Capital Adequacy (E) Task Force

RBC Proposal Form

[ ] Capital Adequacy (E) Task Force	[ ] Health RBC (E) Working Group	[ ] Life RBC (E) Working Group
[ ] Catastrophe Risk (E) Subgroup	[ ] Investment RBC (E) Working Group	[ ] Op Risk RBC (E) Subgroup
[ ] C3 Phase II/ AG43 (E/A) Subgroup	[x] P/C RBC (E) Working Group	[ ] Stress Testing (E) Subgroup

DATE: 10/30/2017

CONTACT PERSON: Eva Yeung

TELEPHONE: 816-783-8407

EMAIL ADDRESS: eyeung@naic.org

ON BEHALF OF: P/C RBC (E) Working Group

NAME: Tom Botsko

TITLE: Chair

AFFILIATION: Ohio Department of Insurance

ADDRESS: 50 West Town Street, Suite 300
Columbus, OH 43215

FOR NAIC USE ONLY

Agenda Item # 2017-14-P

Year 2018

DISPOSITION

[x] ADOPTED 3/25/17

[ ] REJECTED

[ ] DEFERRED TO

[ ] REFERRED TO OTHER NAIC GROUP

[x] EXPOSED 12/14/17

[ ] OTHER (SPECIFY)

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

[ ] Health RBC Blanks	[x] Property/Casualty RBC Blanks	[ ] Life RBC Instructions
[ ] Fraternal RBC Blanks	[ ] Health RBC Instructions	[x] Property/Casualty RBC Instructions
[ ] Life RBC Blanks	[ ] Fraternal RBC Instructions	[ ] OTHER ______________

DESCRIPTION OF CHANGE(S)

The proposed change would 1) remove the RBC charge of the affiliated bond from PR003, PR004 and PR005 in the P&C RBC formula; and 2) Include both Affiliated and Unaffiliated Bond RBC charge in the PR006.

REASON OR JUSTIFICATION FOR CHANGE **

1) The proposed change will result in consistent treatment for affiliated investments all the three RBC formulae in that only RBC charges for affiliated common stock and preferred stock are separately evaluated from their non-affiliated counterpart;
2) The P&C RBC charge on affiliated bonds will vary by the credit quality of the bond and therefore be more risk based compared to the current flat charge of 22.5%; and
3) Computation errors arising from cases where the reporting entity fails to report the total value of the affiliate's outstanding common stocks and preferred stocks will be reduced.

Additional Staff Comments:

1) 10/16/17 – Received a referral from the Affiliated Investments Ad Hoc Group.
2) 10/30/17 - The PC RBC WG exposed it for a 45-day public comment period ending 12/14.
3) 12/14/17 – NAMIC comment letter was received.
4) 3/24/18 – The PCRBC WG adopted the proposal at the Spring National Meeting.
5) 3/25/18 – Capital Adequacy Task Force adopted at the Spring National Meeting.

**** This section must be completed on all forms.** **Revised 11-2013**

AFFILIATED STOCKS ~~AND BONDS~~
PR003 – PR005

There are fifteen categories of subsidiary and affiliated investments that are subject to RBC requirement for common stock~~,~~ and preferred stock~~, and bond~~ holdings. Those fifteen categories are:

1. Directly Owned P&C Insurance Affiliates Subject to RBC
2. Directly Owned Life Insurance Affiliates Subject to RBC
3. Directly Owned Health Insurance Affiliates Subject to RBC
4. Indirectly Owned P&C Insurance Affiliates Subject to RBC
5. Indirectly Owned Life Insurance Affiliates Subject to RBC
6. Indirectly Owned Health Insurance Affiliates Subject to RBC
7. Investment Affiliates
8. Directly Owned Alien Insurance Affiliates
9. Indirectly Owned Alien Insurance Affiliates
10. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates
11 Investments in Upstream Affiliate (Parent)
12. P&C Insurance Affiliates Not Subject to RBC
13. Life Insurance Affiliates Not Subject to RBC
14. Health Insurance Affiliates Not Subject to RBC
15. Other Affiliates

Enter applicable items for each affiliate in the Details for Affiliated ~~Bonds and~~ Stocks worksheet. The program will automatically calculate the RBC charge for each affiliate. When the data is uploaded to the NAIC database, it will be cross-checked and the company will be required to correct any discrepancies and refile a corrected version with the NAIC and/or any state that requires the company to file RBC with its department. The diskette will display the number of subsidiaries and affiliates. These numbers should be reviewed to ensure that all subsidiaries and affiliates are appropriately reported.

Affiliated investments fall into two broad categories: (a) Insurance Affiliates that are Subject to RBC; and (b) Affiliates that are Not Subject to RBC. The RBC for these two broad groups differs, therefore, the general treatment is explained below.

Insurance Affiliates that are Subject to RBC

For purposes of Affiliate Risk all references to Total Risk-Based Capital After Covariance of the subsidiary or affiliate means:
• For a Health subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (XR025, Line (37));
• For a P/C subsidiary RBC filing, Total Risk-Based Capital After Covariance before Basic Operational Risk (PR032, Line (73)); and
• For a Life subsidiary RBC filing, the sum of
(a) Total Risk-Based Capital After Covariance before Basic Operational Risk (LR031, Line (67); and
(b) Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII (AG 48) (LR031, Line (70)), multiplied by two.

For those insurance affiliates of the reporting company that are reported under the equity method, and for which unamortized admitted goodwill is zero or non-existent for the reported book/adjusted carrying value, the RBC charge of the ownership of common stock in these affiliates is limited to the lesser of (a) the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock; or (b) the common stock book/adjusted carrying value greater than zero at which the affiliate is carried. To establish the percentage of ownership of common stock, the book/adjusted carrying value of the insurance affiliate must be entered in Column (5) of the appropriate worksheet and the total outstanding common stock of that affiliate must be entered in Column (7).

For all other insurance affiliates of the reporting company, the RBC charge of the ownership of common stock in these affiliates consists of two components:

(1) The R_0 component, which is limited to the lesser of (a) the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock; or (b) the statutory surplus of the affiliate times the percentage of ownership of total common stock.

