MEMORANDUM

To: Interested Parties of the Financial Condition (E) Committee

From: Commissioner Nathan Houdek (WI), Chair of the Financial Condition (E) Committee

DATE: February 14, 2024

RE: Response to Written Comments on Holistic Framework on Insurers Investments

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At the 2023 Summer National Meeting, the Financial Condition (E) Committee exposed a draft of its proposed *Framework for Regulation of Insurer Investments – A Holistic Review*. On October 25th, 2023, the Committee received 17 comment letters on the exposed Framework and at the Fall National Meeting, received oral summaries of the written comments. Since then, Committee members, with the assistance of a small drafting group made up of regulators from seven state insurance departments, have reviewed and considered those comments in more detail. This memorandum summarizes the views of the Committee, informed by the drafting group, on the appropriate next steps for moving forward to implement the Framework. In line with recommendations from the drafting group, the Committee proposes some changes to the Framework, as attached, and a Workplan that will guide the Committee and the drafting group in their work implementing the Framework.

Comments from Members of the Committee

The Committee commits to a transparent process as it moves forward with implementing the Framework, where it will solicit formal comments at multiple points from regulators and interested parties. The Committee expects continued work on the Framework will take place over the rest of 2024 and into 2025, with more details developed as work progresses on different aspects of the Workplan. For this reason, future changes to the Framework over this time period may be appropriate and the Committee commits to incorporating opportunities for comment when this occurs.

As it relates to the work already occurring at the Valuation of Securities (E) Task Force ("VOSTF") and the Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBC IRE"), the Committee would like to reinforce that there will be no delay or pause in these workstreams on the basis that the current workstreams are consistent with the beginning stages of the Framework and the Committee has full faith that these groups will develop well-reasoned conclusions on their final products.

Below is an item-by-item summary of the drafting group's comments and recommendations for next steps on further developing and implementing the Framework. The Committee fully supports the recommendations made by the drafting group and highlights three points: 1) the primary objective of the Framework is ensuring insurer solvency; 2) a core component to the Framework must be enhancing the centralized investment expertise available to regulators; and 3) coordination among the Committee's various workstreams is vitally important, and, to further that goal, the Committee is requesting direct oral reports from each group at each national meeting regarding initiatives with relevance to the Framework.

Drafting Group Members' Views on General Comments

As highlighted above, Drafting Group Members believe that the Committee should document that it will not pause its work on the basis that the current workstreams are consistent with the beginning stages of the Framework. Commenters are encouraged to direct comments related to the specifics of those workstreams to the Task Forces and Working Groups engaged in them. Drafting Group Members created a Workplan that includes guiding principles and supports inclusion of some of the first eight paragraphs from the Purposes and Procedures Manual into that document, which ties into the NAIC Accreditation process and is controlled by regulators. Finally, the Drafting Group Members are in support of enhancing the centralized investment expertise available to regulators, including adding resources to modernize and expand the regulatory support provided (potential examples include macroprudential risk monitoring, microprudential risk monitoring, and expanded stress testing capabilities).

Drafting Group Members Views on Comments Related to Recommendation 1

The Framework includes as Recommendation 1 that the regulatory framework should reduce/eliminate "blind" reliance on credit rating providers (CRPs) but retain overall utilization of CRPs with a new due diligence framework and to utilize an external consultant/resource to design and implement such a new system. In general, commentors were supportive of this recommendation. Drafting Group Members are highly supportive of eliminating blind reliance on CRPs for purposes of NAIC designations. Drafting Group Members are also supportive of engaging a consultant to develop the due diligence framework. In furtherance of its views, the Drafting Group Members developed a memorandum to the Executive (EX) Committee that once discussed and if approved, may result in a Request for Proposal (RFP) to be submitted for further consideration. Drafting Group Members noted that language in the Purposes and Procedures Manual addresses that the NAIC is not a credit rating agency and the process for developing policy under the direction of state regulators, which should be reinforced in the Framework and its Workplan. Drafting Group Members also remind companies that designations should not be used as a risk management tool and companies should do their own due diligence investment risk and on the CRPs they engage.

Drafting Group Members Views on Comments Related to Recommendation 2

The Framework includes as Recommendation 2 that the NAIC should retain the ability within the SVO to perform individualized credit assessments and use discretion when needed under well-documented parameters. Drafting Group Members noted a part of this diligence process will include the use of NAIC staff in reviewing individual CRP ratings as has been discussed at VOSTF, including such components as full transparency with insurers impacted, state regulator oversight and approval, and the inclusion of an appeals process. Commenters expressed concerns with this recommendation, but Drafting Group Members continue to support this recommendation and believe the work continuing at VOSTF is appropriately aligned with this Framework, acknowledging ongoing prioritization of Recommendation 1.

Drafting Group Members Views on Comments Related to Recommendation 3

The Framework includes as Recommendation 3 that the NAIC should enhance the SVO's portfolio risk analytics capabilities through investment in risk analysis tools and corresponding personnel which would allow for more sophisticated company-specific and industry-wide analysis. Drafting Group Members noted that while there are some comments that suggest this is not possible with existing staff, in general commentors did not oppose this recommendation, particularly increasing staffing to include analysts with investment, actuarial, and/or risk management backgrounds. Drafting Group Members noted that despite the request for additional consultative resources, regulators will continue to be the authority on the analysis performed and the use of that analysis within their own work. Building this capability as a centralized resource is necessary as it would be cost prohibitive and redundant to build it at 56 individual insurance departments. Drafting Group Members also remind interested parties that regulators supported the use of market yields and other analytical comparisons by SVO staff in the states' analysis and screening process originally contemplated in the Macroprudential (E) Working Group's "13 MWG Considerations" document. Drafting Group Members will engage with members of the industry to seek their assistance in further documenting the tools and analyses that are available to assist regulators related to this item. Drafting Group Members believe this recommendation aligns with the broader objective of creating a robust and modernized centralized investment expertise. This recommendation should not be viewed to diminish the expertise that exists today within the capabilities of the SVO and SSG, but rather to strengthen what currently exists and further build out and diversify the tools and skillsets available to them and to regulators.

<u>Drafting Group Members Views on Comments Related to Recommendation 4</u>
The Framework includes as Recommendation 4 that the NAIC should enhance its structured asset modeling capabilities in support of a CRP due diligence function (inclusive of model governance and validation of key parameters). While some commentors have noted opposition to the use of modeling for designations, Drafting Group Members note that modeling can be used for designations, but also more than just designations, including portfolio, macroprudential, and industry analysis to note industry trends and concerns, as well as provide support for efforts such as Actuarial Guideline 53. Drafting Group Members continue to support, encourage, and offer their assistance in the coordination between VOSTF and RBC IRE in building out the appropriate role of modeling in the setting of individual NAIC Designations and RBC factors. Drafting Group Members also noted the need for continued coordination of NAIC groups to harmonize efforts and better understand what deliverables would be most valuable to regulators.

