2016 CRO Symposium

September 7th, 2016
CNA Financial
Chicago, IL

Meeting Materials
<table>
<thead>
<tr>
<th>Time (CDT)</th>
<th>Agenda Item</th>
<th>Discussion Lead(s)</th>
</tr>
</thead>
</table>
| 1:00 – 1:15 pm | Welcome & Opening Remarks                                                   | CRO Council Chair  
Stephen Gruppo (TIAA)                                      |
| 1:15 – 2:00 pm | Regulatory Perspectives  
- ORSA – One Year On  
- What’s working, what’s not  
- Stress & Scenario Testing – the good, the bad, the ugly  
- Anticipated evolution of requirements | Regulatory Representative  
Elisabetta Russo (NAIC)                                      |
| 2:00 – 3:00 pm | Considerations in Constructing a Robust Stress & Scenario Testing Regime  
- Selecting Pertinent Stresses  
- Differences by business model  
- Idiosyncratic vs. Systemic  
- Capital Lenses | CRO Member Panel  
Lori Evangel (Genworth)  
Stan Talbi (Metlife)  
Mark Verheyen (CNA) |
| 3:00 – 3:15 pm | Break                                                                       |                                                              |
| 3:15 – 4:15 pm | Making It Real – Using the Results  
- Capital Management  
- Risk Appetite / Tolerances  
- Framing it for stakeholders (Board of Directors, Senior Management, Rating Agencies, Regulators) | CRO Member Panel  
Nick Silitch (Prudential)  
Rahim Hirji (Manulife)  
Sean Ringsted (Chubb) |
| 4:15 – 5:00 pm | Roundtable Discussion  
- What are invitees doing, seeing, and thinking about?  
- What are your challenges? | Moderator  
Brad Hoffman (MassMutual)                                      |
2016 CRO Symposium
Introductory Remarks

Stephen Gruppo, TIAA
CRO Council Chair
The North American CRO Council is a professional risk management group that seeks to develop and promote sound practices in risk management throughout the insurance industry.

Council members represent Chief Risk Officers of leading insurers based in North America, who as a group, aim to provide thought leadership and direction on the advancement of risk management and risk-based solvency and liquidity assessments.

**Council Objectives**

- Seeking alignment of regulatory requirements in North America with insurance industry sound practices in risk management, and harmonization of these requirements across jurisdictions.
- Seeking alignment of rating agency capital and liquidity assessments with sound industry practices in risk management.
- Promoting the development and assessment of capital requirements based, in part, on internal company-developed risk models, and the appropriate recognition of the benefits of risk identification, risk controls, and risk diversification.
- Influencing the development of new risk disclosures, as they may be required by regulatory bodies, by developing considered responses to such regulatory proposals.
- Producing and distributing occasional position papers on topical risk management issues.
• Formed in 2010, the North American CRO Council comprises 29 CRO Council members representing the Life & Health and Property & Casualty insurance industry

• Membership is diverse with companies located throughout the North American region

In the North American market our members constitute:
• Seven of the top ten P&C companies;
• Nine of the top ten Life writers; and
• Hold approximately 45% of the North American insurance industry total assets

Source: SNL Financial
# Introductory Remarks

## CRO Council Committee Structure

<table>
<thead>
<tr>
<th>Chair</th>
<th>Vice Chair</th>
<th>Secretary</th>
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<tbody>
<tr>
<td>Stephen Gruppo</td>
<td>Mark Verheyen</td>
<td>Mark Verheyen</td>
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</table>

### Executive Committee

<table>
<thead>
<tr>
<th>Chair</th>
<th>Delegate</th>
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<tbody>
<tr>
<td>Slipowitz (C)</td>
<td>Silitch/Mahaffey (C)</td>
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</table>