(2) The R_2 component, which is computed in the following manner:
If the Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock is greater than the book / adjusted carrying value, the R_2 component is set equal to the amount of the book / adjusted carrying value of the common stock that exceeds the value obtained from the R_0 component (step (1)(b) above).

Otherwise, the R_2 component is set equal to the larger of (a) 22.5 percent times the excess of book / adjusted carrying value over the pro rata statutory surplus value for the affiliate; and (b) the amount that Total RBC After Covariance of the affiliate times the percentage of ownership of total common stock exceeds the value obtained from the R_0 component.
In any case, the R_2 component is limited to a floor of zero.

The RBC charge for ownership of preferred stock on these affiliates is somewhat more complex and depends on whether there is *excess RBC* over and above the total value of the outstanding common stock. Excess RBC is defined as the amount that the Total RBC After Covariance of the affiliate exceeds the common stock book/adjusted carrying value for the investment in that affiliate. If the Total RBC After Covariance of the affiliate is less than the common stock book/adjusted carrying value for the investment in that affiliate, then there is no excess RBC and there is no RBC charge for the ownership of the preferred stock. If there is excess RBC, then the charge for ownership of the preferred stock is the lesser of (a) the pro rata share of the excess RBC; or (b) the reporting company's book/adjusted carrying value of the preferred stock greater than zero. The pro rata ownership of preferred stock is the ratio of the affiliate's preferred stock in Column (10) of the affiliated worksheet to the value of all outstanding preferred stock in Column (11). The pro rata share is multiplied by the excess RBC and compared to the carrying value of preferred stock in Column (10).

~~The RBC charge for ownership of bonds in these affiliates is based on *excess RBC* to the extent that the Total RBC After Covariance of the affiliate exceeds both the common stock book / adjusted carrying value for the investment in that affiliate and the total outstanding preferred stock of the affiliate. If that situation occurs, then the RBC charge for ownership of those bonds is calculated by multiplying the pro rata ownership of the bonds times the excess RBC and then comparing that figure to the book/adjusted carrying value of the bonds. The carrying value of bonds must be entered in Column (13) of the appropriate affiliated worksheet and the total outstanding value of bonds must be entered in Column (14). The RBC charge for ownership is the lesser of the pro rata excess RBC or the carrying value of the bonds that is greater than zero.~~

To determine the value of total outstanding common stock or total outstanding preferred stock, divide the book/adjusted carrying value of the investment (found in Schedule D - Part 6 Section 1, Column 7) by the percentage of ownership (found in Schedule D – Part 6 – Section 1, Column 9). For example:

Affiliated Insurance Company	Owner's Book / Adjusted Carrying Value	Percentage Ownership	Total Common Stock Outstanding
Affiliate #1	$1,000,000	100%	$1,000,000
Affiliate #2	$1,000,000	75%	$1,333,333
Affiliate #3	$1,000,000	50%	$2,000,000
Affiliate #4	$1,000,000	25%	$4,000,000
Affiliate #5	$1,000,000	10%	$10,000,000

In some instances, a company may own preferred stock ~~or bonds~~ in an affiliate subject to RBC yet hold no common stock~~, or may own bonds but no common or preferred stock~~. In ~~those~~ this instance~~s~~, the company must compute the notional value of the outstanding value of the affiliate's common and/or preferred stock to determine if there is any excess. Valuation of the total outstanding common and preferred stock must be based on one of the accepted methods outlined in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

*In the rare case where Total RBC After Covariance exceeds the carrying value (market), which in turn exceeds statutory surplus, the formula will apply 100 percent of the difference between the market and surplus values as an additional RBC charge to the R_2 component. The amount of statutory surplus (adjusted for percentage ownership) continues to be added to the formula's R_0 component.

Also, note that the formula compares the amount generated by 22.5 percent of market carrying value less statutory surplus to the amount of RBC After Covariance less statutory surplus and increases the R_2 component by the larger amount. This is done in order to satisfy the initial requirement that the RBC charge for ownership of such common stock is limited to the lesser of RBC After Covariance or the financial statement carrying value of the insurer (both adjusted for percentage ownership). The situation can occur where the market carrying value is greater than RBC After Covariance, which in turn is greater than statutory surplus, which leads to the need to make this comparison.

Directly Owned U.S. Property & Casualty Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. property & casualty insurance affiliates in the Directly Owned U.S. Property & Casualty Insurance Affiliates worksheet. For each affiliate enter its name, affiliate code, NAIC company code, affiliate's Total RBC After Covariance, book/adjusted carrying value of the common stock from Schedule D Part 6 Section 1, and total outstanding common stock of that affiliate in Columns (1) through (8). The required RBC will be automatically calculated by the program. If no value is entered in the Total Value of Affiliate's Common Stock column, Column (7), then the program will assume 100 percent ownership. If the reporting company does not own any of the affiliate's common stock but does own either preferred stock or bonds, the Total Value of Affiliate's Common Stock must be entered in Column (7) so that the program can calculate whether any excess RBC exists. The RBC charge for the ownership of the affiliate's common stock will be automatically calculated; however, the required RBC cannot exceed the book/adjusted carrying value of the common stock in Column (5).

The book / adjusted carrying value of any preferred stock must be entered in Column (10) and the total outstanding value of the affiliate's preferred stock must be entered in Column (11). Again, the percentage of ownership and the RBC required for the ownership of preferred stock will be automatically calculated. Even if the reporting company does not own any of the affiliate's preferred stock, the total outstanding value of that affiliate's preferred stock must be entered so that the program will correctly calculate any excess RBC.

~~Finally, the book/adjusted carrying value of any bonds that the reporting company owns must be entered in Column (13) and the total amount of the affiliate's bonds outstanding must be entered in Column (14). Remember that the RBC for the ownership of bonds is based on excess RBC. If there is no excess RBC, then there is no RBC charge for those affiliated bonds.~~

The risk-based capital to be entered for each affiliate property and casualty insurer should be obtained by using a separate copy of the RBC program for each affiliate. Monoline financial guaranty insurers, monoline mortgage guaranty insurers and title insurers are not subject to risk-based capital. These affiliates and other similar affiliates should be reported as P&C Insurance Affiliates Not Subject to RBC.