<u>Drafting Group Members Views on Comments Related to Recommendation 5</u>
The Framework includes as Recommendation 5 that the NAIC should build out a broad policy advisory function that can recommend and consult on future policy changes. Commenters expressed support for this recommendation and furthering the advisory functions available to regulators but communication regarding details of how this may work will be important. Drafting Group Members support establishing a policy advisory function and noted that any such group would conduct its work under the direction of regulators. Drafting Group Members believe there would be benefit to the separation of the operational and policy-advisory functions of the NAIC. Drafting Group Members anticipate this overarching policy component to be considered when structuring a centralized investment expertise function. If needed, this could involve hiring key external consultants to be on retainer. This would be akin to the role of the American Academy of Actuaries (“AAA”) for RBC and reserving.

<u>Drafting Group Members Views on Comments Related to Recommendation 6</u>
The Framework includes as Recommendation 6 a proposal to establish a broad investment working group under E Committee that acts in an advisory capacity to the Committee’ various investment items (similar to FAWG/VAWG), including 1) review of bond reporting under new principles-based bond definition, 2) review of challenges to individual designations provided by CRPs; and 3) review of work provided by external consultants. Commenters generally supported this recommendation but noted that clear parameters would be required around confidentiality and coordination to avoid introducing new, cumbersome bureaucratic processes. While Drafting Group Members agree with this objective, they note specific charges will need to be developed by the Committee to guide this work.

<u>Drafting Group Members Views on Comments Related to Recommendation 7</u>
The Framework includes as Recommendation 7 a proposal to rename the SVO and VOSTF to better reflect the groups’ roles beyond securities valuation. The recommendation also proposes to reduce the size of VOSTF and empower SVO staff to utilize its tools and analysis to raise issues to other groups. Drafting Group Members did not find any commentors that objected to these goals and Drafting Group Members continue to support these goals, although it was noted that changing the name of the SVO may be more difficult than it appears given its current reference by name in many state laws.

<u>Drafting Group Members Views on Comments Related to Recommendation 8 & Recommendation 9</u>
The Framework includes as Recommendation 8 a proposal to suggest changes in RBC factors in the future consider market impacts and consistency across asset classes, and to seek a goal of “Equal Capital for Equal Risk”. Recommendation 8 also suggested care be taken to consider the impacts of developing RBC factors for CLOs for

an asset class while similar asset classes remain the same. Finally, factors to consider may include impacts on asset allocation and financial markets, in balance with the level of urgency of regulatory action. The Framework includes as recommendation 9 a proposal that the RBC IRE should consider and address areas where inconsistencies in treatment across asset classes incentivize a particular legal form. A key example is private credit funds, where underlying assets are fixed income, but regulatory barriers assign an equity factor.

As it relates to Recommendation 8, commenters provided a considerable number of detailed changes that should be made to RBC currently as it pertains to work occurring at RBC IRE. Drafting Group Members reiterated their view that the NAIC should not pause its current work, nor should the Committee consider comments on work currently occurring at RBC IRE or VOSTF, as they are supportive of both of these efforts to address regulators concerns. On this point, with respect to coordination between NAIC groups, current awareness of related work does exist, but processes should be improved to provide more focus on interdependencies of multiple NAIC group activities on the same issue and how iterative work coming together could be improved. Any future proposals should set forth the impact to different areas so regulators can make informed decisions. Drafting Group Members also reiterated they agreed that the primary objective of the work needs to be ensuring insurer solvency, and that market or other considerations are secondary. At a more principled level, Drafting Group Members are supportive of the view of equal capital for equal risk which includes consideration of tail risk.

As it relates to Recommendation 9, Drafting Group Members did not take a position on specific changes to RBC to consider for addressing areas of inconsistency. However, Members did express support for consideration of capital consistency in the prioritization of projects at the RBC working groups, with subordinate consideration made to impacts on financial and capital markets. Drafting Group Members also noted support for evaluating the process for assigning capital for new asset classes when materiality, timing and historical data may preclude specific or immediate analysis. The Drafting Group Members note that such an evaluation will require collaboration of RBC IRE, Statutory Accounting Principles Working Group and potentially VOSTF. At such a point that prioritization allows, the Drafting Group Members recommend a cross-functional workstream to be established for this purpose, which may be aligned with the broad investment working group described above.

Comments on this document can be submitted to Dan Daveline at ddaveline@naic.org).

Appendix

General Comments-Comments Not in Response to a Specific Recommendation in the Framework

Commentor		Comments
Minnesota		The adoption of standards appropriately addressing the risk of complex assets should not pause as a holistic approach to regulation of insurer investments is being contemplated. In recent months, firms benefiting from requirements in this area have argued to delay various workstreams saying more testing, evaluation, or level playing field is needed. The framework should be clarified to remove any suggestion of delay.
Regulators Response: Agree current work should not be paused. The current workstreams are directionally consistent with the vision of the Framework.		
Pacific Life		Pacific Life strongly supports the E Committee's decision to move forward without pausing existing work in this area and also agree with the points from the ACLI.
Regulators Response: Agree current work should not be paused. The current workstreams are directionally consistent with the vision of the Framework.		
RRC		The entire risk portfolio of the insurance company including its assets and liabilities should be considered together. The best use of existing resources must be considered but new tools and added resources not currently available from the NAIC or state insurance departments will be needed.
Regulators Response: Agree, this is consistent with the Framework. Both the most effective use of existing resources and the implementation of new tools and resources, which are envisioned to allow broader analysis than individual credit analysis, taking into account the characteristics of both the assets and liabilities, are contemplated in the Framework.		
Structured Finance Association		Our members have different views on CLO modeling & SVO discretion over FE designations but consistently agree that improved transparency regarding process, access to more data, and a better understanding of the expected aggregate impact of these regulatory proposals will lead to better outcomes.
Regulators Response: The referenced projects have followed the transparent process described in the P&P Manual for developing policy changes and have gone through multiple exposures to add additional due process and transparency. Technical comments regarding these projects should be referred to the VOSTF.		
Virginia		We generally support the concepts in the Framework. However, the Bureau encourages the Committee to keep financial solvency as the primary focus of the framework as it moved toward implementation. The Framework's states "guidelines" focusing on the consideration of market disruptions, or other direct or implied impacts are important regulatory concerns but must remain secondary to solvency regulation. The Bureau supports the commitment to not pause the current NAIC workstreams related to insurer investments, in particular the potential RBC changes. Better understanding CRP ratings and due diligence in this area will improve solvency regulation.
Regulators Response: Agree solvency should be the primary focus.		
<u>**Regulators Views on General Comments**</u> **Regulators believe that the NAIC needs to document that it will not pause its work on the basis that the current workstreams are consistent with the beginning stages of the Framework. Regulators have created a workplan that includes principles and support inclusion of some of the first 8 paragraphs**		

from the Purposes and Procedures Manual into that document, with tie into the NAIC Accreditation process, all of which are controlled by the regulators and not NAIC staff. That document will also indicate that regulators believe there will be multiple checkpoints for industry and regulators to engage with the Committee as the work progresses. Regulators also agreed that the primary objective of the work needs to be insurer solvency, and that market considerations are secondary. Finally, the regulators are in support of centralized investment expertise being available to regulators, including added resources that include more staff for macroprudential assistance and macroprudential assistance. This centralized investment expertise should also include in the future requests to review company modeling/stress testing.

