While we also agree that some basic requirements should be in place for members of the risk committee, one concern we have with the Board's proposed criteria is that there is no requirement for insurance sector experience. With the great deal of diversity among large, complex financial firms, there is no guarantee that a risk committee member's experience assessing risk at a large, complex bank or other financial institution would translate well into assessing risk at a large, complex insurer. We believe SIIC Boards should review the adequacy of proposed risk committee members on a case-by-case basis, rather than establishing rigid, one-size-fits-all requirements for risk committee membership.

Corporate Governance: Chief Risk Officer and Chief Actuary

The NAIC cautions the Board against being too prescriptive in the role of a Chief Risk Officer or Chief Actuary within a SIIC's structure. It is difficult to define and implement the "appropriate" amount of stature and independence of a chief actuary from business lines and legal entities. The concept of independence raises difficult questions such as whether the Chief Actuary would need to have approval or veto power of all actuarial policies, and how involved the Chief Actuary can be in the development of individual actuarial decision making in a particular line of business or legal entity. Although reporting structures are important, the keys to an effective Chief Risk Officer or Chief Actuary are the competencies and abilities of the individuals serving in those capacities.

We agree the Board should not require a single, enterprise-wide Chief Actuary and that the position of Chief Actuary be allowed to be split between life/health and property/casualty lines. We note that it would be very rare for an actuary, let alone a Chief Actuary, to have significant experience in both areas.

Separate life/health and property/casualty Chief Actuaries is also appropriate because of the nature of the insurance reserves and the fact they are held within separate insurance legal entities. While we understand the Board's desire for an enterprise-wide view of reserve adequacy, the utility of this view is limited given that such reserves are <u>not</u> fungible within the enterprise; any such movement would require express state regulator approval or oversight.[8] Moreover, reserve adequacy at an enterprise level may not be sufficiently conservative since deficiencies in one business can be easily masked by excesses in another. Thus, we believe the prudent approach is to require reserves to be sufficient for each product line on a standalone basis, which further supports the ability to have separate life/health and property/casualty Chief Actuaries within one group.

Liquidity Risk: Cash Flow Projections

The Board's proposal would require SIICs to update short-term cash-flow projections daily and update longer-term cash-flow projections at least monthly. While these updates would not always require revisiting actuarial estimates, SIICs

serve the Board’s stated goal in the absence of real world stress and liquidity needs. Showing that actual liquidation can be done without sending distress signals would not be proven by such an exercise, which would necessarily take place in a vacuum.

Liquidity Risk: Collateral, Legal Entity, and Intraday Liquidity Risk Monitoring

In the normal course of business, the NAIC does not believe that insurance activities should result in the need to engage in intraday liquidity monitoring. However, we acknowledge that some SIIC’s may choose to engage in activities such as private placements, commercial mortgages, securities lending, overnight repos, borrowings, commercial paper, and similar instruments or activities. To the extent that a SIIC is engaging in these activities, intraday liquidity monitoring may be appropriate in stressed situations.

Liquidity Risk: Stress Testing

The NAIC has significant concerns regarding the potential impact of the very specific liquidity stress testing of §252.165 in the proposed rule. We believe the specified test could actually *weaken* the financial condition of the group by inappropriately failing to properly weight the probability of certain events. We believe any test should consider the probability weighting of any liquidity stress element of the test, just as most life insurers consider in their liquidity management programs. To do otherwise forces the insurer to inappropriately overweight liquidity risk compared to other risks and could actually weake

should at least be a viable reference point for the insurer to address for an extreme liquidity stress scenario where an insurance regulator would become involved.

Liquidity Risk: Buffer Requirements

The NAIC believes the Board's 90 day planning horizon for calculation of the buffer may be a very conservative time frame depending upon the probable liquidity stress durations in the company-specific test scenarios. However, we recognize the Board is also considering liquidity concerns that existed in the broader financial sector during the financial crisis. Certainly a minimum of a 30 day horizon should be established, as this would allow some time to see how the causes of the liquidity strain develop, giving regulators lead time to prepare for any necessary receivership actions. We encourage the Board to engage in a discussion with SIICs regarding the appropriate planning horizon, whether 45, 60, or the proposed 90 days, as they will suffer the negative impacts of the liquidity capital buffer in a challenging investment environment.

With respect to the proposed rule's definition and treatment of eligible assets in the liquidity buffer, the NAIC has several concerns. Firstly, it is unclear how assets on deposit for various reasons will be treated. The assets listed as permitted fully exclude exchange traded funds (ETFs) and mutual funds (MFs) or money market funds (MMFs). While there were instances during the financial crisis where MFs and MMFs were frozen and questions exist regarding the liquidity of ETFs, it may still be appropriate to include these funds in certain circumstances, such as in an outer layer of the buffer (similar to the tiering of capital). The Board's treatment also explicitly excludes investments in bonds from banks and insurance companies as well as bank deposits, for interconnectedness issues. That will create market issues since financial institutions have been major issuers and likely will continue to be with various bail-in structures. The exclusion of bank deposits will mean insurers likely need to change their cash management procedures away from banks.

Secondly, the Board's list of eligible assets also refers specifically to investment grade corp51-9117 y esets nJETE