Directly Owned U.S. Life Insurance Affiliates

Enter information regarding any top-layer directly owned U.S. life insurance affiliates in the schedule for directly owned companies in the Affiliated Bonds and Stock worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a U.S. life insurance affiliate is not subject to RBC, then it should be treated as Life Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Life affiliate should be obtained by using a separate copy of the Life RBC program for each affiliate.

Directly Owned Health Insurance Affiliates

Enter information regarding any top-layer directly owned Health Insurance affiliates in the schedule for directly owned companies in the Affiliated Bonds and Stock worksheet. For each affiliate enter the same information as that required for directly owned P&C insurance affiliates that are subject to RBC. If a HEALTH INSURANCE affiliate is not subject to RBC, then it should be treated as Health Insurance Affiliates Not Subject to RBC.

The risk-based capital of each Health Insurance affiliate should be obtained by using a separate copy of the Health RBC program for each affiliate.

Indirectly Owned U.S. P&C Insurance Affiliates

The first step in entering information on indirectly owned U.S. insurance affiliates that are subject to RBC is to allocate the reporting entity's book/adjusted carrying value of the holding company between any top-layer, indirectly owned insurance affiliates and the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. To do that, the carrying value of the holding company is first allocated based on the values shown on the holding company's balance sheet. The following example shows a hypothetical holding company, Holder Inc., that is 100 percent owned by Bigun Insurance Company and shows the allocation of Holder's carrying value among these categories:

Balance Sheet
Holder, Inc.
12/31/XXXX

ABC Life	$4,000,000	Long-Term Debt	$14,000,000
XYZ Casualty	$2,000,000	Other Liabilities	$5,000,000
Non-U.S. Casualty	$6,000,000		
GX Todd Real Estate	$4,000,000		
Cash	$5,000,000	Equity	$5,000,000
Other Assets	$3,000,000		
Total Assets	$24,000,000	Total Liab & Equity	$24,000,000

Since ABC Life Insurance Company makes up 1/6 ($4,000,000/$24,000,000) of the total assets for Holder, Inc., then this indirectly owned U.S. affiliate represents 1/6 of the carrying value of Holder, Inc. on the statement of Bigun Insurance Company. Similarly, the indirectly owned U.S. affiliate XYZ Casualty represents 1/12 of the carrying value ($2,000,000/$24,000,000) of Holder on Bigun's annual statement. Non-U.S. Casualty, which is an alien insurance affiliate, represents 1/4 of the carrying value ($6,000,000/$24,000,000) of Holder on Bigun's annual statement. One-half of the carrying value of Holder, Inc. ($12,000,000/$24,000,000) represents the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. If Bigun Insurance Company carries Holder, Inc. on its annual statement at $30,000,000 (assume that this is the current fair value of shares in Holder, which was a publicly traded corporation of which Bigun has just acquired 100 percent ownership), then Bigun will allocate 1/6 of that $30,000,000 to ABC Life, 1/12 of that $30,000,000 to XYZ Casualty, 1/4 of that $30,000,000 to Non-U.S. Casualty, and 1/2 to Holder under the category Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC charge for the indirect ownership of common stock in ABC Life will be computed as the lesser of ABC Life's Total RBC After Covariance or $5,000,000 (1/6 of $30,000,000). The RBC charge for the indirect ownership of XYZ Casualty will be the lesser of XYZ's Total RBC After Covariance or $2,500,000 (1/12 of $30,000,000).

If Bigun only acquired 50 percent of the shares of Holder, then these values must be adjusted to reflect Bigun's partial ownership and a determination made as to the nature of the carrying value of Holder. If Holder's carrying value is based on other than fair value, then the allocations follow as described in (a). If the carrying value of Holder is based on its fair value, then the allocations and any additional RBC due to the use of fair value are described in (b).

(a) Now the carrying value (not based on fair value) on Bigun's annual statement is $15,000,000 which is allocated as $2,500,000 to ABC Life (1/6 of $15,000,000), $1,250,000 to XYZ Casualty (1/12 of $15,000,000) as Indirectly Owned U.S. Insurance Affiliates, $3,750,000 to Non-U.S. Casualty (1/4 of $15,000,000) as Indirectly Owned Alien Insurance Affiliate, and $7,500,000 to Holder as the Holding Company Value in Excess of Indirectly Owned Insurance Affiliates. The RBC After Covariance for the indirectly owned U.S. insurance affiliates is also adjusted by 50% to reflect Bigun's percentage of ownership. Therefore, Bigun will enter $2,500,000 as the carrying value for ABC Life in Column (5) and $5,000,000 ($2,500,000 / 0.50) as the total outstanding common stock in Column (7).

(b) In this example, the carrying value (based on fair value) on Bigun's annual statement is $18,000,000, which will be allocated in the same manner described in (a) above. However, one additional step is added regarding the indirectly* owned U.S. Insurance Affiliates that are subject to RBC. For example, assume that the carrying value (based on fair value) of ABC on Bigun's annual statement is larger than ABC's RBC After Covariance (prorated 50 percent for its partial ownership), the amount of Holder applicable to ABC Life ($3,000,000: 1/6 of $18,000,000) will be reduced by its statutory surplus** (prorated 50 percent for its partial ownership), and if a positive amount results, then the larger of that amount times 22.5 percent or the excess of ABC's RBC After Covariance (prorated 50 percent for its ownership) over the value obtained from step (a) will be reported as a R2 component of such stock in the formula. The same will apply to XYZ Casualty.

The information for all top-layer, indirectly owned U.S. property and casualty insurance affiliates and indirectly owned U.S. life insurance affiliates is entered in the appropriate columns in the Affiliated Stocks ~~and Bonds~~ worksheet. For each affiliate enter its name, affiliate code, NAIC company code and the pro-rata share of risk-based capital along with all other information required in Columns (1) through (14). If the amount in Column (5) is based on fair value, then place an "F" in Column (6) and the affiliate's statutory capital and surplus (adjusted for ownership) in Column (8). The RBC charge (if any) will be calculated by the formula with the result appearing in Columns (16) and (17).

Indirectly Owned U.S. Life Insurance Affiliates

Indirectly owned U.S. life insurance affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

Indirectly Owned Managed Care Organizations

Indirectly owned Managed Care affiliates are treated in a manner similar to indirectly owned P&C insurance affiliates. Note that the insurance affiliate must be subject to RBC and file an RBC report to be included in this section. Otherwise, the affiliate's value will be included in the Holding Company Value in Excess of Insurance Affiliates section.