<u>Section I-Proposed Framework to Modernize the SVO</u>

#1-Reduce/Eliminate "Blind" Reliance on CRPs but Retain Overall Utilization of CRPs with Due Diligence Framework (utilize an external consultant/resource to design and implement)

Commentor		**Comments**
Equitable		Determine capital charges for private credit that rely principally on CRPs with expertise in a given ABS asset category subject to robust regulatory governance
Regulators Response: Comment is supportive of continued use of CRPs with regulatory oversight through the proposed due diligence framework. Technical comments regarding the use of CRPs for specific asset classes should be referred to the VOSTF.		
ACLI		We believe a system of better checks and balances is needed and will improve the overall regulatory oversight. All parties must have visibility into the outcomes and the SVO discretion should be rare.
Regulators Response: Comment appears supportive of pursuing a due diligence framework governing the use of CRPs. Any technical comments regarding use of discretion or use of CLO modeling to produce designations should be referred to the VOSTF.		
Anderson Insights		I have raised significant questions about the current VOSTF proposal that are yet to be answered. Most of them resolve around reframing from how to reduce reliance on ratings to "How can the NAIC optimally determine RBC C-1 and R-1 factors". I recommend the NAIC support a consulting project to answer this question.
Regulators Response: Comments supported utilizing an external consultant, but with a broader scope than contemplated in the Framework, more fundamentally revisiting how C-1 and R-1 factors are assigned. Regulators do not currently have concerns with the use of NAIC Designations for assigning capital charges generally, but rather have concerns around the lack of diligence around the reliance on CRP ratings. Narrowly scoping any external consultant project to the issues of regulatory concern would likely produce more targeted and relevant results. Any technical comments regarding current workstreams of the VOSTF should be directed to the VOSTF.		
American Investment Council		NAICs limited resources would be better served to develop a strong due diligence framework over CRP rating that would include CLOs rather than have the SVO model.
Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Technical comments regarding the CLO modeling project should be referred to the VOSTF.		
Alternative Credit Council		We support a due diligence framework but do not believe it is feasible or desirable to replace the role of CRPs.

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<tr><td></td><td></td><td>The due diligence framework should include strengthening insurance investors’ own internal credit risk management capabilities in line with the investment management requirements in the NAIC Examiners Handbook.

We oppose authorizing the SVO to notch a CRPs rating that would impose a single credit perspective on the entire industry.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Regulators do not agree that the SVO should not have discretion to notch designations under a well-designed due process framework. Technical comments regarding the SVO discretion proposal should be directed to the VOSTF.</td></tr>
<tr><td>Athene</td><td></td><td>The clear benefits and efficiencies of CRP rating should be leveraged in any regulatory solution. With that said, any “blind” reliance on CRPs can be addressed through a combination of regulatory due diligence, portfolio analysis, <u>increased insurer stress testing</u> and other regulatory tools.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Members encourage continued engagement and recommendations from stakeholders as the framework is developed.</td></tr>
<tr><td>Bridgeway</td><td></td><td>Comments are very broad with a focus on the need for the NAIC to develop basic principles in all areas of regulation over insurers’ investments. Attachment two of the comments are more specific to the process to oversee designations and the prudent use of agency ratings. That attachment also includes discussion of the firms’ current products available within its Asset Regulatory Treatment (ART) Standards and System. More specifically the system includes codified state investment guidelines, news, heatmaps and investment classification. While the attachment addresses and educates readers on a number of related specific topics, it does not directly address, in the form of opinions, the recommendations included in the exposed framework and instead gets back to the need for regulators to develop principles for investment risk oversight.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs and included recommendations for setting out principles to frame such development. Members encourage continued engagement and recommendations from stakeholders as the framework is developed.</td></tr>
<tr><td>Lease-Backed Securities WG</td><td></td><td>It is important to retain a primary reliance on ratings as set forth in the “Filing Exemption” process today but the current resources and staffing of the SVO are not adequate to rate the many diverse and complex transactions in the market today. Moreover, predictability from filing exemption is a key factor for a functioning market. Action last year to require private letter rating rationales should assist, but use of a consultant to develop a more holistic framework on CRP usage.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs. Comments also included technical comments regarding the SVO discretion proposal, which should be referred to the VOSTF.</td></tr>
<tr><td>Met Life</td><td></td><td>We wholeheartedly agree with the E Committee’s view that a review of how the Securities Valuation Office (“SVO”) utilizes CRP ratings for NAIC Designation purposes is warranted – particularly for more</td></tr>
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		complex securities such as structured products. A strong due diligence process to help the SVO determine instances where CRP ratings may not capture the nature or level of risk that C1 RBC is meant to address will be a critical element in a renewed investment regulatory framework.
Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs.		
Moody's		Comments are focused on proposing the NAIC develop a review process in support of SVO discretion that is narrowly focused on potential differences in the meaning of ratings across CRPs in particular sectors, asset classes, or between public and private ratings, and this should be data driven. Otherwise, other due diligence would be redundant with regulation by the SEC. Comments also suggest relying to a greater extent on market discipline to drive greater consistency in ratings from different CRPs. The comments also suggest expanding the scope, depth, and frequency of the NAICs oversight of insurers investment risk management controls/asset underwriting controls perhaps through reporting in the ORSA. Considering how ratings are used by the EU and bank and mutual fund regulators may be helpful. Additional disclosure within Schedule D on the structure of each security may be helpful. Finally, comments suggest support for revising RBC for certain investments, expanding data acquisition by the NAIC to enhance monitoring investment trends, and reviewing the implications of the industry's evolving ownership models and increased use of offshore reinsurance.
Regulators Response: Comments opposed the proposal to develop a due diligence process over the use of CRPs noting it would be redundant to the oversight of the SEC. Members note that through engagement of both CRPs and the SEC in recent years, that the SEC ensures that CRPs follow their published methodologies, but do not assess the validity of those methodologies or whether they are fit for purpose for use in insurance regulation. Comments also noted several suggestions to reduce the risk of ratings shopping, which will continue to be assessed as the project to develop a due diligence framework moves forward. Members encourage continued engagement and recommendations from stakeholders as the framework is developed. The letter also included certain comments regarding the SVO discretion proposal which should be directed to the VOSTF. Regulators do support and welcome the continued insight of interested parties, including CRPs, during the building of a due diligence process, including, for example, consideration of how private assets and public assets should be considered.		
NAMIC		Questions to the NAIC include: 1) how much more differentiation is expected in its designations to CRPs; 2) Will the NAIC continue to use external consultants on an ongoing basis or does the work go in house once framework is built: 3) If the latter, what education will the NAIC provide to staff and industry on the new processes?4) Will the SVO take a closer look at private debt investments? 5) How is the NAIC going to fund the proposed changes such as paying for external consultants, reviewing, and increasing staffing, and building a strong due diligence.
Regulators Response: Members noted the following initial responses to the questions posed: 1) it is unclear what this question is asking. The due diligence process contemplated in the Framework is to support the reliance on CRP ratings. If this is in reference to the SVO discretion proposal, and comments		

