

The background of the top section is a workshop scene with various tools like hammers, wrenches, and sockets scattered on a wooden workbench. The word "REVERSE" is written in large, red, distressed block letters, and "inquiries" is written in white, lowercase, sans-serif font to its right. Overlaid on this is the text "Workshop Series" in a large, black, cursive script. At the bottom of this section is a red rectangular box containing the text "IN-DEPTH SESSIONS" in white, uppercase, sans-serif font.

REVERSE inquiries

Workshop Series

IN-DEPTH SESSIONS

NAIC Investment-Related Developments

April 7, 2026

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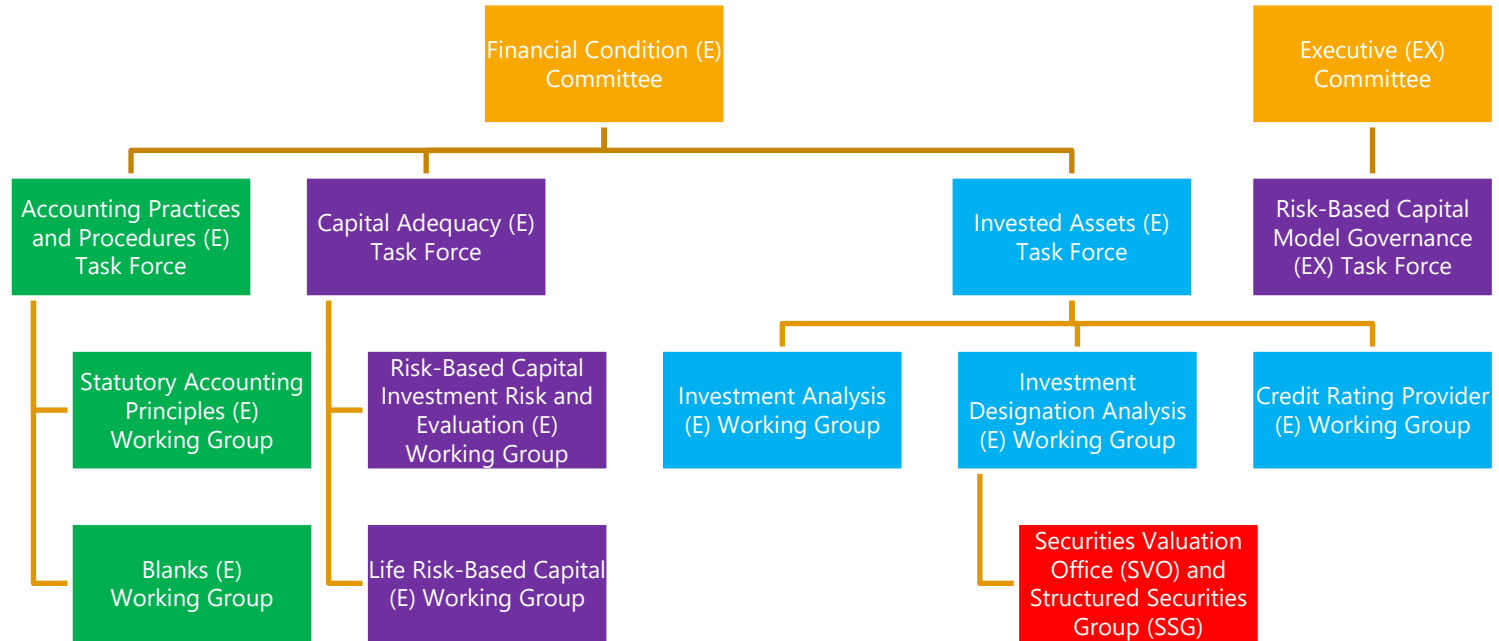
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Understanding Who Does What at the NAIC

The important role of the NAIC

- Unlike most other countries, the business of insurance in the United States is regulated primarily at the **state** level
- The **National Association of Insurance Commissioners (NAIC)** is a standard setting and regulatory support organization governed by the chief insurance regulators of the 50 U.S. states, the District of Columbia, and five U.S. territories
- The NAIC's **Financial Condition (E) Committee ("E" Committee)** coordinates the financial aspects of NAIC standard setting and, at last count, had 41 subgroups
- The NAIC's **Executive (EX) Committee** has also taken an active interest in the NAIC's risk-based capital (**RBC**) system through its Risk-Based Capital Model Governance (EX) Task Force (**RBC Mo Go TF**) established in 2025