Affiliates that are Not Subject to RBC

This category includes these categories of affiliated investments:

7. Investment Affiliates
8. Directly Owned Alien Insurance Affiliates
9. Indirectly Owned Alien Insurance Affiliates
10. Holding Company Value in Excess of Indirectly Owned Insurance Affiliates
11. Investment in Upstream Affiliate (Parent)
12. P&C Insurance Affiliates Not Subject to RBC
13. Life Insurance Affiliates Not Subject to RBC
14. Health Insurance Affiliates Not Subject to RBC
15. Other Affiliates

The RBC charge for these investments is calculated by multiplying a factor times the book/adjusted carrying value of the common stock, preferred stock and bonds of those affiliates.

Investment Affiliates

An investment affiliate is an affiliate that exists only to invest the funds of the parent company. The term investment affiliate is strictly defined in the annual statement instructions as any affiliate, other than a holding company, engaged or organized primarily to engage in the ownership and management of investments for the insurer. An investment affiliate shall not include any broker-dealer or a money management fund managing funds other than those of the parent company. The risk-based capital for an investment in an Investment Affiliate is 0.225 times the carrying value of the common and preferred stock ~~and bonds~~.

Directly Owned Alien Insurance Affiliates

For purposes of this formula, the risk-based capital of each directly owned alien insurance affiliate is the annual statement carrying value of the reporting company's interest in the affiliate multiplied by 0.500. Enter information for any non-U.S. insurance affiliates; life, property and casualty and health insurers. For each affiliate, enter the name of the affiliate, Alien Insurer Identification Number, the book/adjusted carrying value of common stock, preferred stock ~~and bonds~~.

Indirectly Owned Alien Insurance Affiliates

The risk-based capital of each indirectly owned alien insurance affiliate is the carrying value of the holding company's interest in the affiliate multiplied by 0.500, and adjusted to reflect the reporting company's ownership on the holding company. In the prior example, in the case that Bigun acquired 100 percent of the shares of Holder, Bigun will enter $7,500,000 (1/4 of $30,000,000) as the carrying value for Non-U.S. Casualty and the RBC charge for the indirect ownership of this alien insurance affiliate will be $3,750,000 (0.500 times $7,500,000). In the case that Bigun only acquired 50 percent of Holder, Bigun will enter $3,750,000 (50 percent of 1/4 of $30,000,000) for Non-U.S. Casualty and the RBC charge for this indirectly owned alien insurance affiliate will be $1,875,000 (0.500 times $3,750,000).

Holding Company Value in Excess of Indirectly Owned Insurance Affiliates

The risk-based capital charge for the parent insurer preparing the calculation is a 22.5 percent charge against the holding company value in excess of the indirectly owned insurance affiliates as calculated in the prior example. Enter information in the appropriate columns of the worksheet, omitting those columns that do not apply (Column (3) – NAIC Company Code or Alien ID Number and Column (4) Affiliate's RBC After Covariance).

Investment in Upstream Affiliate (Parent)

The risk-based capital for an investment in an upstream parent is 0.225 times the carrying value of the common and preferred stock ~~and bonds~~, regardless of whether that upstream parent is subject to RBC. Enter the appropriate information in Columns (1) through (14).

Property & Casualty Insurance Affiliates Not Subject to RBC

Insurance affiliates that are not subject to RBC, such as title insurers, monoline financial guaranty insurers, and monoline mortgage guaranty insurers are classified as P&C Insurance Affiliates Not Subject to RBC. The risk-based capital for P&C Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock~~,~~ and preferred stock ~~and bonds~~ of those affiliates.

Life Insurance Affiliates Not Subject to RBC

The risk-based capital for Life Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock~~,~~ and preferred stock ~~and bonds~~ of those affiliates.

Health Insurance Affiliates Not Subject to RBC

The risk-based capital for Health Insurance Affiliates Not Subject to RBC is 0.225 times the book/adjusted carrying value of the common stock, preferred stock ~~and bonds~~ of those affiliates.

Other Affiliates

Non-insurance affiliates and insurance affiliates that are not included elsewhere, are classified as Other Affiliates. The risk-based capital for an investment in an Other Affiliate is 0.225 times the carrying value of the common and preferred stock ~~and bonds~~.

~~UNAFFILIATED~~ ASSETS
PR006 – PR014

PR006 - ~~Unaffiliated~~ Bonds and Bond Size Factor Adjustment

Basis of General Bond Factors

These bond factors are based on cash flow modeling using historically adjusted default rates for each bond category. For each of 2,000 trials, annual economic conditions were generated for the 10-year modeling period. Each bond of a 400-bond portfolio was annually tested for default (based on a "roll of the dice") where the default probability varies by NAIC Designation category and that year's economic environment.

The factors for NAIC 03 through 06 recognize that these bonds are marked to market.

Bond Size Factor

The size factor reflects additional modeling for different size portfolios that shows the risk increases as the number of bond issuers decreases. Because most insurers' bond portfolios are considerably smaller than the portfolio used to develop the model bond risk, the basic bond factors understate the true default risk of these assets. The bond size factor adjusts the computed RBC for those bonds that are subject to the size factor to more accurately reflect the risk.

The bond size factor is to be multiplied by the risk-based capital of the bonds subject to the size factor. This calculation produces the *additional* RBC required for a portfolio that has less than 1,300 bonds in it. Portfolios with more than 1,300 issuers will receive a discount. The bond size factor was developed as a step factor (as in a tax table) so that the overall factor decreases as the portfolio size increases. Bonds should be aggregated by issuer (the first six digits of the CUSIP number should be used for aggregation). In determining the total number of issuers, do not count:

- U.S. government bonds that are direct and guaranteed and backed by the full faith and credit of the U.S. government which receive a zero factor (see Annual Statement Instructions).
- Bonds in NAIC 01 (highest quality) which are issued by a U.S. government agency but that are not backed by the full faith and credit of the U.S. government. Examples of these bonds are: FNMA and FHLMC collateralized mortgage obligations.
- ~~Bonds of parents, subsidiaries and affiliates.~~

The calculation shown below will not appear in the software but will be calculated automatically. However, you must enter the total number of issuers in the appropriate field on the CD-ROM. If you leave this field blank, the program will assume that there are less than 50 issuers and will default to the maximum bond size factor adjustment. The calculation to derive the bond size factor is:

		(a)				(b)
	Source	No of Issuers				Wgtd Issuers
First 50	Co Records	______	X	2.5	=	______
Next 50	Co Records	______	X	1.3	=	______
Next 300	Co Records	______	X	1.0	=	______
Over 400	Co Records	______	X	0.9	=	______
Total	Co Records	______				______

Size Factor = Total Weighted Issuers/Total No of Issuers less 1

PR011 - Asset Concentration

The purpose of the concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an issuer of a security or a mortgage borrower, etc.). The concentration factor basically doubles the risk-based capital factor (up to a maximum of 30 percent) of the 10 largest asset exposures excluding various low-risk categories or categories which already have a 30 percent factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, this factor itself only serves to add an additional risk-based capital requirement on these assets.