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<tr><td colspan="3">should be directed to the VOSTF; 2) this remains to be determined as the project progresses, but it is currently anticipated the diligence process would be undertaken by the NAIC; 3) to be determined later in the process; 4) this question should be directed to the VOSTF as it is unclear how it relates to the Framework; 5) Members anticipate the Committee will request approval from the Executive Committee to develop an RFP proposal to engage a consultant.</td></tr>
<tr><td>Nebraska</td><td></td><td>Supports robust due diligence process. But suggests the use of practicality and reasonableness (do not create excessive burdens for industry or regulators), transparency (equal capital for equal risk), state regulatory authority over the SVO, consistency and comparability (to minimize undue capital arbitrage) and proactive risk identification (respond to emerging risks).</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported the Framework proposal to develop a due diligence framework over the use of CRPs.</td></tr>
<tr><td>RRC</td><td></td><td>We believe that it is not the best use of NAIC resources to focus on a relatively small number of differences in ratings for a given assets class or asset type. We encourage instead a robust dialogue with each of the rating agencies about the process and the approach that they have for each asset class. If processes are not robust, the Task Force could consider making an appropriate adjustment to the translation formula for those asset types, asset classes, or the individual rating agency.</td></tr>
<tr><td colspan="3">Regulators Response: Comments appear to support a CRP due diligence process, encouraging more focus on overarching processes than individual ratings differences. Members generally agreed with the comments, though it is believed that the ability to challenge individual ratings will continue to be necessary to address infrequent outliers, even once the due diligence process is in place.</td></tr>
<tr><td colspan="3"><u>Regulators Views on Section I Comments</u>
Comments received were generally supportive of building out a robust due diligence framework governing the use of CRPs, including the engagement of an external consultant in doing so. Members have noted that this element of the Framework should be prioritized. Several comments were critical of SVO discretion to challenge individual ratings. Members continue to believe that this will be necessary even with an effective due diligence process though utilization of the proposed process should be rare. Further comments regarding the SVO discretion project should be directed to the VOSTF.

Regulators also noted and continue to stress that language in the Purposes and Procedures Manual addresses that the NAIC is not a credit rating agency which should be reinforced in a new document. Regulators remind companies that the approval of investments is the responsibility of management and designations should not be used as a risk management tool and companies should perform their own due diligence.</td></tr>
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#2-Retain Ability within the SVO to Perform Individualized Credit Assessments and Regulatory Discretion When Needed under Well Documented Parameters (ideally rarely used)

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<tr><th>Commentor</th><th></th><th>Comments</th></tr>
<tr><td>ACLI</td><td></td><td>Yes, but it is important to have transparency, due process, and a form of independent appeal. Need to avoid “guessing” why a CRP rating was overridden.</td></tr>
<tr><td colspan="3">Regulators Response: Comments were supportive of the use of SVO discretion in regard to individual designations, but stressed transparency, due process, and independent appeal. VOSTF has been and continues to be receptive to feedback and has built out a documented due process framework incorporating feedback through multiple iterations. Any additional technical comments regarding the SVO discretion proposal should be directed to the VOSTF.</td></tr>
<tr><td>Anderson Insights</td><td></td><td>I have raised significant questions about the current VOSTF proposal that are yet to be answered. Most of them resolve around reframing from how to reduce reliance on ratings to “How can the NAIC optimally determine RBC C-1 and R-1 factors”. I recommend the NAIC support a consulting project to answer this question.</td></tr>
<tr><td colspan="3">Regulators Response: Comment did not specifically discuss whether or not the commenter supports retaining the ability to perform individual credit assessments or utilize regulatory discretion, but advocates for a pause in the SVO discretion proposal and a fundamental reevaluation of using designations to set RBC factors. Regulators do not currently have concerns with the use of NAIC Designations for assigning capital charges generally and do not recommend revisiting this concept. Rather, making targeted though significant improvements around the use of CRPs and regulatory discretion is favored. Any technical comments regarding the SVO discretion proposal should be directed to the VOSTF.</td></tr>
<tr><td>American Investment Council</td><td></td><td>We are strongly concerned with the proposed amendments to provide the SVO discretion to adjust the NAIC Designations that are assigned through the FE process and mapped to credit ratings.</td></tr>
<tr><td colspan="3">Regulators Response: Commenter did not opine on retaining the ability to perform individual credit assessments but did oppose using discretion to challenge CRP ratings. Regulators continue to believe that discretion is a necessary tool to be used as a backstop to a well-designed due diligence process for the use of CRPs. Any technical comments regarding the SVO discretion comments should be directed to the VOSTF.</td></tr>
<tr><td>Alternative Credit Council</td><td></td><td>We support the SVO’s current ability to perform credit assessments under well documented and governed parameters. We oppose authorizing the SVO to notch a CRP’s ratings as that would, in effect, impose a single credit perspective on the entire industry based on a single, SVO-specific model and assumptions.</td></tr>
<tr><td colspan="3">Regulators Response: While the commenter agrees with SVO retaining its ability to perform individual credit assessments, they oppose the ability to notch ratings, proposing a flagging process involving state regulators. Regulators noted that the comments appear largely in line with updates made to the SVO discretion proposal through the exposure process at VOSTF. Any further technical comments regarding this proposal should be directed to the VOSTF.</td></tr>
<tr><td>Athene</td><td></td><td>Only where it may have historically performed such a role (e.g., insurer chooses not to pursue a CRP).</td></tr>
<tr><td colspan="3">Regulators Response: The commenter supports retaining the SVO’s current ability to perform individual credit assessments, but does not support an expansion, presumably including using discretion to challenge individual CRP ratings. Members continue to believe that use of regulatory discretion will be necessary even with an effective due diligence process over CRP rating usage, though use of that discretion should be rare.</td></tr>
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<tr><td>Lease-Backed Securities WG</td><td></td><td>Individualized credit assessments from the SVO would only need to be used rarely as a backstop and under well documented and governed parameters that are transparent to the market. (Specific recommendations that summarize previous industry viewpoints are provided in the comment letter)</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported use of regulatory discretion to challenge CRP ratings but stressed the due process framework needed as a prerequisite. Also included were a number of technical comments specific to the SVO discretion proposal which should be directed to the VOSTF.</td></tr>
<tr><td>Met Life</td><td></td><td>Supports individual credit assessments particularly for private unrated securities, but SVO discretion should be extremely limited and only under a strong governance process.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported individual credit assessments and extremely limited use of discretion in challenging CRP designations. These comments are generally in line with what was envisioned in the Framework.</td></tr>
<tr><td>Nebraska DOI</td><td></td><td>Discretion should be used sparingly, and state regulator governed appeals process by a working group with investment and accounting expertise with ratings confidential until after all appeals with domestic notified at the onset and who makes the final decision.</td></tr>
<tr><td colspan="3">Regulators Response: Comments supported individual credit assessments and limited use of discretion in challenging CRP designations. These comments are generally in line with what was envisioned in the Framework as well as the updates made to the SVO discretion proposal through multiple exposures.</td></tr>
<tr><td>RRC</td><td></td><td>We believe decisions to not follow the current formula should not be based on differences in individual ratings but on an assessment of the process. Any decision should be based on a thorough analysis of the process being employed, why it is not appropriate, and be well documented. Transparency to all insurance companies (so that problems and issues can be properly monitored and managed) and to the market is paramount to avoid confusion and disruption.</td></tr>
<tr><td colspan="3">Regulators Response: Commenter does not support challenging CRP ratings at the individual security level, but rather at the process-level. Regulators continue to believe both are necessary. The contemplated due diligence framework would address issues at a process-level, as supported by the comments, but regulators also believe discretion to challenge individual CRP ratings is a necessary backstop.</td></tr>
<tr><td colspan="3"><u>Regulators Views on Section II Comments</u>
In general, comments were supportive of performing individual credit assessments for the current scope of securities, but less supportive of expanding this to include the ability to challenge individual CRP ratings. Those that supported this discretion did so under the condition that an appropriate due process framework be put in place. Regulators believe that the work being done at the Valuation of Securities (E) Task Force is already considering the comments included in this section through the multiple iterations of the draft to document a well-designed due process for the challenging of ratings. Members continue to support this work and believe it is a necessary component of the overall Framework.</td></tr>
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#3-Enhance SVOs Portfolio Risk Analytics Capabilities through tools and personnel which would be company specific and industry wide. Increase staffing to include analysts with investment actuarial and risk management backgrounds.