### Committee Membership

- Roou
- Quane (D)
- Shapella
- Daniels (D)
- Smith
- Silitch (D)
- Halladorson
- Porter (D)
- Welsh
- Elming (D)
- Streck
- Gruppo (D)
- Sawhney
- Celentano
- Verheyen
- Talbi
- Steinberg
- Gruppo (D)
- Sawhney
- Porter (D)
- Welsh
- Elming (D)
- Streck
- Wallace (D)
- Barlin
- Silitch (D)
- Douglas
- Chung
- Elming (D)
- Mayer
- Verheyen (D)
- Caughron
- Celentano (D)
- Marsh
- Gruppo (D)
- Bourdeau
- Ward (D)
- Minnes
- Roou (D)
- Vedder
- Theilen
- Hirji
- Verheyen (D)
- Caughron
- Wallace (D)
- Petry
- Elming (D)
- Woods
- Verheyen
- Porter (D)
- Bryant
- Silitch (D)
- Smith
- Hoffman (D)
- D’Aquilla
- Evangel (D)
- Hodges
- Gruppo (D)
- Brady
- Quane (D)
- Doggett
- Slipowitz
- Mahaffey (D)
- Kirby
- Silitch (D)
- Marsh
- Porter (D)
- Cooper
- Celentano (D)
- Marsh
- Steinberg (D)
- Dubrow
- Elming (D)
- Breiten
- Hoffman (D)
- D’Aquilla
- Evangel (D)
- Hodges
- Gruppo (D)
- Kramer

<table>
<thead>
<tr>
<th>STATE</th>
<th>INTERNATIONAL &amp; FEDERAL</th>
<th>MODEL RISK</th>
<th>BIG DATA</th>
<th>CYBER RISK</th>
<th>OPERATIONAL RISK</th>
</tr>
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<tbody>
<tr>
<td>External Affairs</td>
<td>Sound Practices</td>
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</tbody>
</table>

(C) – Committee Chair  
(D) - Delegate
Activities

Thought Leadership

• The CRO Council regularly provides comment on regulator and rating agency proposals, advocating for alignment of regulatory requirements, harmonization across jurisdictions, and sounds risk management practices

• The Big Data working group is currently drafting a whitepaper on the evolution of Advanced Analytics and the future risk management implications to the insurance industry from the perspective of a Chief Risk Officer

Industry Outreach

• **CRO Symposium** – The CRO Council is hosting a broad group of non-member CROs with the goal of improving awareness of the Council’s activities, broadening the Council’s perspective, and promoting sound practices within the industry

• **Risk Manager Event** – educating the risk management staff of our member CROs, providing an opportunity for deep dive discussions into various risk topics
Publications

- **Model Risk Management: Practices and Principles** – This “constitution” outlines a set of sound MRM practices and principles that the members of the CRO Council have observed at different companies with the intent that the insurance MRM community can utilize this information to build upon prevailing professional practices.

- **Material Risk Catalogue** – This document promotes a common approach, understanding, and alignment on key risks impacting the industry, including identifying and defining material risks and discussing how those risks can manifest, specifically to insurance companies, in both the short and long term.

- **Risk Appetite: Survey Results** – This publication covers the results of this joint survey between the CRO Forum and the CRO Council. The survey was intended to provide insight into the diversity of approaches to risk appetite, covering most key areas regarding risk appetite frameworks.

- **Risk Governance and Culture: Principles and Practices in the Insurance Industry** – This paper is intended to highlight key considerations that the CRO Council hopes will assist the industry in further strengthening risk governance and culture.

[http://www.crocouncil.org/publications.html](http://www.crocouncil.org/publications.html)
Regulatory Perspectives on ORSA and Stress Testing

ELISABETTA RUSSO
ERM ADVISOR, FIA, MAAA

EMAIL: ERUSSO@NAIC.ORG  CELL: 718.286.9450
Overview – State adoptions

Implementation of Model Act #505
Risk Management and Own Risk and Solvency Assessment Model Act
[status as of July 27, 2016]

Adopted Model #505
(40: AL, AK, AR, AZ, CA, CO, CT, DE, FL, GA, HI, IA, IL, IN, KS, KY, LA, ME, MI, MN, MO, MT, ND, NE, NH, NJ, NY, NV, OH, OK, OR, PA, RI, TN, TX, VA, VT, WA, WI, WY)

Action under consideration
(1: MA)

No action to date
Overview – Effective dates

• Of the 40 states:
  – Majority has a 2015 first ORSA filing date
  – 7 have 2016 date [i.e. AZ, LA, MO, OK, OR, TX, WA]
  – 5 have a 2017 date [i.e. AL, AR, CO, FL, KS]
  – 1 has a 2018 date [i.e. MI]