Concentrated investments in certain types of assets are not expected to represent an additional risk over and above the general risk of the asset itself. Therefore, prior to determining the 10 largest issuers, you should exclude those assets that are exempt from the asset concentration factor. Asset types that are excluded from the calculation include: NAIC 06 bonds, hybrids and preferred stock, affiliated common stock, affiliated preferred stock, ~~affiliated~~ bonds, property and equipment, U.S. government guaranteed bonds, NAIC 01 bonds, hybrids or preferred stock, any other asset categories with risk-based capital factors less that 1 percent, and investment companies (mutual funds) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 [Section 5(b) (1)]. The pro rata share of individual securities within an investment company (mutual fund) or common trust fund are to be included in the determination of concentrated investments, subject to the exclusions identified.

With respect to investment companies (mutual funds) and common trust funds, the reporting company is responsible for maintaining the appropriate documentation as evidence that such is diversified within the meaning of the Investment Company Act and provide this information upon request of the commissioner, director or superintendent of the department of insurance. The reporting company is also responsible for maintaining a listing of the individual securities and corresponding book/adjusted carrying values making up its investment companies (mutual funds) and common trust funds portfolio, in order to determine whether a concentration charge is necessary. This information should be provided to the commissioner, director or superintendent upon request.

The assets that ARE INCLUDED in the calculation are divided into two categories – Fixed Income Assets and Equity Assets. The following asset types should be aggregated to determine the 10 largest issuers:

FIXED INCOME ASSETS
~~Unaffiliated~~ Bonds –NAIC 02
~~Unaffiliated~~ Bonds –NAIC 03
~~Unaffiliated~~ Bonds –NAIC 04
~~Unaffiliated~~ Bonds –NAIC 05
Collateral Loans
Mortgage Loans
Working Capital Finance Investments – NAIC 02
Federal Guaranteed Low Income Housing Tax Credits
Federal Non-Guaranteed Low Income Housing Tax Credits
State Guaranteed Low Income Housing Tax Credits
State Non-Guaranteed Low Income Housing Tax Credits
All Other Low Income Housing Tax Credits

EQUITY ASSETS
Unaffiliated Preferred Stock –NAIC 02
Unaffiliated Preferred Stock –NAIC 03
Unaffiliated Preferred Stock –NAIC 04
Unaffiliated Preferred Stock –NAIC 05
Unaffiliated Hybrid Securities –NAIC 02
Unaffiliated Hybrid Securities –NAIC 03
Unaffiliated Hybrid Securities –NAIC 04
Unaffiliated Hybrid Securities –NAIC 05
Unaffiliated Common Stock
Investment Real Estate
Encumbrances on Inv. Real Estate
Schedule BA Assets (excluding Collateral Loans)
Receivable for Securities
Aggr Write-ins for Invested Assets
Derivatives

The name of each of the largest 10 issuers is entered at the top of the table and the appropriate statement amounts are entered in C(2) Ls (01) through (12) for fixed income assets and C(2), Ls (14) through (28) for equity assets. Aggregate all similar asset types before entering the amount in C(2). For instance, if you own five separate $1,000,000 NAIC 03 bonds from Issuer #1, enter $5,000,000 in C(2)L(02) – NAIC 03 Unaffiliated Bonds.

DETAILS FOR AFFILIATED BONDS AND STOCKS PR003

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	~~(13)~~	~~(14)~~	~~(15)~~	~~(16)~~ (13)	~~(17)~~(14)
	Name of Affiliate	Affil Type	NAIC Company Code or Alien ID Number	Affiliate's RBC After Covariance before Basic Operational Risk* LR031 L67 + L70 PR032 L73 XR025 L37	Book/Adjusted Carrying Value (statement value) of Affiliate's Common Stock**	Valuation Basis of Column (5) E - Equity Method with zero/no unamortized goodwill A - All Other	Total Value of Affiliate's Outstanding Common Stock	Statutory Surplus of Affiliate Subject to RBC (Adjusted for % Owned)	Percent Owned	Book/Adjusted Carrying Value (statement value) of Affiliate's Preferred Stock	Total Value of Affiliate's Outstanding Preferred Stock	Percent Owned	~~Book/Adjusted Carrying Value (statement value) of Affiliate's Bonds~~	~~Total Value of Affiliate's Outstanding Bonds~~	~~Percent Owned~~	RBC Required	Fair Value Excess Component Affiliate Common Stock RBC Required (R2 Component)
0000001									0%			0%			~~0%~~	0	0
0000002									0%			0%			~~0%~~	0	0
0000003									0%			0%			~~0%~~	0	0
0000004									0%			0%			~~0%~~	0	0
0000005									0%			0%			~~0%~~	0	0
0000006									0%			0%			~~0%~~	0	0
0000007									0%			0%			~~0%~~	0	0
0000008									0%			0%			~~0%~~	0	0
0000009									0%			0%			~~0%~~	0	0
0000010									0%			0%			~~0%~~	0	0
0000011									0%			0%			~~0%~~	0	0
0000012									0%			0%			~~0%~~	0	0
0000013									0%			0%			~~0%~~	0	0
0000014									0%			0%			~~0%~~	0	0
0000015									0%			0%			~~0%~~	0	0
0000016									0%			0%			~~0%~~	0	0
0000017									0%			0%			~~0%~~	0	0
0000018									0%			0%			~~0%~~	0	0
0000019									0%			0%			~~0%~~	0	0
0000020									0%			0%			~~0%~~	0	0
0000021									0%			0%			~~0%~~	0	0
0000022									0%			0%			~~0%~~	0	0
0000023									0%			0%			~~0%~~	0	0
0000024									0%			0%			~~0%~~	0	0
0000025									0%			0%			~~0%~~	0	0
0000026									0%			0%			~~0%~~	0	0
0000027									0%			0%			~~0%~~	0	0
0000028									0%			0%			~~0%~~	0	0
0000029									0%			0%			~~0%~~	0	0
0000030									0%			0%			~~0%~~	0	0
0000031									0%			0%			~~0%~~	0	0
0000032									0%			0%			~~0%~~	0	0
0000033									0%			0%			~~0%~~	0	0
0000034									0%			0%			~~0%~~	0	0
0000035									0%			0%			~~0%~~	0	0
0000036									0%			0%			~~0%~~	0	0
0000037									0%			0%			~~0%~~	0	0
0000038									0%			0%			~~0%~~	0	0
0000039									0%			0%			~~0%~~	0	0
0000040									0%			0%			~~0%~~	0	0
0000041									0%			0%			~~0%~~	0	0
0000042									0%			0%			~~0%~~	0	0
0000043									0%			0%			~~0%~~	0	0
0000044									0%			0%			~~0%~~	0	0
0000045									0%			0%			~~0%~~	0	0
0000046									0%			0%			~~0%~~	0	0
0000047									0%			0%			~~0%~~	0	0
0000048									0%			0%			~~0%~~	0	0
0000049									0%			0%			~~0%~~	0	0
0000050									0%			0%			~~0%~~	0	0
(9999999)	Total	XXX	XXX	0	0	XXX	XXX	XXX	XXX	0	XXX	XXX	~~0~~	~~XXX~~	~~XXX~~	0	0

