

NAIC Spring National Meeting Capital Framework Discussion

Global Insurance Solutions

As of April 2019

ON APRIL 6-9, WE ATTENDED THE 2019 NAIC SPRING NATIONAL MEETING IN ORLANDO TO STAY INFORMED ON IMPORTANT REGULATORY ISSUES THAT ARE AFFECTING THE INSURANCE INDUSTRY TODAY. SUMMARIZED IN THIS ARTICLE ARE THE MOST RELEVANT SESSIONS AND DISCUSSIONS FROM THE CONFERENCE.

INVESTMENT RELATED RISK-BASED CAPITAL UPDATE

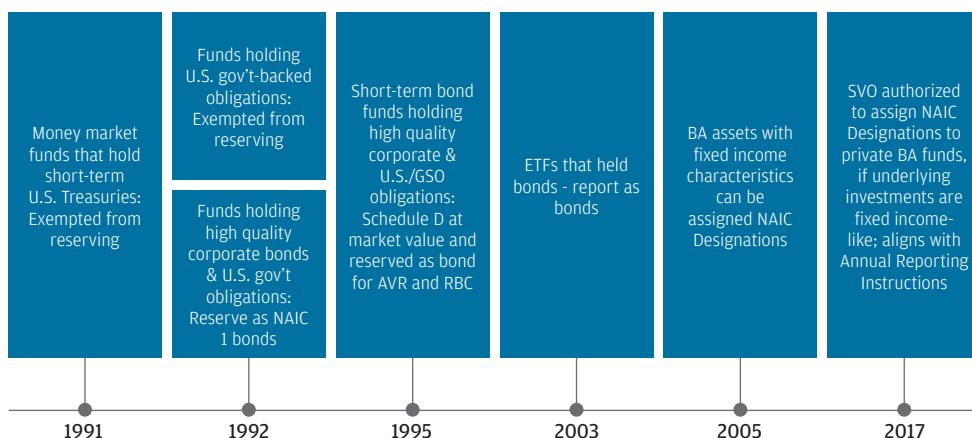
Referral of the Comprehensive Fund Proposal to the Capital Adequacy Task Force

In 2017, the NAIC¹ SVO² released proposed guidance changes to clarify eligibility of fund investments to receive NAIC Designations (see updates related to the adoption of the Comprehensive Fund Proposal [here](#)). The SVO explained that many funds are excluded from designation eligibility but are structurally identical to those permitted under the Purposes & Procedures Manual (P&P Manual) and the Accounting Practices and Procedures Manual (AP&P Manual). The goal of the proposal was to ensure consistent treatment for investments that involved funds that invest in bond portfolios.

Since 1991, The Valuation of Securities Task Force (VOSTF) has permitted more appropriate treatment to funds that invest in bonds and possess other defined characteristics (**EXHIBIT 1**).

Significant efforts have also been made to align guidance in the P&P Manual and the AP&P Manual for fund investments, including NAIC designation-related guidance for mutual funds, money market funds, ETFs and non-SEC registered Schedule BA funds.

Exhibit 1



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FOR MORE INFORMATION

Please contact Dean Crabtree, *Global Head of Investment Accounting and Regulatory Reporting*, Global Insurance Solutions at dean.crabtree@jpmorgan.com,

or our Investment Accounting and Reporting team at investment.accounting@jpmorgan.com

With its adoption, the Comprehensive Fund Proposal combines guidance for all fund investments into a new section in the P&P Manual. The proposal will expand existing policy to funds issued by an investment company that is a closed end fund or a unit investment trust type registered with and regulated by the U.S. SEC. The policy that fund investments are not eligible for filing exemption is also extended to the new fund procedures and to private (Schedule BA) funds.

VOSTF has referred to the Capital Adequacy Task Force (CADTF) a recommendation that it conduct a comprehensive review of all funds that can be assigned NAIC Designations by the SVO and consider how those NAIC Designations should be included into the RBC calculation; specifically, for the CADTF to consider what RBC changes they would like to make. CADTF, as a result, has directed NAIC staff to do an analysis of the fund universe subject to this guidance to assess industry impact and recommend next steps.

INVESTMENT RISK-BASED CAPITAL

The Investment Risk-Based Capital Working Group (IRBCWG) did not meet during the Spring National Meeting. During their most recent meeting back in the Fall of last year, the IRBCWG discussed the American Academy of Actuaries' Joint Property & Casualty and Health Bond Factors Analysis [report](#) and comment letters received from interested parties that touched on the proposed expansion and updates to the decades-old bond factors for health and P&C companies. There is currently a regulatory call scheduled for regulators and interested parties on May 16th to further discuss the bond proposal and to gain further insight into the path towards implementation.

¹ NAIC - National Association of Insurance Commissioners

² SVO - Security Valuation Office

Source: NAIC Memorandum: Referral to the Capital Adequacy Task Force - Comprehensive Fund Proposal This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purpose. Any examples used are generic, hypothetical and for illustration purposes only. Prior to making any investment or financial decisions, an investor should seek individualized advice from a personal financial, legal, tax and other professional advisors that take into account all of the particular facts and circumstances of an investor's own situation. The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yield are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. This communication is issued by the following entities; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA; and J.P. Morgan Investment Management Inc. JPMorgan Asset Management (Canada) Inc. is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador.

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