• ORSA to become a NAIC accreditation standard on January 1\textsuperscript{st}, 2018

• 300 reports expected in total (200 at group level, 100 legal entity only)- excluding international premium data

• Approx. half received so far by the Departments of Insurance (DoIs)
Overview – Key actions to date

- NAIC ORSA Training for Dols:
  - Classroom training using real ORSAs and often company’s participation
  - 22 states trained so far (including exam contractors)
  - Basic knowledge + Application of Exam & Analysis handbooks procedures + Lead State role & scope of documentation

- Re-establishment of NAIC ORSA Subgroup under GSIWG (Group Solvency Issues (E) Working Group)
  - Place to discuss common regulatory issues
  - Some calls open to the public
  - ORSA Confidentiality and Sharing Best Practices document
    - exposed till September 9, 2016
    - http://www.naic.org/committees_e_orsai_wg.htm
  - Two Form F documents posted on WG’s page:
    - Form F Effectiveness Survey
    - Comparison of Form F and ORSA Reporting Requirements
    - http://www.naic.org/committees_e_isftf_group_solvency.htm
Overview – Overall feedback

• Feedback based on review of approx. 100 reports
• Overall, compliance with ORSA structure as per NAIC ORSA Manual
• Life and P&C ORSAs better than Health
• Quality of the information not always representative of maturity of ERM and Capital Management frameworks – dialogue between DoI and insurer remains key
• Most challenging building blocks for insurer:
  – Section 1: individual risk limits and enterprise risk appetite
  – Section 2: assessment of risk exposure
  – Section 3:
    • Quantification of risk capital for each key risk
    • Fitness of risk metric selected for risk profile
    • Prospective assessment
  – Group policies versus local implementation in US (for international companies)
• 2016 ORSAs better than 2015 and better than 2014 pilots
• Still some confusion on some ORSA requirements - DoI’s feedback fundamental
• More evidence of “fitness of purpose” from insurer of choices made (for example: assessment metrics, stresses)
Section 1 – Dol’s focus and feedback

• Main questions of interest to the Dol:
  – What are the main lines of defense against risk within the insurance group? How risk owners are rewarded?
  – What are the key risks (given main strategic goals)?
  – What are the individual risk limits and overall risk appetite?
  – Which controls have been tested by Internal Audit?
  – What KRIIs are monitored and reported?

• Feedback from first year’s reviews:
  – Limited information on key strategic goals
  – Nice to know next ORSA initiatives
  – No information on compensation of risk owners
  – Names and responsibilities of key risk owners
  – List of key risks but limited information on ID process
  – Not all key risks have limits
  – Tendency to disclose mostly financial controls
  – Need for more up-to-date information (e.g. quarterly KRIIs reported to management & BoD)
Section 2 – DoI’s focus and feedback

• Main questions of interest to the DoI:
  – How big are the key risks (on current and stressed basis)?
  – How often the exposure is assessed and how does it compare with the limit?
  – How is the exposure monitored?
  – What actions were taken in case of a breach? Were the controls effective?

• Feedback from first year’s reviews:
  – Not all key risks are assessed
  – No explanation of why some key risks are not assessed: lack of data or methodology?
  – Justification to the choice of stresses – very little disclosure of underlying analysis
Section 3 – DoI’s focus and feedback

• Main questions of interest to the DoI:
  – Does the company have sufficient capital resources to cover unexpected losses, now and in future (for the duration of the business plan)?
  – What are the potential “unexpected losses”?
  – How does the company manage and allocate capital to risks?
  – How fungible is capital across the enterprise?
  – Is the risk profile of the insurer likely to change as a result of the business strategy?