Commentor		Comments
ACLI		We support the idea, although more definition is needed, and it needs to be efficiently developed and implemented.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details are yet to be determined.		
Anderson Insights		Seems reasonable provided its costs can be justified. This is much different than the current single asset analysis performed by SVO today. Concerned that this means the NAIC would perform portfolio analysis instead of 56 departments of insurance as currently occurs during examination. In years past, the CMB offered portfolio analysis, but that did not result in significant success.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined. Members point out that financial examinations are only one part of the supervision process, and typically occur once every 5 years. The financial analysis function is responsible for ongoing solvency monitoring. Individual insurance departments do not have, nor would it be practical to develop, the sophisticated analysis tools envisioned at each of the 56 insurance departments. Rather, developing this as a centralized resource at the NAIC as proposed in the Framework, to be leveraged by insurance departments in their analysis function, is much more cost effective and efficient.		
Alternative Credit Council		We are concerned about recent SVO proposals to modify the definition of an NAIC designation and to address other non-payment risks. We are concerned with the adoption of a single credit risk analytics tool would lead to the imposition of a single credit view on the entire industry.
Regulators Response: To clarify recommendation #3 of the Framework, the portfolio risk analysis capabilities are not intended to be an input into individual designations. None of the proposals contained in the Framework intend to change the methodologies used by the SVO currently to determine individual designations, which are produced by staff with considerable experience assessing credit risk of individual securities. Rather, the contemplated tool would have the ability to perform portfolio or industry-level analysis of risk (credit and other types) to assist state regulators in their supervisory capacity. Any technical comments regarding current initiatives being discussed at VOSTF should be directed to the VOSTF.		
Athene		We support the Framework's mandate for the SVO/SSG so that its resources are focused on portfolio and market risk analysis, enhanced modeling, and a broader policy advisory function.
Regulators Response: Comment is supportive of the concept.		
Met Life		Resourcing the SVO will be key to the effectiveness of the renewed framework.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details are yet to be determined.		
Nebraska DOI		Adequate resources needed for both modeling and determining risk charges.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details are yet to be determined.		
Pacific Life		Analytics capabilities should be proportional to the complexity of the investment strategies of U.S. insurers, particularly for the purpose of industry-wide risk analytics for use in macroprudential efforts. The NAIC should take a

		broad approach when considering emerging risks, even if only a small number of insurers are investing in a particular asset class.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details are yet to be determined.		
RRC		We encourage NAIC to expand this monitoring beyond bonds to other invested assets and to also look beyond credit risk to market and liquidity risk. We encourage the NAIC to seek assistance from appropriate experts/advisors in how these risks should be reviewed by the SVO in a future process.
Regulators Response: Members agree that the risk analysis capabilities contemplated in the Framework should be broader than just bonds and credit risk. Comment is generally supportive of the concept and regulators recognize multiple details are yet to be determined.		
Regulators Views on Section III Comments **Comments were generally supportive of expanding the centralized investment analysis resources to allow portfolio-level and industry-level analysis. Regulators stressed that this centralized resource is for the purpose of effectively and efficiently assisting state regulators in their supervisory capacity and is not intended to be an outsourcing of analysis responsibility. Developing capabilities to assist in macroprudential risk analysis was supported in the 13 considerations document; specifically, use of market yields and comparison to NAIC designations to assist in screening. Regulators noted that it will be productive to engage with industry and commentors on what analysis tools are available and which would be best fit to purpose, along with the skillsets needed to use these tools.**		

#4-Enhance Structured Asset Modeling Capabilities in line with #3 and in support of CRP due diligence function (inclusive of model governance and validation of key parameters).

Commentor		Comments
Equitable		Continue to prioritize CLO Modeling. This will result in translating CRP "expected loss" oriented CRP ratings to tail-oriented capital changes. Such translation is necessary because the rating methodologies of CRPs (by their own admission) typically do not provide a sufficient signal for setting capital charges.
Regulators Response: Comment is supportive of building out this capability and specifically for assigning capital factors that capture expected loss in tail scenarios. Members continue to support building out this capability and believe it can serve a variety of purposes as noted in the Framework. Members also note that coordination of the modeling efforts supporting the initiatives of VOSTF and RBC IRE is of critical importance.		
ACLI		We support additional structured asset modeling capabilities in support of the CRP due diligence function and in line with both Items 1 and 3 of the Framework. We agree additional resources will be needed to accomplish this. We also recommend that regulators provide meaningful direction, specificity to these modeling capabilities to ensure they serve the needs of regulators, and CRP due diligence, If efforts duplicate rather than enhance existing work, it may not achieve its desired purpose.
Regulators Response: Comment is supportive of the proposal, specifically for purposes of CRP due diligence and risk analysis. Members agree with the importance of the involvement and direction of regulators in this project.		

