes noted above for LR012 and LR017, we believe that a clarification should be made within the Annual Statement Instructions to ensure that the collateral posted to a counterparty, clearinghouse, or exchange in connection with derivative transactions is reflected on Line 11 - Aggregate Write-ins for Invested Assets on the Assets page of the Annual Statement. During the research process, the group determined that diversity in practice exists as insurers currently record collateral posted to a counterparty, clearinghouse, or exchange on either Line 9 - Receivables for Securities or Line 11 - Aggregate Write-ins for Invested Assets on the Assets page of the Annual Statement.

As a matter of background, the 2013 NAIC Quarterly Statements Instructions – Life defines the lines as follows:

Receivables for Securities as “Amounts received within 15 days of the settlement date that are due from brokers when a security has been sold but the proceeds have not yet been received.” In our opinion, cash collateral pledged for OTC-bilateral and OTC-cleared derivatives do not meet this definition.

Aggregate Write-ins for Invested Assets as “Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 11 for Invested Assets.” This category is much broader and it is our opinion that cash collateral pledged for OTC-bilateral and OTC-cleared derivatives should be listed within this category.

Attachments – enabling changes to RBC and AVR schedules
MISCELLANEOUS ASSETS
LR012

Basis of Factors

Lines (1) through (3.5)
The pre-tax factor for cash is 0.4 percent. It is recognized that there is a small risk related to possible insolvency of the bank where cash deposits are held. The 0.4 percent pre-tax factor, equivalent to a NAIC 1 bond, reflects the short-term nature of this risk.

The short-term investments to be included here are those not reflected elsewhere in the formula. Commercial paper, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest-only and principal-only certificates (IOs and POs), and equipment trust certificates should be included in appropriate bond classifications (NAIC 1 through NAIC 6) on LR002 Bonds and should be excluded from short-term investments. The 0.4 percent pre-tax factor is equal to the factor for cash.

Lines (4) through (7)
Premium notes, receivables for securities and write-ins for invested assets are generally a small proportion of total portfolio value. A pre-tax factor of 6.8 percent is consistent with other risk-based capital formulas studied by the working group. The total amount of derivatives cash collateral receivable (pledged to counterparty and/or central clearinghouse) included in Line (6.1)(from Line 11, page 2) should be included on Line (6.2) resulting in Line (6.3) including no derivative collateral receivable amounts. Pledged collateral is reported in LR017, Off-Balance Sheet and Other Items.

Lines (8) through (17)
Derivative instrument book/adjusted carrying value exposure net of collateral held on the balance sheet from Schedule DB Part D Section 1 Column 7 for each NAIC designation, is subject to the bond RBC factor for that category to reflect the amount held on the balance sheet exposed to loss upon default of the Over the Counter (OTC-bilateral) counterparty, central clearinghouse, or exchange. Acceptable collateral is subject to an RBC charge at the same level as NAIC 1 Bonds. The collateral from Schedule DB Part D Section 1 Column 4 Line 0899999 should be reported in Lines (8) and (9). The split between Lines (8) and (9) will be that Line (8) will include collateral not on the balance sheet, and will be subject to an RBC charge of 0.4%, while Line (9) will include collateral held on the balance sheet and subject to an RBC charge as an admitted asset. Amounts reported in line 9 will be assessed RBC based on their characteristics as an asset elsewhere in the RBC instructions. "Acceptable collateral" means cash, cash equivalents, securities issued or guaranteed by the United States or Canadian governments or their government-sponsored enterprises, publicly traded obligations designated by the NAIC, government money market mutual funds, and such other items as may be defined as acceptable collateral in the Purposes and Procedures Manual of the NAIC Securities Valuation Office.
OFF-BALANCE SHEET AND OTHER ITEMS
LR017

Basis of Factors

The potential for risk exists in off-balance sheet items. For items other than derivative instruments, a 1.3 percent factor was chosen on a judgment basis. The 1.3 percent pre-tax factor will differentiate between the companies that have small and large exposures to this risk. Since there is no firm actuarial basis for assigning the 1.3 percent pre-tax factor to these risks, off-balance sheet items are included in the sensitivity analysis using a factor of 3 percent, and leases are added as an additional off-balance sheet item. For securities lending programs, a reduced charge may apply to certain programs that meet the criteria as outlined below.

For derivative instruments, the book/adjusted carrying value exposure net of collateral (the balance sheet exposure) is included under miscellaneous C-10 risks. Because collars, swaps, forwards and futures can have book/adjusted carrying values that are positive, zero or negative, the potential exposure to default by the counterparty or exchange for these instruments cannot be measured by the book/adjusted carrying values. Schedule DB, therefore, includes a calculation of the potential exposure that is based on the March 1987 research paper “Potential Credit Exposure on Interest Rate and Foreign Exchange Rate Related Instruments,” supporting the 1988 Bank of International Settlements framework for banks. The off-balance sheet exposure (Schedule DB, Part D, Section 1, Column 12) will measure this potential exposure for risk-based capital purposes. The factors applied to the derivatives off-balance sheet exposure are the same as those applied to bonds.

Specific Instructions for Application of the Formula

Column (2)
Assets directly funding guaranteed separate accounts or synthetic GIC contracts should be excluded from the noncontrolled assets computation.

Line (1)
Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.

2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
   a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
   b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
   c. Approved borrower lists and loan limits to allow for adequate diversification.
   d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
   e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
   f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.

3. A binding securities lending agreement (standard “Master Lending Agreement” from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-rated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 24.05 of the annual statement should be included on Line (1).

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 24.06 and included in Line (2).

Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (7) include assets pledged as collateral reported in the General Interrogatories Part 1 Line 25.25 other than assets related to the Federal Reserve’s Term Asset Loan Facility (TALF).

The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part D, Column 12, Lines 0199999 through 0899999 are reported for exchange traded, each individual NAIC designation, and centrally cleared.

Guarantees for affiliates include guarantees for the benefit of an affiliate that result in a material† contingent exposure of the company’s assets to liability.

The exposure amount for long-term leases is the annual rental amount of all leases that could have a material† financial effect. If the rent expense is shared with affiliates, it should be allocated by company.

"Yes" means the entity which files the US Federal income tax return which includes the reporting entity is a regulated insurance company (including where the reporting entity is the direct filer of the tax return). "No" means the entity which files the US Federal income tax return which includes the reporting entity is not a regulated insurance company (e.g. a non-insurance entity or holding company makes the filing). "N/A" means the entity is exempt from filing a US federal income tax return; lines (30) and (31) should be zero in this case.

Apply a one-percent (1%) charge in the RBC formula, placed outside of the covariance adjustment, to admitted adjusted gross deferred tax assets (DTAs) as described in SSAP No. 101, paragraphs 11a and 11b (lesser of paragraph 11b(i) and 11b(ii)). For the period for which the paragraph 11a component is determined, the charge is reduced to one-half percent (0.5%) when the insurance company either filed its own separate Federal income tax return or it was included in a consolidated Federal income tax return of which the common parent is an insurance company. The source for the DTA amounts to use in the calculation is found in the Annual Statement, Notes to Financial Statements, Note 9, Part A, Section 2, Admission Calculation Components for SSAP No. 101. Paragraph 11a is found in Section 2, subpart (a), Paragraph 11b is found in Section 2, subpart (b).

† The definition of “material” exposure or financial effect is the same as for annual statement disclosure requirements.
### MISCELLANEOUS ASSETS

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<th>Source</th>
<th>Book / Adjusted Carrying Value</th>
<th>Factor</th>
<th>RBC Requirement</th>
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<td>(3.3) Less Exempt Money Market Funds</td>
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<td>(3.4) Less Class One Money Market Funds</td>
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<td>(4) Premium Notes</td>
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<td>(6.1) Aggregate Write-ins for Invested Assets</td>
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<td>(6.2) Net Derivative Instruments Receivable</td>
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<td>(20) Reduction in RBC for MODCO/Funds Withheld</td>
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<td>(21) Increase in RBC for MODCO/Funds Withheld</td>
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Denotes items that must be manually entered on the filing software.
### Off-Balance Sheet and Other Items

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<th>Noncontrolled Assets</th>
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<td>Assets Placed Under Option Agreements</td>
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<td>Letter Stock or Other Securities Restricted</td>
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<td>On Deposit with State or Other Regulatory Body</td>
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### Derivative Instruments

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<td>Total Off-Balance Sheet Items (including MODICO/Funds Withheld)</td>
<td>Lines (25) - (26) + (27) + (28) + (29) + (30)</td>
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<td>Other Items</td>
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### Derivation of Total Off-Balance Sheet and Other Items

| (21) Total Derivative Instruments Off-Balance Sheet Exposure                          | |                  |          |        |                 |         |
| (22) Total Off-Balance Sheet and Other Items                                         | |                  |          |        |                 |         |
| (23) Is the entity responsible for filing the U.S. Federal income tax return for the reporting insurer or a regulated insurance company? | Yes", "No" or "N/A" in Column (6) |                  |          |        |                 |         |

Notes:
- † For Column (2) Line (7), include assets pledged as collateral related to the Federal Reserve’s Term Asset Loan Facility (TALF).
- ‡ If Line (29) Column (6) is "Yes", then the factor is 0.005. If Line (29) Column (6) is "No", then the factor is 0.010. If Line (29) Column (6) is "N/A", then the factor is 0.000.
- Denotes items that must be manually entered on the filing software.
Report the book/adjusted carrying value exposure to counterparty credit risk associated with the use of derivative instruments, net of acceptable collateral, for exchange traded, each counterparty by SVO designation, and centrally cleared from Schedule DB, Part D, Column 7. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Column 6 must be reported on Page 29, Line 7, Column 1.

Column 8 must be reported on Page 29, Line 10, Column 1.

Column 10 must be reported on Page 29, Line 9, Column 1.
## ASSET VALUATION RESERVE (Continued)

### BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS

### DEFAULT COMPONENT

<table>
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<th>Line Number</th>
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<td>Highest Quality</td>
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<tr>
<td>28</td>
<td>Medium Quality</td>
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<td>30</td>
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<td>31</td>
<td>In or Near Default</td>
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<tr>
<td>32</td>
<td>Controllably Cleared</td>
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<td>Total Derivative Instruments</td>
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<tr>
<td>44</td>
<td>MORTGAGE LOANS</td>
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<tr>
<td>47</td>
<td>Residential Mortgages - Insured or Guaranteed</td>
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<td>48</td>
<td>Residential Mortgages - All Other</td>
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<tr>
<td>49</td>
<td>Commercial Mortgages - Insured or Guaranteed</td>
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<td>50</td>
<td>Commercial Mortgages - All Other</td>
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<td>Commercial Mortgages - Insured or Guaranteed</td>
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<td>Commercial Mortgages - All Other</td>
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<td>Total Schedule B Mortgages (Sum of Lines 47 through 56)</td>
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<td>Schedule DA Mortgages</td>
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<td>Total Mortgage Loans on Real Estate (Lines 58 + 59)</td>
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### Conclusion:

- **Deleted:** Lines 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55.