• Feedback from first year’s reviews:
  – Variety of metrics (RBC multiples, rating agency, economic capital)
    - no explanation of choice of risk metric
  – No quantification of risk capital for all key risks
  – No explanation of diversification benefit (often “significant”)
  – Often no prospective assessment
  – Limited support to choice of stresses (mostly focus on results)
  – Limited to no information on validation (framework, scope, status, results)
Stress Testing

- No prescribed stress testing in the ORSA but requirement to stress individual risk exposure and capital (on current and prospective basis)
- Feedback from first year’s reviews:
  - Mostly single stresses for market (incl. credit), underwriting, cyber
  - Some common stresses
    - Financial crisis, interest rate, some geopolitical scenarios (China meltdown, Brexit)
    - Worsening of credit quality of investments
    - Natural CATs, man-made CATs (e.g. terrorism), pandemics
    - Cyber
  - Lack of impact of combined stresses
  - Very little disclosure of reverse stresses
  - Disclosure of results but not of underlying process for selection of stress & overall stress testing framework (including governance)
- Currently DoIs in “observe & assess” mode
  - what is the regulatory value of stresses disclosed in ORSA? No benchmarking anticipated
- Future DoIs’ considerations:
  - May request more company specific stresses based on ORSA
  - Collaboration with other regulators and influence of other regulatory activities (e.g. Group Capital calculation, International Capital Standard, FRB oversight) may lead to request for industry-wide stresses
Overview – Next ORSA priorities

• Immediate:
  – Provide feedback to insurers
  – Continue to support Lead State role in reviewing and documenting ORSAs
  – Address Form F issue (Interpretative Guidance being drafted by NAIC)

• Medium term:
  – Define “deeper” scope of Section 3 review
  – Achieve consistency in the Dols’ reviews
2016 CRO Symposium
Considerations in Constructing a Robust Stress & Scenario Testing Regime

Lori Evangel, Genworth
Stan Talbi, MetLife
Mark Verheyen, CNA
2016 CRO Symposium
Making It Real – Using the Results

Nick Silitch, Prudential
Rahim Hirji, Manulife
Sean Ringsted, Chubb
Insurance companies are in the business of accepting and pooling individual risks into large risk pools that are then managed against available resources.

Insurance companies have managed their risks versus their ability to take risks for centuries, and risk management lies at the core of what insurance companies do.

Today’s challenges for insurance companies:

- Ensure a comprehensive framework to understand the balance between risk and the ability to take risk.
- Develop extensive stress testing program that appropriately evaluates potential vulnerabilities.
- Ensure appropriate capital positioning to absorb stresses and meet corporate objectives.
### Provide Relevant Context

<table>
<thead>
<tr>
<th></th>
<th>Old World</th>
<th>New World</th>
</tr>
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<tbody>
<tr>
<td><strong>Typical Limit</strong></td>
<td>“Risk Management says… my ‘BBB’ limit is $100M”</td>
<td>“In order to maintain our goals through a stress… my ‘BBB’ limit is $100M”</td>
</tr>
<tr>
<td><strong>Statement</strong></td>
<td><em>(statement without context)</em></td>
<td><em>(statement with context &amp; analytics)</em></td>
</tr>
<tr>
<td><strong>Risk Management’s</strong></td>
<td>Dictates limits</td>
<td>Informs and coordinates; evaluates from the constituent’s perspective</td>
</tr>
<tr>
<td><strong>Role</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Limit Development</strong></td>
<td>Established by Risk Management</td>
<td>The outcome of robust stress testing and capital analysis that reflects corporate objectives</td>
</tr>
<tr>
<td><strong>Limit Discussions</strong></td>
<td>Focus on limit values alone</td>
<td>Focus on the firm's appetite to take risk relative to its risk capacity</td>
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</table>

*The discussion has moved beyond risk limits to a more complex model anchored in the broad understanding of the organization’s Risk Profile, Risk Capacity & Risk Appetite.*
The Risk Appetite Framework provides an arena for the collective discussion of the Risk Management concept.

Risk Profile and Risk Capacity provide context, calibration, and a basis for comparison to Risk Appetite.
Making It Real – Using the Results
Role of Risk Management

Socialization and Acceptance

- Collective decision by management, businesses, etc., and reviewed at the Board level
- Clear expectations developed across the organization
- Ensure implications are clear
- Stakeholders
  - Rating Agencies
  - Debt holders
  - Shareholders
  - Regulators
  - Policyholders
  - Businesses

Responsibilities

- Facilitate the risk conversation
- Keep score of decisions
- Coordinate the stress testing process
- Quantify stresses
- Ensure appropriate governance
- Develop limit system that conforms to Risk Appetite Framework