* Enter carrying value of underlying insurers for Holding Company (Affiliate Code 10) in Column (4).
** Enter Book/Adjusted Carrying Value in excess of the carrying value for Holding Company (Affiliate Code 10 in Column (5).
Denotes items that must be manually entered on the filing software.

Attachment Fourteen

SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS PR004

	Affiliate Types	Affil Code	RBC Basis	(1) Number of Companies	(2) RBC Required for Affiliated Com Stock	(3) RBC Required for Affiliated Pref'd Stock	~~(4) RBC Required for Affiliated Bonds~~	~~(5)~~(4) Total RBC Required
(1)	Directly Owned P&C Insurance Affiliates	1	Sub's RBC After Covariance	0	0	0	~~0~~	0
(2)	Directly Owned Life Insurance Affiliates	2	Sub's RBC After Covariance	0	0	0	~~0~~	0
(3)	Directly Owned Health Insurance Affiliates	3	Sub's RBC After Covariance	0	0	0	~~0~~	0
(4)	Indirectly Owned P&C Insurance Affiliates	4	Sub's RBC After Covariance	0	0	0	~~0~~	0
(5)	Indirectly Owned Life Insurance Affiliates	5	Sub's RBC After Covariance	0	0	0	~~0~~	0
(6)	Indirectly Owned Health Insurance Affiliates	6	Sub's RBC After Covariance	0	0	0	~~0~~	0
(7)	Investment Subsidiary	7	0.225	0	0	0	~~0~~	0
(8)	Directly Owned Alien Insurance Affiliates	8	0.5	0	0	0	~~0~~	0
(9)	Indirectly Owned Alien Insurance Affiliates	9	0.5	0	0	0	~~0~~	0
(10)	Holding Company in Excess of Indirect Subs	10	0.225	0	0	0	~~0~~	0
(11)	Investment in Parent	11	0.225	0	0	0	~~0~~	0
(12)	Other Affiliate - P&C Ins Not Subj to RBC	12	0.225	0	0	0	~~0~~	0
(13)	Other Affiliate - Life Ins Not Subj to RBC	13	0.225	0	0	0	~~0~~	0
(14)	Other Affiliate - Health Insurer Not Subj to RBC	14	0.225	0	0	0	~~0~~	0
(15)	Other Affiliate - Non-insurer	15	0.225	0	0	0	~~0~~	0
(16)	Total			0	0	0	~~0~~	0

Attachment Fourteen

SUMMARY FOR SUBSIDIARY, CONTROLLED AND AFFILIATED INVESTMENTS FOR CROSS-CHECKING STATEMENT VALUES PR005

	Schedule D Part 6 Section 1 C9	Annual Statement Line Number	(1) Annual Statement Total Preferred Stock	(2) Total From RBC Report	(3) Difference
(1)	Parent	0199999	0	0	0
(2)	U.S. P&C Insurer	0299999	0	0	0
(3)	U.S. Life Insurer	0399999	0	0	0
(4)	U.S. Health Insurer	0499999	0	0	0
(5)	Alien Insurer	0599999	0	0	0
(6)	Non-Insurer Which Controls Insurer	0699999	0	0	0
(7)	Investment Subsidiary	0799999	0	0	0
(8)	Other Affiliates	0899999	0	0	0
(9)	Subtotal	0999999	0	0	0

Affiliated Common Stock

	Schedule D Part 6 Section 1 C9	Annual Statement Line Number	(1) Annual Statement Total Common Stock	(2) Total From RBC Report	(3) Difference
(10)	Parent	1099999	0	0	0
(11)	U.S. P&C Insurer	1199999	0	0	0
(12)	U.S. Life Insurer	1299999	0	0	0
(13)	U.S. Health Insurer	1399999	0	0	0
(14)	Alien Insurer	1499999	0	0	0
(15)	Non-Insurer Which Controls Insurer	1599999	0	0	0
(16)	Investment Subsidiary	1699999	0	0	0
(17)	Other Affiliates	1799999	0	0	0
(18)	Subtotal	1899999	0	0	0
~~(19)~~	~~**Affiliated Bonds (Check to Schedule D, Part 1A, Section 1, C 7, L 8.7)**~~		~~**0**~~	~~**0**~~	~~**0**~~