<table>
<tr><td>American Investment Council</td><td></td><td>The NAICs current plans to begin financial modeling CLOs in January 2024 is inconsistent with the E Committee's observations (Holistic Framework) and recent presentations by the American Academy of Actuaries. This timeline also relies upon what we believe is flawed CLO modeling methodology. We request the E Committee revisit its current plans and timeline for requiring CLO modeling. We are concerned the SVO will not be able to do this without the staffing and the tools to properly do so. We agree however that strong model governance and controls are needed before this is implemented.</td></tr>
<tr><td colspan="3">Regulators Response: Comments were specific to opposing the CLO modeling project occurring at VOSTF. It was not noted whether the commenter supports the use of modeling for the purposes described in the Framework. Members note that VOSTF has communicated that the timeline for implementing any process for using CLO modeling to assign individual designations will continue to be adjusted according to the progress of the project. It will not occur on January 1, 2024, and will not occur until the resources and processes are in place to effectively implement. It has also established an open ad hoc group for discussing the technical aspects of the model. Any further technical comments on the CLO modeling project should be directed to the VOSTF.</td></tr>
<tr><td>Alternative Credit Council</td><td></td><td>We are very concerned about efforts to remove exempt filing status before any significant progress is made on developing a governance framework for credit rating providers.
We are concerned about the effort to promulgate a CLO modeling framework before greater consideration is given to the work underway at the American Academy of Actuaries to develop a framework for how to evaluate all ABS that could also be applied to CLOs. We are not asking for work to stop in these areas, but rather that additional consideration be given to all the implications arising from the work of other groups, including the Statutory Accounting Principles Working Group ("SAPWG"), before any policy changes are finalized.

We do support a greater CRP due diligence function for structured asset modeling. We are concerned that the CLO modeling process as it stands does not correspond with sound market practice with respect to original issue discount, prepayment, and reinvesting.</td></tr>
<tr><td colspan="3">Regulators Response: Comments support building out modeling capabilities for CRP due diligence and other purposes but express concerns about using modeling for individual designations as it currently stands. Members agree that the CLO modeling proposal is not ready for implementation, consistent with the discussions at VOSTF, and also agree that coordination of the modeling efforts supporting the initiatives of VOSTF and RBC IRE is of critical importance. Any technical comments regarding the CLO modeling proposal should be directed to the VOSTF.</td></tr>
<tr><td>Athene</td><td></td><td>We support the Framework's mandate for the SVO/SSG so that its resources are focused on portfolio and market risk analysis, enhanced modeling, and a broader policy advisory function.</td></tr>
<tr><td colspan="3">Regulators Response: Comment is supportive of the proposal, specifically for purposes of risk analysis.</td></tr>
<tr><td>Met Life</td><td></td><td>While asset modeling capabilities will be very important for SVO CRP due diligence – particularly related to structured securities, we agree with the point from the American Academy of Actuaries that tail risks for subordinated structured securities are not comparable to those of similarly rated corporate bonds, therefore its essential the SSG to retain the ability to model structured securities for NAIC designation purposes. Cash flow modeling for RMBS, CMBS and CLOs is more appropriate for designations than from CRPs. For other structured securities, the NAIC could apply the</td></tr>
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<tr><td></td><td></td><td>current RBC factors for senior tranches and then use a multiplier for subordinate tranches.</td></tr>
<tr><td colspan="3">Regulators Response: Comment is supportive of the proposal, and supports using modeling for analysis, CRP diligence and individual designations. Members encourage any technical recommendations relevant to the RBC IRE project to develop capital factors tailored to structured securities should be directed to RBC IRE.</td></tr>
<tr><td>Nebraska DOI</td><td></td><td>Strengthening this capacity is essential for CRP due diligence and effective activities-based prudential oversight. Data from American Academy of Actuaries makes clear tail risks associated with structured securities are not directly comparable to those of similarly rated corporate bonds. Given the availability of adequate data in sectors such as RMBS, CMBS, and CLOs, adopting a security-level modeling approach to estimate appropriate RBC is feasible with the right resources. Instead of developing single ratings-based factors for various structured securities, it may be more practical for the SSG to map these securities to the appropriate existing RBC factor using a modeling approach, especially for more homogeneous sectors like RMBS, CMBS, and CLOs. In this context, we support the initiative to enhance the SSG's modeling capabilities, as we consider these capabilities central to the proposed principle of enabling regulators to proactively identify and respond to emerging risks that could be material during periods of stress. 5. Policy Advisory Function/External Consultants: Nebraska strongly advocates.</td></tr>
<tr><td colspan="3">Regulators Response: Comment is supportive of the proposal, and supports using modeling for analysis, CRP diligence and individual designations.</td></tr>
<tr><td>Pacific Life</td><td></td><td>The NAIC should support the use of modeling to supplement the limits of historical data for structured securities, particularly for assigning capital.
The analytical capabilities of the SVO should be proportional to the complexity of the investment strategies of U.S. insurers, particularly for the purpose of “industry-wide risk analytics for use in macroprudential efforts.” Pacific Life strongly supports enhanced structured securities modeling capabilities particularly for “industry stress testing, and emerging risk identification.” We also support the policy goal of reducing “Blind Reliance” on ratings where appropriate.</td></tr>
<tr><td colspan="3">Regulators Response: Comment is supportive of the proposal, and supports using modeling for analysis, CRP diligence and individual designations.</td></tr>
<tr><td colspan="3"><u>Regulators Views on Section IV Comments</u>
Regulators believe building out modeling capabilities has a variety of use cases in addition to and independent of assigning individual designations as described in the Framework. As a result, continuing the project at VOSTF to build out this capability is warranted regardless of how it is ultimately used for assigning capital. Determining exactly how the modeling being developed by VOSTF will work together with the modeling being developed at RBC IRE will require close coordination of the groups. In order to facilitate this coordination, members recommend regular reporting to E Committee regarding these projects.</td></tr>
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#5-Build Out a Broad Policy Advisory Function that can recommend future policy changes. If needed, hire key external consultants to be on retainer. This would be akin to the use of the AAA of similar for RBC and reserving.

Commentor		**Comments**
ACLI		We generally support it but there is a need for additional understanding for all parties of what is envisioned for the next step.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined.		
Alternative Credit Council		Should remain a function of the CMB. There may be a conflict or appearance of conflict if the individual designations are combined with formal policymaking.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined. Regulators note that CMB is not currently responsible for policy recommendations, however, note and agree care should be given to conflicts of interest in the ultimate structure.		
Athene		A neutral third-party consultant(s) would likely be helpful to develop the structure needed for implementation.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined. Regulators have discussed the need for a third-party review of a structure and will consider that option as details are determined.		
Met Life		The hiring of external consultants should be handled through a transparent and well-governed process that limits conflicts.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined. Regulators agree that any usage of a third party should be handled transparently.		
Nebraska DOI		But advocate for continued state led insurance regulation and policy formation. The hiring of external consultants should be handled through a transparent and well-governed process that limits conflicts.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined. Regulators agree that any usage of a centralized investment expertise within the NAIC (inclusive of policy recommendations) are ultimately subject to regulator oversight and approval.		
Pacific Life		This is not mentioned in the framework, but the NAIC should continue to modernize regulatory tools **to address potential liquidity risks**.
Regulators Response: While not directly contemplated in the current form of the framework, regulators agree that discussion of a centralized investment expertise should be inclusive of broader portfolio risks, such as liquidity, understanding discussion would be required on how that is implemented and utilized.		
Regulators Views on Section V Comments **Regulators remain in the beginning stages of assessing what a centralized investment expertise would entail. Regulators recognized the increasing complexity of the insurer investment universe supports an increasing level of investment in a centralized expertise available to regulators. Regulators recognize this effort will require multiple points of engagement among committee members, NAIC and interested parties.**		

#6-Establish a Broad Investment Working Group under E Committee that acts in an advisory capacity to various investment items (similar to FAWG/VAWG) including 1) review of bond reporting under new principles-based bond definition 2) challenges to individual designations provided by CRPs; 3) review of work provided by external consultants.