**Risk Management does not say “Yes” or “No”**

- The question is how much is too much?
- The Executive Team and Board answer the question
Account for various lenses and needs

Risk’s role is to coordinate and support optimization for stakeholders.
Making It Real – Using the Results
Levers to Modify Risk Appetite Framework

Change Risk Profile
- De-risk current profile
- Hedge
- Exit and/or modify business products

Change Risk Capacity
- Raise capital
- Raise debt
- Increase liquidity

Change Strategic Objective
- Clearly and transparently recognize new objective for capital objectives and/or return expectations
- Accept repercussions of new positioning

Trade Offs

<table>
<thead>
<tr>
<th>Spread</th>
<th>Duration</th>
<th>Product</th>
<th>Hedging</th>
<th>Leverage</th>
<th>Profitability</th>
<th>Liquidity</th>
<th>Capital</th>
<th>Returns</th>
</tr>
</thead>
</table>

2016 CRO Symposium
2016 CRO Symposium
Roundtable Discussion

Brad Hoffman, MassMutual
Participant Driven Agenda
Potential topics for discussion

- **Continuing the conversation from earlier sessions**
  - Regulatory perspectives/ORSA
  - Stress & Scenario testing
  - Using results
    - Capital Management
    - Risk Appetite
    - Stakeholder presentations/discussions

- **Recent wins/successes**

- **Challenges/concerns**
  - Budgets/staff
  - Culture
  - Tools/Technology
  - Regulators
  - Rating agencies

- **Metrics**
  - Key Risk Indicators
  - Key Performance Indicators
  - Mitigation success

- **Particular risks/processes for deeper discussion**
  - Investment
  - Insurance
  - Operational
  - Model Risk management
  - Strategic
  - Top
2016 CRO Symposium
Appendix
## ORSA Confidentiality/Sharing Best Practices

**Confidential Information Includes:**
1. ORSA Summary Report, including any supplemental materials or follow-up questions provided (ORSA)
2. Department Prepared Analysis of ORSA Summary Report (Analysis)

### ORSA Summary Report

<table>
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<tr>
<th></th>
<th>With Other Regulators</th>
<th>With NAIC or Third Party Consultant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Analysis</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td><strong>BEST PRACTICE:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>In support of the Lead State framework, encourage the sharing of and reliance on the Lead State’s analysis of the ORSA Summary Report as opposed to sharing the full ORSA Summary Report with other regulators. If other regulators require the full ORSA Summary Report, they should work with the Lead State to obtain access. *</td>
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### Regulator Analysis of ORSA

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### Note

* This chart assumes that a receiving state has adopted the ORSA model act. To date, all states have not done so. Therefore, the providing state should verify that the receiving state has another statute that affords similar confidentiality protection for ORSA information before sharing related work products.

** There may be some question about whether the third-party consultant consent will apply to workpapers that merely “copy and paste” from the ORSA Summary Report and is not the department’s own analysis and work product.

Note: Because state confidentiality laws may differ from the Model Act, the providing state should determine whether its laws require protections beyond those listed here.
The following table compares the basic reporting requirements applicable to insurers and insurance holding company groups outlined in the Enterprise Risk Report (Form F) of the NAIC’s Insurance Holding Company System Regulatory Act (Model #440) against those included in the ORSA Summary Report of the NAIC’s Risk Management And Own Risk And Solvency Assessment Model Act (Model #505) and ORSA Guidance Manual.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Enterprise Risk Report (Form F)</th>
<th>ORSA Summary Report</th>
</tr>
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<tbody>
<tr>
<td>To identify material risks within the insurance holding company system that could pose enterprise risk to the insurer.</td>
<td>To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.</td>
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</tr>
</tbody>
</table>

| Reporting Level | The Ultimate Controlling Person of every domestic insurer subject to registration. | The domestic insurer, but the ORSA Summary Report may apply to the insurer or the insurance group of which the insurer is a member. |

| Exemptions | None included in the NAIC Model. | An insurer is exempted if:  
- The insurer has annual direct written and unaffiliated assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than $500,000,000; and,  
- The insurance group of which the insurer is a member has annual direct written and unaffiliated assumed premium including international direct and assumed premium, but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than $1,000,000,000. |

