

On Tuesday October 5<sup>th</sup> 2004, the Capital Adequacy Task Force (CADTF) and LHATF held a joint subgroup conference call to discuss the various avenues of oversight and validation that may be used to validate C3 Phase 2 type calculations. This call was a follow-up to an August 11<sup>th</sup> call.

Thirteen states and various interest parties were represented. Dennis Lauzon of New York led the call.

Dennis introduced the idea of including Guidance as an additional topic to be considered as a necessary avenue to oversight and validation. Without sufficient guidance, enforcement difficulties may arise and hindsight judgments may be made. Dennis referred to an SEC study on the necessary elements of a principles-based accounting system. Guidance seemed to be the underlying theme for having a successful principles-based accounting system.

The topic of Guidance was discussed at length. The regulators agreed that guidance should be added as a bullet point under State Oversight Avenues. Practice notes would not be used to provide guidance on guidance. It was suggested that practice notes do not have enough regulatory authority. Instead, a new compliance manual could be created. A new subgroup could be formed to oversee the process or the Academy could do the work. The Academy agreed to at least discuss the issue.

Dennis then briefly reviewed some literature related to assessing risks using internal models. In particular, he drew excerpts from a Basel Committee document that outlined a framework for assessing the capital risks of banks in an international framework. He tried to draw parallels to the insurance industry.

Dennis closed by saying that progress is slow and adoptions may be coming, especially for RBC.

A followup call is scheduled for Thursday 11/4/04. At this point, there are no agenda items for the next call. The call will be an update of current progress.

Tim Gaynor, FSA, MAAA

5 October, 2004