Key NAIC units that address treatment of insurance company investments



The roles of SAPWG and IDAWG

- The **Statutory Accounting Principles (E) Working Group (SAPWG)** is responsible for developing and maintaining statutory accounting principles (STAT or SAP) that govern financial reporting by insurance companies
 - SAPWG maintains the *Accounting Practices and Procedures Manual (AP&P Manual)*, which contains the **Statements of Statutory Accounting Principles (SSAPs)**
- The **Investment Designation Analysis (E) Working Group (IDAWG)** is responsible for the NAIC's process of assigning NAIC designations to debt securities and preferred stock owned by insurance companies
 - IDAWG is served by the **Securities Valuation Office (SVO)** and **Structured Securities Group (SSG)**, which, together with the Capital Markets Bureau, constitute the **NAIC Investment Analysis Office (IAO)**
 - IDAWG adopts changes to the *Purposes and Procedures Manual* that governs the IAO (**P&P Manual**)
 - NAIC designations are a measure of a security's investment risk, and generally determine the RBC factor that will be applied to that security

“Bonds” – the term historically used for fixed-income investments other than preferred stock

- Bonds are reported on **Schedule D** of an insurer’s statutory financial statements
- A bond’s RBC charge is based on the **NAIC designation category** assigned to it, with NAIC1.A being the highest and NAIC-6 the lowest
 - The table of RBC charges on the next slide shows how sensitive RBC is to the NAIC designation
 - A three-notch reduction can double the RBC charge
- Life insurers carry bonds with a designation **above NAIC-6** at **amortized cost** on the statutory balance sheet. Bonds with a designation of NAIC-6 are carried at the lower of cost or fair value

RBC factors for life insurers (pre-tax)

NAIC Designation	NRSRO Equivalents	Life RBC Factor (%)		NAIC Designation	NRSRO Equivalents	Life RBC Factor (%)
1.A	Aaa/AAA	0.158		3.A	Ba1/BB+	3.151
1.B	Aa1/AA+	0.271		3.B	Ba2/BB	4.537
1.C	Aa2/AA	0.419		3.C	Ba3/BB-	6.017
1.D	Aa3/AA-	0.523		4.A	B1/B+	7.386
1.E	A1/A+	0.657		4.B	B2/B	9.535
1.F	A2/A	0.816		4.C	B3/B-	12.428
1.G	A3/A-	1.016		5.A	Caa1/CCC+	16.942
2.A	Baa1/BBB+	1.261		5.B	Caa2/CCC	23.798
2.B	Baa2/BBB	1.523		5.C	Caa3/CCC-	30.000
2.C	Baa3/BBB-	2.168		6	All Lower	30.000

How bonds get their NAIC designations

- Over 80% of insurers' bond investments are "**filing exempt**"—which means they automatically receive an NAIC designation equivalent to their credit rating from an NAIC-recognized credit rating provider (**CRP**), *i.e.*, NRSRO
- If a bond is not "filing exempt" (for example, if it fails the principles-based bond definition and is classified as a "non-bond debt security"), then it must be **filed with the SVO**, so that the SVO can perform an investment risk assessment and assign it an NAIC designation
- Since the great financial crisis, SVO and SSG staff have felt that CRP assessments of the credit risk of certain investments may not always be reflecting the full range of investment risks that regulators care about and have sought to reduce the NAIC's reliance on CRPs
 - The IAO will soon acquire the discretion to challenge the use of a CRP rating to determine the NAIC designation of a filing-exempt security—implementation is awaiting updates to NAIC systems
 - The NAIC has established a Credit Rating Provider (E) Working Group and has retained PwC to develop a due diligence framework for the NAIC's use of CRPs

Summary so far – two big things that insurers care about

- **Insurers want their fixed income investments to be treated as bonds** – reported on Schedule D and receiving an RBC charge based on their NAIC designation – preferably a lower charge based on an NAIC-1 or NAIC-2 designation
 - This is a matter of statutory accounting and is governed by **SAPWG**
- **Insurers want their fixed income investments to be filing exempt**, so that they automatically receive the NAIC designation associated with their rating by a CRP (*i.e.*, NRSRO) rather than having to be filed with and analyzed by the SVO
 - This process is governed by **IDAWG**

Developments Relating to RBC for CLOs

Risk-Based Capital Investment Risk and Evaluation (E) Working Group (**RBC IRE WG**) launched in 2022