<p>| Entities Covered | The ultimate controlling person of every insurer subject to registration shall file an annual enterprise risk report. The report shall identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer. Insurance holding company system is defined as two or more affiliated persons, one or more of which is an insurer. Affiliate is defined as a person that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. Control means the possession, direct or indirect, of the power to direct or cause the direction of | Insurance entities not exempted from the act are required to file an ORSA Summary Report on an annual basis. Alternately, the requirement may be satisfied if the insurance group of which the insurer is a member maintains a risk management framework applicable to the operations of the insurer and provides an ORSA Summary Report at that level. The term “insurance group” shall mean those insurers and affiliates included within an insurance holding company system as defined in the Insurance Holding Company System Regulatory Act (NAIC #440). |</p>
<table>
<thead>
<tr>
<th>Information to be Reported</th>
<th>Enterprise Risk Report (Form F)</th>
<th>ORSA Summary Report</th>
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<tr>
<td>the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person.</td>
<td>To allow the commissioner to achieve a high level understanding of the insurer’s ORSA, the ORSA Summary Report should discuss three major areas, which will be referred to as the following sections:</td>
<td></td>
</tr>
<tr>
<td>The report shall, to the best of the ultimate controlling person’s knowledge and belief, identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer.</td>
<td>• Section 1 – Description of the Insurer’s Risk Management Framework</td>
<td>In order to aid the commissioner’s understanding of the information provided in the ORSA Summary Report, it should include certain key information. The ORSA Summary Report should identify the basis of accounting for the report and the date or time period that the numerical information represents. The ORSA Summary Report should also explain the scope of the ORSA conducted such that the report identifies which insurer(s) are included in the report. This may be accomplished by including an organizational chart. The ORSA Summary Report should also include a short summary of material changes to the ORSA from the prior year, including supporting rationale, as well as updates to the sections listed above, if applicable.</td>
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<td>The Registrant/Applicant, to the best of its knowledge and belief, shall provide information regarding the following areas that could produce enterprise risk:</td>
<td>• Section 2 – Insurer’s Assessment of Risk Exposure</td>
<td>In analyzing an ORSA Summary Report, the commissioner will expect that the report represents a work product of the ERM framework that include all of the material risks identified by the insurer to which an insurer or insurers (if applicable) is exposed.</td>
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<td>• Any material developments regarding strategy, internal audit findings, compliance or risk management affecting the insurance holding company system;</td>
<td>• Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment</td>
<td>Section 1 of the ORSA Summary Report should provide a high-level summary of the ERM framework principles, if present.</td>
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<td>• Acquisition or disposal of insurance entities and reallocating of existing financial or insurance entities within the insurance holding company system;</td>
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<td>Section 2 of the ORSA Summary Report should provide a high-level summary of the quantitative</td>
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<td>• Any changes of shareholders of the insurance holding company system exceeding ten percent (10%) or more of voting securities;</td>
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<td>• Developments in various investigations, regulatory activities or litigation that may have a significant bearing or impact on the insurance holding company system;</td>
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<td>• Business plan of the insurance holding company system and summarized strategies for next 12 months;</td>
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<td>• Identification of material concerns of the insurance holding company system raised by supervisory college, if any, in last year;</td>
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<td>• Identification of insurance holding company system capital resources and material distribution patterns;</td>
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<td>• Identification of any negative movement, or discussions with rating agencies which may have caused, or may cause, potential negative movement in the credit ratings and individual insurer financial strength ratings assessment of the insurance holding company system (including both the rating score and outlook);</td>
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<td>• Information on corporate or parental guarantees throughout the holding company</td>
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<tr>
<td>Enterprise Risk Report (Form F)</td>
<td>ORSA Summary Report</td>
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<td>and the expected source of liquidity should such guarantees be called upon; and</td>
<td>and/or qualitative assessments of risk exposure in both normal and stressed environments for each material risk category in Section 1. Examples of relevant material risk categories may include, but are not limited to, credit, market, liquidity, underwriting and operational risks.</td>
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<td>• Identification of any material activity or development of the insurance holding company system that, in the opinion of senior management, could adversely affect the insurance holding company system.</td>
<td>Section 3 of the ORSA Summary Report should describe how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its current business and over a longer term business cycle (e.g., the next one to three years). The group risk capital assessment should be performed as part of the ORSA regardless of the basis (group, legal entity or other subset basis) and in a manner that encompasses the entire insurance group.</td>
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**Filing Process**

The report shall be filed with the lead state commissioner of the insurance holding company system as determined by the procedures within the Financial Analysis Handbook adopted by the NAIC.

