On Wednesday August 11th 2004, the Capital Adequacy Task Force (CADTF) and LHATF held a joint subgroup conference call to discuss the various avenues of oversight that may be used to validate C3 Phase 2 type calculations. This call was a follow-up to a July 7th call.

Sixteen states and various interested parties were represented. Dennis Lauzon of New York led the call. The same four avenues of oversight and validation were discussed: 1- Project Management, 2- Self Regulating, 3- State Oversight, and 4- NAIC Support.

Three new items were introduced as Self Regulating Avenues:

1- Governance – What are the expectations of the Board and/or Senior Management?
2- Consistent Integration – The models used for valuation should be consistent with the models that are used for pricing, hedging, economic capital determinations, etc.
3- Process and Model Validation – The models should not need prior approval as in Canada. Might consider a questionnaire and or validation to specific input.

As in the prior call, NY asked for volunteers to research specific issues. Members of the task force volunteered to research report standards and regulatory review procedures.

Dennis Lauzon briefly discussed what Canada is doing to regulate hedge credits, internal models and peer review. He will continue to review available literature related to these topics.

On August 23rd, Dennis will present the avenues of oversight framework to CADTF members. The intent is to give committee members a feel for what is happening on the regulatory side.

Additional follow up conference calls will be scheduled at the LHATF meeting in September.

Tim Gaynor, FSA, MAAA 12 August 2004