- Reports to the Capital Adequacy (E) Task Force (**CADTF**)
- Charged with performing a comprehensive review of the C-1 (investment risk) component of the NAIC's RBC framework
- Since its inaugural meeting on January 12, 2022, has focused on the RBC treatment of asset-backed securities (**ABS**) with "tail risk"
- Has undertaken two major initiatives to date:
 - Has been working with the American Academy of Actuaries (the **Academy**) since 2022 to develop new RBC factors for collateralized loan obligations (**CLOs**)
 - Effective in 2024, adopted an "interim" **45% RBC factor for residual tranches** of ABS for life insurers (20% for P/C and health insurers)

Proposals under consideration by the RBC IRE WG

- On March 2, the Academy presented its [recommendations](#) for modeled RBC factors for the debt tranches of broadly syndicated loan (BSL) CLOs
- The public comment period for the Academy's proposal ends on April 16, 2026
- The Academy's proposal assesses CLO tranches according to two comparable attributes: CRP rating and tranche thickness
 - The tranche thickness attribute is based on whether or not the tranche thickness represents more than 4% of the deal and is only needed for CLO tranches rated Baa3/BBB- and below
- An alternate proposal is based solely on CRP ratings and ignores tranche thickness
- The other decision facing the RBC IRE WG is how to handle middle market (MM) and private credit (PC) CLOs, since the Academy's work was based solely on BSL CLO data
 - Will the RBC IRE WG apply the Academy's new factors to MM and PC CLOs as well as BSL CLOs, or will it address them separately and continue to use the bond factors for now?

Option 1—Rating only (after-tax factors)

Investment Grade

Rating	Current	Proposed
<u>Aaa</u> /AAA	0.13%	0.03%
Aa1/AA+	0.23%	0.04%
Aa2/AA	0.35%	0.04%
Aa3/AA-	0.44%	0.04%
A1/A+	0.55%	0.14%
A2/A	0.68%	0.14%
A3/A-	0.85%	1.45%
Baa1/BBB+	1.05%	1.81%
Baa2/BBB	1.27%	2.70%
Baa3/BBB-	1.80%	2.73%

Below Investment Grade

Rating	Current	Proposed
Ba1/BB+	2.62%	12.59%
Ba2/BB	3.78%	20.93%
Ba3/BB-	5.01%	23.28%
B1/B+	6.15%	26.04%
B2/B	7.93%	35.20%
B3/B-	10.34%	47.32%
Caa1/CCC+	14.10%	48.12%
Caa2/CCC	19.80%	55.20%
Caa3/CCC-	24.96%	70.82%

Option 2—Rating and tranche thickness (after-tax)

Investment Grade

Rating	Current	Proposed	
		Thickness > 4%	Thickness ≤ 4%
Aaa/AAA	0.13%	0.03%	
Aa1/AA+	0.23%	0.04%	
Aa2/AA	0.35%	0.04%	
Aa3/AA-	0.44%	0.04%	
A1/A+	0.55%	0.14%	
A2/A	0.68%	0.14%	
A3/A-	0.85%	1.45%	
Baa1/BBB+	1.05%	1.81%	
Baa2/BBB	1.27%	2.70%	
Baa3/BBB-	1.80%	2.73%	12.52%

Below Investment Grade

Rating	Current	Proposed	
		Thickness > 4%	Thickness ≤ 4%
Ba1/BB+	2.62%	12.59%	22.39%
Ba2/BB	3.78%	20.93%	30.72%
Ba3/BB-	5.01%	23.28%	33.08%
B1/B+	6.15%	26.04%	35.84%
B2/B	7.93%	35.20%	44.99%
B3/B-	10.34%	47.32%	57.12%
Caa1/CCC+	14.10%	48.12%	57.92%
Caa2/CCC	19.80%	55.20%	64.99%
Caa3/CCC-	24.96%	70.82%	80.61%

Complicated deadlines for the RBC IRE WG have been set by the “E” Committee

- Changes to the **structure** of the RBC system (e.g., breaking out CLOs from corporate bonds, distinguishing between BSL and other types of CLOs, deciding whether to use the tranche thickness attribute in addition to the rating) need to be acted upon by the RBC IRE WG by April 30, 2026 and approved by the CADTF by May 15, 2026
- Adoption of the actual RBC **factors** needs to be acted upon by the RBC IRE WG by June 15, 2026 and approved by the CADTF by June 30, 2026
- If those deadlines are met, the revised RBC structure and factors recommended by the Academy will become effective on December 31, 2026
- If those deadlines are not met, the NAIC will expose for comment a proposal to determine RBC by **modeling individual BSL CLO securities**, using a methodology developed by the SSG, which would likely result in higher factors than the Academy’s proposals and which, if adopted, could become effective on December 31, 2026