~~UNAFFILIATED~~ BONDS PR006

Attachment Fourteen

		Annual Statement Source: Sch D Pt 1A Sn 1	(1) Book/Adjusted Carrying Value	Factor	(2) RBC Requirement
(1)	NAIC 01 - U.S. Government - Direct and Guaranteed	C7L1.1	0	0.000	0
(2)	NAIC 01 - U.S. Government Agency NOT BACKED BY FULL FAITH AND CREDIT OF THE US GOVERNMENT	Incl in C7 L10.1 - L8.1	0	0.003	0
(3)	Total NAIC 01 Bonds	C7 L10.1-L7.1	0		
~~(4)~~	~~**Affiliated NAIC 01 Bonds**~~	~~**C7 L8.1**~~	~~**0**~~		
(4)	**Total Other NAIC 01 Bonds**	**L(3)~~-L(4)~~-L(1)-L(2)**	**0**	**0.003**	**0**
(5)	Total NAIC 02 Bonds	C7 L10.2-L7.2	0	**0.010**	**0**
~~(7)~~	~~**Affiliated NAIC 02 Bonds**~~	~~**C7 L8.2**~~	~~**0**~~		
~~(8)~~	~~**Total NAIC 02 Unaffiliated Bonds**~~	~~**L(6)-L(7)**~~	~~**0**~~	~~**0.010**~~	~~**0**~~
(6)	Total NAIC 03 Bonds	C7 L10.3-L7.3	0	**0.020**	**0**
~~(7)~~	~~**Affiliated NAIC 03 Bonds**~~	~~**C7 L8.3**~~	~~**0**~~		
~~(11)~~	~~**Total NAIC 03 Unaffiliated Bonds**~~	~~**L(9) - L(10)**~~	~~**0**~~	~~**0.020**~~	~~**0**~~
(7)	Total NAIC 04 Bonds	C7 L10.4-L7.4	0	**0.045**	**0**
~~(13)~~	~~**Affiliated NAIC 04 Bonds**~~	~~**C7 L8.4**~~	~~**0**~~		
~~(14)~~	~~**Total NAIC 04 Unaffiliated Bonds**~~	~~**L(12) - L(13)**~~	~~**0**~~	~~**0.045**~~	~~**0**~~
(8)	Total NAIC 05 Bonds	C7 L10.5-L7.5	0	**0.100**	**0**
~~(16)~~	~~**Affiliated NAIC 05 Bonds**~~	~~**C7 L8.5**~~	~~**0**~~		
~~(17)~~	~~**Total NAIC 05 Unaffiliated Bonds**~~	~~**L(15) - L(16)**~~	~~**0**~~	~~**0.100**~~	~~**0**~~
(9)	Total NAIC 06 Bonds	C7 L10.6-L7.6	0	**0.300**	**0**
~~(19)~~	~~**Affiliated NAIC 06 Bonds**~~	~~**C7 L8.6**~~	~~**0**~~		
~~(20)~~	~~**Total NAIC 06 Unaffiliated Bonds**~~	~~**L(18) - L(19)**~~	~~**0**~~	~~**0.300**~~	~~**0**~~
(10)	Subtotal - Bonds Subject to Bond Size Factor **=Sum of Ls (4) through (9)**	~~**L(5)+L(8)+L(11)+L(14)+L(17)+L(20)**~~	0		0
(11)	Number of Issuers		0		
(12)	Bond Size Factor				1.500
(13)	Bond Size Factor RBC=L(~~21~~**10**) x L(~~23~~**12**)				0
(14)	Total ~~**Unaffiliated**~~ Bonds RBC=**L(1)+L(2)+**L(~~21~~**10**)+L(~~24~~**13**)		0		0

Denotes items that must be manually entered on the filing software.

ASSET CONCENTRATION PR011

ISSUER #1

		(1)	(2) Book/Adjusted Carrying Value	Factor	(3) Additional RBC
(1)	NAIC 02 ~~Unaffiliated~~ Bonds		0	0.0100	0
(2)	NAIC 03 ~~Unaffiliated~~ Bonds		0	0.0200	0
(3)	NAIC 04 ~~Unaffiliated~~ Bonds		0	0.0450	0
(4)	NAIC 05 ~~Unaffiliated~~ Bonds		0	0.1000	0
(5)	Collateral Loans		0	0.0500	0
(6)	Mortgage Loans		0	0.0500	0
(7)	NAIC 02 Working Capital Finance Investments		0	0.0125	0
(8)	Federal Guaranteed Low Income Housing Tax Credits		0	0.0014	0
(9)	Federal Non-Guaranteed Low Income Housing Tax Credits		0	0.0260	0
(10)	State Guaranteed Low Income Housing Tax Credits		0	0.0014	0
(11)	State Non-Guaranteed Low Income Housing Tax Credits		0	0.0260	0
(12)	All Other Low Income Housing Tax Credits		0	0.1500	0
(13)	SUBTOTAL - FIXED INCOME		0		0
(14)	NAIC 02 Preferred Stock		0	0.0100	0
(15)	NAIC 03 Preferred Stock		0	0.0200	0
(16)	NAIC 04 Preferred Stock		0	0.0450	0
(17)	NAIC 05 Preferred Stock		0	0.1000	0
(18)	NAIC 02 Hybrid Securities		0	0.0100	0
(19)	NAIC 03 Hybrid Securities		0	0.0200	0
(20)	NAIC 04 Hybrid Securities		0	0.0450	0
(21)	NAIC 05 Hybrid Securities		0	0.1000	0
(22)	Property Held For Production of Income or For Sale Excluding Home Office		0	0.1000	0
(23)	Property Held For Production of Income or For Sale Encumbrances Excluding Home Office		0	0.1000	0
(24)	Schedule BA Assets		0	0.1000	0
(25)	Receivable for Securities		0	0.0230	0
(26)	Aggregate Write-Ins for Invested Assets		0	0.0500	0
(27)	Derivatives		0	0.0500	0
(28)	Unaffiliated Common Stock		0	0.1500	0
(29)	SUBTOTAL - EQUITY		0		0
(30)	TOTAL - ISSUER #1 (L13+L29)		0		0

NOTE: Ten issuer sections and a grand total page will be available on the filing software. The grand total page is calcuated as the sum of issuers 1-10 by asset type.

Denotes items that must be manually entered on the filing software.