Commentor		Comments
ACLI		We especially emphasize the need for confidentiality, structured similar to FAWG and VAWG, but also a need for both regulator only and industry transparency and understanding.
Regulators Response: Comment is generally supportive of the concept, particularly if group is focused on the "big picture." Regulators recognize multiple details yet to be determined.		
Anderson Insights		Notes a working group could be charged with overseeing the performance of the SVO.
Regulators Response: Comment is generally supportive of the concept, noting workings groups have existed in the past to serve various functions. Regulators recognize multiple details yet to be determined.		
Alternative Credit Council		Would allow greater integration and communication between groups on accounting, valuation, and capital.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined.		
Lease-Backed Securities WG		Supportive that acts as an advisor to the SVO and that facilitates coordination between NAIC groups.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined.		
Met Life		But clear parameters will be required to avoid introducing new, cumbersome bureaucratic processes.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined, including ensuring work is not duplicative or unnecessarily burdensome		
Nebraska DOI		We look forward to the formation of such a group that promotes the most cohesive process possible.
Regulators Response: Comment is generally supportive of the concept and regulators recognize multiple details yet to be determined.		
Regulators Views on Section VI Comments **Regulators Ultimately believe such a group would be helpful and could have several charges at onset, including those that were contemplated in the framework. Regulators will work through other aspects of the framework and assess the appropriate point to seek formation of such a group.**		

#7-Rename the SVO and VOSTF to better reflect the groups beyond securities valuation (Establish a Broad Investment Working Group under E Committee. Empower SVO to utilize tools and analysis to raise issues to other groups. Reduce the size of VOSTF.

Commentor		**Comments**
ACLI		Agree and support SVO raising issues to LATF and SAPWG to ensure that investment issues receive a true holistic review and regulatory are not operating with a limited purview. We also support the use of actuaries that have expertise in securities to support AG 53. This enables more robust dialogue with companies to understand the rationale behind their opinions.

Regulators Response: Comment is generally supportive of the concept and regulators will incorporate into the broader review of a centralized investment expertise at the NAIC.		
Lease-Backed Securities WG		Task Force should have a more active role and the current name does not reflect the SVOs current responsibilities. (Suggests also the P&P Manual is disorganized and self-contradictory)
Regulators Response: Comment is generally supportive of the concept and regulators will incorporate into the broader review of a centralized investment expertise at the NAIC, recognizing it may ultimately require changes to procedural manuals such as the P&P manual.		
Met Life		Leveraging its resources to support the work of other working groups will enhance consistency and coordination.
Regulators Response: Comment is generally supportive of the concept and regulators will incorporate into the broader review of a centralized investment expertise at the NAIC.		
Nebraska DOI		It is sensible to explore the means by which these capabilities can be leveraged with other parts of the NAIC beyond the VOSTF.
Regulators Response: Comment is generally supportive of the concept and regulators will incorporate into the broader review of a centralized investment expertise at the NAIC.		
<u>Regulators Views on Section VII Comments</u> **While regulators have included the beginning stages of enhancing the centralized investment expertise available to them, they recognize the procedural issues of name changes may be difficult given the references in state laws. Regulators will consider the optimal structure as part of their review.**		

<u>Section II-Risk-Based Capital for Investments</u>

1-Changes in RBC factors should consider market impacts and consistency across asset classes. Should be a goal of "Equal Capital for Equal Risk." Care should be taken to consider the impacts of developing RBC factors for CLOs for an asset class while similar asset classes remain the same. Factors to consider may include impacts on asset allocation and financial markets, in balance with the level of urgency of regulatory action.

Commentor		**Comments**
Equitable		Should be a technical goal of equal capital for equal TAIL risk (emphasis on tail outcomes aligns with stated regulatory imperatives to use RBC to identify poorly capitalized companies) Introduce CLO and Other ABS concentration factors for lower rated securities.
Regulators Response: Regulators agree that tail risk is a key component to be evaluated in the setting of capital factors, as well as the impact of concentration in particular assets. Efforts are underway at CATF Risk Evaluation Ad Hoc Group to discuss concentration risk and both tail risk and concentration risk are likely to be key components of the work occurring at RBC IRE specific to CLOs and structured securities. Any technical comments should be directed to those groups.		
ACLI		Support that changes in RBC factors should consider consistency across asset classes.
Regulators Response: Comment is generally supportive of concept.		
American Investment Council		The Framework Memo correctly acknowledges the RBC project is in its infancy while also recognizing the importance of consistency across asset classes. The framework should Terminate the SSG CLO Modeling Workstream or should at least Delay the development and Implementation of the CLO RBC Framework until further analysis resources are provided
Regulators Response: As noted above, regulators believe the current workstreams are directionally consistent with the framework and should not be paused (or terminated). Regulators do appreciate		

the goal of more focused coordination between the groups and support more specific reporting to E committee and interested regulators on how that coordination. Regulators also note that all NAIC initiatives undergo a deliberative and transparent process.		
Alternative Credit Council		We support "equal capital for equal risk." Along those lines, we are in favor of further study of the principles-based approach to establishing capital charges to structured securities contained in the August 13 presentation by the American Academy of Actuaries ("AAA") to the NAIC's Risk-Based Capital Investment Risk and Evaluation Working Group ("RBC-IRE Working Group").6 That presentation provides a structured securities modeling flow chart that helps distinguish which asset classes could most easily be assigned.
Regulators Response: Comment is generally supportive of concept.		
Athene		We fully support the goal of "equal capital for equal risk." We believe this can be achieved over time. The commenter also included detailed suggestions for consideration as part of the Framework's Implementation.
Regulators Response: Comment is supportive of the concept and recommends it be prioritized. The comments recommend a complete consistency review across all asset classes. While regulators agree that consistency should be an important consideration in the setting of capital factors, it will always be secondary to ensuring that RBC is effective in identifying weakly capitalized companies. Thus, regulators do not support a holistic consistency review at the expense of projects currently underway, but rather as a directional goal to be considered as these projects progress.		
Met Life		Capital parity should be a directional guidepost while recognizing practical limitations. Support to continue with ongoing initiatives already begun to enhance supervision of structured securities. Cash flow modeling for RMBS, CMBS and CLOs is more appropriate for designations than from CRPs. For other structured securities, the NAIC could apply the current RBC factors for senior tranches and then use a multiplier for subordinate tranches (Attached a copy of Moody's multipliers).
Regulators Response: Commenter generally supported the concept. Regulators expect detailed discussions to occur at VOSTF and RBC IRE WG.		
Minnesota		There is a concern that if certain financial standards, such as RBC factors, continue to not appropriately reflect additional risk for complex assets, that an increasing portion of assets will have understated RBC charges, rendering the RBC ratio a less effective metric.
Regulators Response: Regulators support the ongoing work to assess new and complex assets beginning with CLOs and structured securities as currently underway at RBC IRE.		
NAMIC	N/A	NAMIC recommends a consistent definition of "capital arbitrage"
Regulators Response: Regulators note that the work at RBC IRE WG has included discussion on how "arbitrage" can occur.		
Nebraska DOI	Yes	NAIC should strive to apply comparable levels of stress and consider tail risk when determining solvency requirements. Similar economic risks should receive similar capital treatment regardless of which asset form is employed.