Significant upcoming dates

- April 10 – Next meeting of the RBC IRE WG to receive an update from the Academy on RBC for the residual tranches of CLOs
- April 16 – Deadline for comments on the [Academy's March 2 presentation](#) with its recommendations for RBC factors for BSL CLOs—offering two options, one based on ratings only and the other based on ratings plus tranche thickness for tranches of Baa3/BBB- and below
- April 17 – Deadline for comments on NAIC staff's proposal for [structural changes to the RBC framework](#) to accord CLOs separate treatment from corporate bonds and to apply the tranche thickness criterion in addition to the rating criterion for tranches of Baa3/BBB- and below

Developments Relating to RBC for Collateral Loans

What is a collateral loan?

- Collateral loans are defined in *SSAP No. 21—Other Admitted Assets* as unconditional obligations for the payment of money secured by the pledge of an investment that itself would qualify as an admitted asset
- State insurer investment laws generally specify a maximum ratio of the loan amount to the fair value of the underlying pledged investment (the **LTV** ratio)
- Insurers are required to maintain documentation sufficient to support the reasonableness of the fair value measurement of the underlying collateral and make it available to their domestic state regulator and independent audit firm upon request
- Historically, collateral loans received an RBC factor of **6.8%** for a life insurer, regardless of the nature of the underlying collateral

Recent changes affecting collateral loans

- In 2024, the Life Risk-Based Capital (E) Working Group (**Life RBC WG**) (not to be confused with the RBC IRE WG) established special RBC treatment for collateral loans backed by mortgage loans, by allowing them to use the factors for Schedule BA mortgage loans, which would mean a 1.75% factor if the pledged mortgages were primarily senior liens, and otherwise a 3.00% factor
- In 2025, the SAPWG and Blanks (E) Working Group decided to require collateral loans to be separately reported in insurers' statutory investment schedules based on the type of qualifying investment that secures the loan
- This reporting change paved the way for assigning different RBC factors based on the underlying collateral type

Current proposal for changes to RBC for certain types of collateral loans

- On March 22, 2026, the Life RBC WG exposed for comment (until April 13, 2026) a proposal that would calculate the RBC factors for certain collateral loans as the *product* of a “base factor” for each collateral type equal to the RBC factor for holding the underlying asset directly (30% for interests in joint ventures, partnerships and LLCs and 45% for residual interests) *multiplied by* an “adjustment factor” tied to the level of overcollateralization of the collateral loan:
 - If the LTV is greater than 80%, the adjustment factor would be 90%
 - If the LTV is greater than 60% and less than or equal to 80%, the adjustment factor would be 70%
 - If the LTV is greater than 40% and less than or equal to 60%, the adjustment factor would be 50%
 - If the LTV is greater than 20% and less than or equal to 40%, the adjustment factor would be 30%
 - If the LTV is less than or equal to 20%, the adjustment factor would be 10%
- The Life RBC WG is looking to make the new factors effective on **December 31, 2027**

Risk-Based Capital Model Governance (EX) Task Force

Background and purpose of the RBC Mo Go TF

- The RBC Mo Go TF was created in early 2025 as a commissioner-led task force that reports directly to the NAIC Executive (EX) Committee
- Bridgeway Analytics has been working as a consultant to the task force
- At its December 10, 2025 meeting, the RBC Mo Go TF achieved its initial goal and adopted eleven [Guiding Principles](#) as a “guiding North Star” for governing the purpose and use of, as well as maintaining and prioritizing updates to, RBC requirements
 - **Purpose.** The purpose of RBC requirements is to identify potentially weakly capitalized companies
 - **Use.** RBC requirements are primarily used to facilitate regulatory action with respect to weakly capitalized companies. RBC requirements may be used for other purposes, but these uses must not distort or redefine the purpose of RBC requirements

Guiding principles (cont'd)