Attachment Fourteen

Calculation of Total Risk-Based Capital After Covariance PR030 R0-R1

			(1)
R0 - Asset Risk - Subsidiary Insurance Companies		**PRBC O&I Reference**	**RBC Amount**
(1)	Affiliated US P&C Insurers - Directly Owned	PR004 L(1)C(~~5~~4)	0
(2)	Affiliated US P&C Insurers - Indirectly Owned	PR004 L(4)C(~~5~~4)	0
(3)	Affiliated US Life Insurers - Directly Owned	PR004 L(2)C(~~5~~4)	0
(4)	Affiliated US Life Insurers - Indirectly Owned	PR004 L(5)C(~~5~~4)	0
(5)	Affiliated US Health Insurer - Directly Owned	PR004 L(3)C(~~5~~4)	0
(6)	Affiliated US Health Insurer - Indirectly Owned	PR004 L(6)C(~~5~~4)	0
(7)	Affiliated Alien Insurers - Directly Owned	PR004 L(8)C(~~5~~4)	0
(8)	Affiliated Alien Insurers - Indirectly Owned	PR004 L(9)C(~~5~~4)	0
(9)	Misc Off-Balance Sheet - Non-controlled Assets	PR014 L(15) C(3)	0
(10)	Misc Off-Balance Sheet - Guarantees for Affiliates	PR014 L(16) C(3)	0
(11)	Misc Off-Balance Sheet - Contingent Liabilities	PR014 L(17) C(3)	0
(12)	Misc Off-Balance Sheet - SSAP No.101 Par. 11A DTA	PR014 L(19) C(3)	0
(13)	Misc Off-Balance Sheet - SSAP No.101 Par. 11B DTA	PR014 L(20) C(3)	0
(14)	**Total R0**	L(1)+L(2)+L(3)+L(4)+L(5)+L(6)+L(7)+L(8)+L(9)+L(10)+L(11)+L(12)+L(13)	0
R1 - Asset Risk - Fixed Income			
(15)	NAIC 01 U.S. Government Agency Bonds	PR006 L(2)C(2)	0
(16)	~~Unaffiliated~~ Bonds Subject to Size Factor	PR006 L(~~21~~10)C(2)~~+PR015 L(9)C(4)~~	0
(17)	Bond Size Factor RBC	PR006 L(~~24~~13)C(2)	0
(18)	~~**Bonds - Aff'd Invest Sub**~~**Off-balance Sheet Collateral & Sch DL, PT1 - Total Bonds**	~~**PR004 L(7)C(4)**~~**PR015 L(9)C(4)**	**0**
(19)	~~**Bonds - Aff'd Hold. Co. in excess of Ins. Subs.**~~**Off-balance Sheet Collateral & Sch DL, PT1 - Cash, Cash Equilvant, non-govt MMF & Short-Term Invest**	~~**PR004 L(10)C(4)**~~**PR015 L(21)C(4)**	**0**
~~**(20)**~~	~~**Bonds - Investment in Parent**~~	~~**PR004 L(11)C(4)**~~	~~**0**~~
~~**(21)**~~	~~**Bonds - Affil US P&C Not Subj to RBC**~~	~~**PR004 L(12)C(4)**~~	~~**0**~~
~~**(22)**~~	~~**Bonds - Affil US Life Not Subj to RBC**~~	~~**PR004 L(13)C(4)**~~	~~**0**~~
~~**(23)**~~	~~**Bonds - Affil US Health Insurer Not Subj to RBC**~~	~~**PR004 L(14)C(4)**~~	~~**0**~~
~~**(24)**~~	~~**Bonds - Affil Non-insurer**~~	~~**PR004 L(15)C(4)**~~	~~**0**~~
(20)	Other Long-Term Assets - Mortgage Loans, LIHTC & WCFI	PR008 L(10)+L(13)+L(14)+L(15)+L(16)+L(17)+L(20)+L(21)C(2)	0
(21)	Misc Assets - Collateral Loans	PR009 L(13)C(2)	0
(22)	Misc Assets - Cash	PR009 L(3)C(2)	0
(23)	Misc Assets - Cash Equivalents	PR009 L(7)C(2)~~+PR015 L(20)+L(21)C(4)~~	0
(24)	Misc Assets - Other Short-Term Investments	PR009 L(10)C(2)	0
(25)	Replication - Synthetic Asset: One Half	PR010 L(9999999)C(7)	0
(26)	Asset Concentration RBC - Fixed Income	PR011 L(13)C(3) Grand Total Page	0
(27)	**Total R1**	L(15)+L(16)+L(17)+L(18)+L(19)+L(20)+L(21)+L(22)+L(23)+L(24) L(25)+L(26)+L(27)+L(28)+L(29)+L(30)+L(31)	0

MEMORANDUM

DATE: October 16, 2017

TO: Tom Botsko, Chair, Property and Casualty Risk-Based Capital (E) Working Group

FROM: Tom Botsko, Chair, Affiliated Investments Ad Hoc Group

CC: Eva Yeung, NAIC
Jane Barr, NAIC

SUBJECT: Treatment of Affiliated Bonds in the Property and Casualty Risk-Based Capital Formula (P&C RBC)

As part of the agenda of the Affiliated Investment Ad Hoc Group, we have reviewed and discussed potential changes in the treatment of affiliated bond investments. Upon our review, we recommend the following changes:

1) Remove the current RBC charge on the affiliated bond from PR003 in the P&C RBC formula; and
2) Apply the RBC charge for unaffiliated bonds to affiliated bonds on Page PR003

The reasons of our recommendation are as following:

1) The proposed change will result in consistent treatment for affiliated investments all the three RBC formulae in that only RBC charges for affiliated common stock and preferred stock are separately evaluated from their non-affiliated counterpart;
2) The P&C RBC charge on affiliated bonds, excluding bond investments in affiliated insurers not subject to RBC, will vary by the credit quality of the bond and therefore be more risk based compared to the current flat charge of 22.5% ; and
3) Computation errors in determining RBC charges for bond investments in affiliated insurers subject to RBC where the reporting entity fails to report the total value of the affiliate's outstanding common stock and preferred stock will be eliminated.

If you have any questions regarding this recommendation, please contact me at *thomas.botsko@insurance.ohio.gov* or Jane Barr (NAIC) at *jbarr@naic.org*.