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<tr><td colspan="3">Regulators Response: Regulators support a continued approach to ensure similar economic risks receive similar capital treatment and the ongoing work to assess new and complex assets beginning with CLOs and structured securities as currently underway at RBC IRE.</td></tr>
<tr><td>Pacific Life</td><td>Yes</td><td>Of particular concern is the rapid expansion of investment strategies that exploit opportunities for capital arbitrage for structured securities. Rating agency ratings, based on expectations of default or expected loss, are not comparable between corporate bonds and structured securities in general, and of subordinate structures more specifically given the “fatter” tail risk profiles. Some rating agencies assume investment grade structures require 1.5-2X more capital of investment grade corporate bonds.</td></tr>
<tr><td colspan="3">Regulators Response: Regulators agree with a focus on structured assets and the ongoing work to assess new and complex assets beginning with CLOs and structured securities as currently underway at RBC IRE.</td></tr>
<tr><td colspan="3"><u>Regulators Views on Section I RBC Comments</u>
Regulators believe that the NAIC should not pause its current work, nor should the Committee debate technical comments on work currently occurring at RBC IRE or VOSTF, as they are supportive of both of these efforts to address regulators’ concerns. On this point, regulators understand the concern with respect to coordination between NAIC groups. Regulators want to increase focus on such coordination and see improvement of processes to demonstrate collaboration and understanding of interdependencies of multiple NAIC group activities on the same issue. Regulators would also like to focus on how iterative work from different workstreams coming together could be improved. Any future deliberations (current or new topics) should clearly demonstrate the interdependencies and impact to different areas so regulators can make informed decisions. Regulators also reiterated they agreed that the primary objective of the work needs to be ensuring insurer solvency, and that market or other considerations, including capital consistency, are secondary. At a more principled level, regulators are supportive of the view of equal capital for equal risk which includes consideration of tail risk and expect to see further work in this area across workstreams.</td></tr>
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2-The RBC-IRE WG should consider and address areas where inconsistencies in treatment across asset classes incentivize a particular legal form. A key example is private credit funds, where underlying assets are fixed income, but regulatory barriers assign an equity factor.

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<tr><td>ACLI</td><td></td><td>Suggest the use of guidelines embedded in the Framework to address transparency and robust development of new capital factors. The process should be iterative, analytically rigorous, and informed by data where available. We recommend the guideline also emphasize the need to allow stakeholders a reasonable amount of time to offer constructive feedback on proposals, as well as the need to provide opportunities for meaningful dialogue between regulators and industry.</td></tr>
<tr><td colspan="3">Regulators Response: Regulators note that policy changes are always developed through an iterative, open and transparent process as stipulated by NAIC policies. Regulators agree a final framework should incorporate overarching guidelines to support future regulatory processes</td></tr>
<tr><td>Alternative Credit Council</td><td></td><td>Agree in principle but note it is important to point out that securitized asset pools have a wide range of meaningful risk enhancement features that make it inappropriate to directly compare their level of risk to the risk of holding a single similar asset. (Diversification and active management of a large pool of assets)</td></tr>
<tr><td colspan="3">Regulators Response: Regulators note these technical discussions will continue at RBC IRE WG and VOSTF, with a focus on coordination.</td></tr>
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<tr><td>Met Life</td><td></td><td>We agree that the RBC approach should be developed in a way that minimizes the incentives and opportunities for market participants to engage in capital arbitrage. We would argue that for larger sectors of structured securities such as RMBS, CMBS, and CLOs, for which collateral has a reasonable level of homogeneity this goal can more effectively and efficiently be achieved through a security modeling and mapping approach than through a wholesale revision of RBC factors – in fact, such a process has been successfully in place for RMBS and CMBS for over a decade. For less homogenous sectors such as ABS, a simplified approach like the factor multiplier discussed in the prior section could be applied rather than developing new factors from scratch, which will likely be a highly impractical endeavor.</td></tr>
<tr><td colspan="3">Regulators Response: Regulators note these technical discussions will continue at RBC IRE WG and VOSTF, with a focus on coordination.</td></tr>
<tr><td>NAMIC</td><td></td><td>RBC may have inconsistencies in treatment across asset classes that incentivize particular forms of investments. For example, Life insurers may get credit while P&C companies do not for other rated funds beyond bonds. The RBC project has the potential for scope creep that could become cumbersome quickly and suggests a measured approach with industry input.</td></tr>
<tr><td colspan="3">Regulators Response: Regulators recognize the example of differing treatment for Life and P&C for rated funds as an area for review. Regulators note these technical discussions will continue at RBC IRE WG and VOSTF, with a focus on coordination.</td></tr>
<tr><td>Pacific Life</td><td></td><td>We support consistent outcomes, not consistent methods for determining capital charges. The methods for determining capital charges may be different based on the nature of the investment as long as the outcomes are appropriately calibrated to the risk of the investment class, and stress scenarios are consistent in severity across investment classes.</td></tr>
<tr><td colspan="3">Regulators Response: Regulators agree in supporting consistency of outcomes and that different methodologies may be appropriate for different types of assets as has been discussed during RBC IRE discussions.</td></tr>
<tr><td colspan="3"><u>Regulators Views on Section II RBC Comments</u>
Regulators did not take a position on specific changes to RBC to consider for addressing areas of inconsistency. However, Members did express support for consideration of capital consistency in the prioritization of projects at the RBC working groups. Drafting Group Members also noted support for evaluating the process for assigning capital for new asset classes when materiality, timing and historical data may preclude specific or immediate analysis. The Drafting Group Members note that such an evaluation will require collaboration of RBC IRE, Statutory Accounting Principles Working Group and potentially VOSTF. At such a point that prioritization allows, the Drafting Group Members recommend a cross-functional workstream to be established for this purpose.</td></tr>
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