- **Materiality.** RBC requirements should be updated when a change is material. Materiality for purposes of RBC means a level at which a decision whether to update RBC could meaningfully impact the regulator's assessment of the solvency risk for all or an identifiable segment of companies
- **Equal capital for equal risk.** RBC requirements should be guided by the principle of equal capital for equal risk, consistent in their statistical safety levels and time horizons, appropriate for the underlying risk, unless there are substantial differences in the nature of the risk in the context of the business model (e.g., life versus P/C) to warrant alternative treatments. RBC requirements should reflect measurable risks that can impact solvency, including the mitigating effects of risk management
- **Objectivity.** Appropriately consider only the factors that impact solvency risk, including but not limited to concentration, diversification, and tail risks, thereby avoiding the promotion or inhibition of objectives that are unrelated to assessing solvency risk
- **Accuracy.** Sufficiently precise to assess solvency risk, while avoiding unnecessary complexity
- **Grounded in statutory accounting and reserving.** Derived from values reported in the statutory annual statement and calibrated to align with statutory accounting and reserving practices, to the extent practical

Guiding principles (cont'd)

- **Emerging risks.** Updated to incorporate emerging risks (including macroprudential risk) by the time they become material to the industry or an identifiable segment of companies
- **Transparency.** The process to maintain and update RBC requirements must adhere to the [NAIC Policy Statement on Open Meetings](#) and follow standards that provide for clear, complete, and transparent communication and documentation of proposed and adopted updates, methodologies, and supporting rationale
- **Process.** Maintaining and updating RBC requirements must adhere to model risk management standards, relying on data-driven methodologies with assessments of model performance and model validation, when possible, the need to rely on expert judgment and proxies, significantly so in some cases, and the use of interim solutions
- **Prioritization.** Recognizing the vast number of potential refinements that could be made to RBC requirements at any given time, the groups tasked with updating and maintaining the RBC model should use regulatory judgment to prioritize changes, considering their necessity, materiality, time and resource intensity, and other relevant considerations

Meeting of the RBC Mo Go TF on March 24, 2026

- The March 24, 2026 meeting of the RBC Mo Go TF included a discussion of comments received on the task force's request for input on gaps and inconsistencies in the RBC framework and a summary of the common themes presented by Bridgeway Analytics (Attachment Three to the [meeting materials](#))
- The meeting also discussed a draft RBC adjustment process flowchart and requested input on potential improvements (Attachment Four to the [meeting materials](#))
 - The intent of the document and the process is to determine whether the policy questions are clearly addressed before a technical group is asked to begin extensive work
 - The idea is for the RBC Mo Go TF to focus on the “why” questions related to RBC, while the technical groups will focus on the “how” questions related to RBC

Statutory Accounting Principles (E) Working Group

“Look through” treatment adopted for residential mortgage loans held in statutory trusts

- On December 9, 2025, the SAPWG adopted [Item 2025-13](#), amending *SSAP No. 37—Mortgage Loans* to allow residential mortgage loans held in a qualifying statutory trust to be treated as directly owned Schedule B mortgage loans for statutory accounting, statutory reporting and RBC purposes
- This “look-through” treatment resolves longstanding uncertainty for insurers that originate and hold residential mortgage loans through statutory trust structures
- Insurers are eligible to adopt the revised guidance immediately, and it will become mandatory on January 1, 2027
- On March 23, 2026, the SAPWG exposed for comment a draft [issue paper](#) that memorializes the discussions and decisions that led to the adoption of the revised *SSAP No. 37* guidance

Requirements to qualify for “look through” treatment

- The amendments to *SSAP No. 37* introduce a targeted “look-through” construct for qualifying statutory trusts that hold residential mortgage loans for a single insurer
- To qualify, the statutory trust must meet specified criteria, including the following:
 - The insurer must own a 100% beneficial interest in the trust
 - If the trust is a multi-series trust, the insurer must own a 100% beneficial interest in the single series that holds the mortgage loans
 - The trust may hold only mortgage loans, cash and real estate acquired as a result of foreclosure. In addition, consistent with *SSAP No. 40—Real Estate Investments*, a single parcel of foreclosed real estate may be held through a single-member limited liability company

Accounting and RBC treatment of qualifying statutory trusts

- For qualifying statutory trusts, insurers may treat the residential mortgage loans as if held directly for purposes of Schedule B reporting and RBC treatment
 - This alignment is intended to reflect the insurer’s full economic exposure to—and control over—the underlying assets, where the statutory trust functions solely as a title-holding or administrative conduit
- The guidance expressly excludes commingled vehicles in which multiple investors own interests in the same statutory trust or series thereof that hold the same pool of mortgage loans
 - Such multi-investor arrangements will not qualify for “look-through” treatment and, accordingly, will not support Schedule B classification for the underlying loans—they will be reportable on Schedule BA instead

Other noteworthy SAPWG actions on March 23, 2026

- Adopted [revisions](#) to *SSAP No. 103–Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to allow repurchase agreements with maturities longer than 365 days to count as admitted assets. *Reverse* repurchase agreements are still required to have maturities of 365 days or less to qualify admitted assets
- Exposed for comment (until May 1, 2026) a [draft SSAP](#) and [issue paper](#) to establish statutory accounting guidance for interest-rate hedging derivatives used for asset liability management
- Exposed for comment (until May 1, 2026) [proposed revisions](#) to *SSAP No. 52—Deposit-Type Contracts* to require additional statutory statement disclosures for funding agreement-backed notes (**FABNs**) and other funding agreement-backed structures, including disclosures of differing maturities between the funding agreements and FABNs and whether the FABNs are puttable

Other noteworthy SAPWG activities on March 23, 2026

- Re-exposed for comment (until May 1, 2026) [proposed revisions](#) to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* to add a restricted asset code in the investment schedules tagging assets held under modco or funds withheld arrangements
 - This re-exposure solicits regulators’ comments as to whether adding such a code is advisable, given that the restricted asset code is attributed to the entire reported investment, whereas only a portion of the investment may be restricted, and with substitutability requirements, the asset noted as restricted in the year-end investment schedules may not be the asset restricted subsequently
- Exposed for comment (until May 1, 2026) [proposed revisions](#) to *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* to clarify that the reporting of funds withheld *liabilities* should be at book adjusted carrying value (**BACV**) value rather than fair market value, in order to match the valuation of the funds withheld *assets*, which are reported at BACV

Invested Assets (E) Task Force

Mission and structure of the IATF

- The IATF replaced the former Valuation of Securities (E) Task Force (**VOSTF**) on January 1, 2026
- Its mission is to help state insurance regulators understand and address risks associated with insurance company investments, with a particular focus on “new or evolving investment products that may possess characteristics that pose unique risks to insurers and the industry”
 - As an example, on March 24, 2026, the IATF received a detailed presentation from Neuberger Berman on “Insurance Companies Increasing Investments in Residential Mortgage Loans”
- The IATF is supported by three new working groups:
 - Investment Analysis (E) Working Group (**INVAWG**)
 - Investment Designation Analysis (E) Working Group (**IDAWG**)
 - Credit Rating Provider (CRP) Working Group (**CRPWG**)

Investment Analysis (E) Working Group

- Meets primarily in “regulator only” sessions, because one of its tasks is to analyze insurers and groups of insurers that hold new, evolving, or riskier investments and to advise the state of domicile on applicable risks
- From discussions with NAIC staff, it appears that one of the goals of this working group is to deal directly with specific insurers and groups of insurers that have higher exposure to asset classes that the working group is concerned about
- Regulators (and industry) may view such an insurer-specific approach as preferable to a more “broad brush” approach of changing the rules that apply to an entire asset class

Investment Designation Analysis (E) Working Group

- Has taken over the functions of the VOSTF relating to monitoring the SVO and SSG and maintaining the P&P Manual, which governs the operations of the SVO and SSG
- IDAWG's functions include determining the scope of the filing exemption that allows most fixed-income securities to automatically receive an NAIC designation based on the rating assigned by an NAIC-recognized credit CRP
- It will also include determining when certain types of securities need to be modeled and/or filed with the SSG, as is currently the case for mortgage-backed securities
- Interesting fact: at the March 24, 2026 IDAWG meeting, the Director of the SVO reported that the volume of SVO filings in 2025 increased by 19.9% over 2024, primarily due to **private letter rating filings increasing by 49.1%**

Credit Rating Provider (E) Working Group

- Is responsible for overseeing the implementation of two new NAIC initiatives:
 - The process whereby the SVO and SSG will have the discretion to challenge the use of a CRP rating to determine the NAIC designation for a filing-exempt security
 - This process will become operational when the NAIC systems have been adapted to implement it
 - The development and implementation of a new due diligence framework to govern the NAIC's use of CRPs—which PricewaterhouseCoopers has been engaged to help develop
 - The CRPWG reported to the IATF on March 24, 2026 that a draft from PwC of the proposed framework is expected to be publicly released in late April

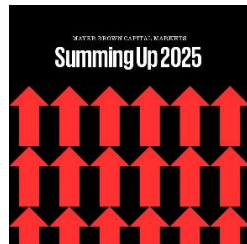
Additional Resources



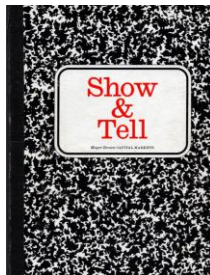
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