Upon the commissioner’s request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report or any combination of reports that together contain the information described in the ORSA Guidance Manual, applicable to the insurer and/or the insurance group of which it is a member. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the report(s) required by this subsection if the commissioner is the lead state commissioner of the insurance group as determined by the procedures within the Financial Analysis Handbook adopted by the NAIC.

**Confidentiality**

Submission is confidential by law and privileged, not subject to state public records law, not subject to subpoena, and not subject to discovery or admissible in evidence in any private civil action.

Submission is confidential by law and privileged, not subject to state public records law, not subject to subpoena, and not subject to discovery or admissible in evidence in any private civil action. ORSA Summary Reports and related information also recognized as proprietary and containing trade secrets.

**Information sharing**

Form F may be shared with other state, federal and international regulatory agencies, with the NAIC and its affiliates and subsidiaries, and with state, federal, and international law enforcement authorities, including members of any supervisory college, provided that the recipient agrees in writing to maintain the confidentiality and privileged status of the document, material or other information, and has verified in writing the

Information may be shared with other state, federal and international financial regulatory agencies, including members of any supervisory college, with the NAIC and with any third-party consultants designated by the commissioner, provided that the recipient agrees in writing to maintain the confidentiality and privileged status of the ORSA-related documents, materials or other information and has verified in writing the...
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<th>Role of NAIC and other third parties</th>
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<td>Authorized to share with NAIC and its affiliates and subsidiaries, but state must maintain agreement with NAIC that specifies procedures and protocols regarding the confidentiality and security of information, including procedures and protocols for sharing by the NAIC with other state, federal or international regulators; specifies that ownership of information shared remains with the commissioner and the NAIC’s use of the information is subject to the direction of the commissioner; requires prompt notice to be given to an insurer whose confidential information in the possession of the NAIC is subject to a request or subpoena to the NAIC for disclosure or production; and requires the NAIC and its affiliates and subsidiaries to consent to intervention by an insurer in any judicial or administrative action in which the NAIC and its affiliates and subsidiaries may be required to disclose confidential information. Third-party consultants not specifically addressed.</td>
<td>Authorized to share with NAIC (but not its affiliates or subsidiaries) and third-party consultants, but state must maintain agreement that specifies procedures and protocols regarding the confidentiality and security of information, including procedures and protocols for sharing by the NAIC with other state regulators from states in which the insurance group has domiciled insurers; specify that ownership of information shared remains with the commissioner and the NAIC’s or a third-party consultant’s use of the information is subject to the direction of the commissioner; prohibits the NAIC or third-party consultant from storing the information in a permanent database after the underlying analysis is completed; requires prompt notice to be given to an insurer whose confidential information in the possession of the NAIC or a third-party consultant is subject to a request or subpoena to the NAIC or a third-party consultant for disclosure or production; requires the NAIC or a third-party consultant to consent to intervention by an insurer in any judicial or administrative action in which the NAIC or a third-party consultant may be required to disclose confidential information; and in the case of an agreement involving a third-party consultant, provides for the insurer’s written consent.</td>
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<th>Attestation</th>
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<td>If the Registrant/Applicant has not disclosed any information pursuant to Item 1, the Registrant/Applicant shall include a statement affirming that, to the best of its knowledge and belief, it has not identified enterprise risk subject to disclosure pursuant to Item 1.</td>
<td>The report(s) shall include a signature of the insurer or insurance group’s chief risk officer or other executive having responsibility for the oversight of the insurer’s enterprise risk management process attesting to the best of his/her belief and knowledge that the insurer applies the enterprise risk management process described in the ORSA Summary Report and that a copy of the report has been provided to the insurer’s board of directors or the appropriate committee thereof.</td>
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To: Christy Neighbors, Chair of the Group Solvency Issues (E) Working Group  
From: NAIC Staff  
Date: June 1, 2016  
RE: Form F Effectiveness Survey Results

On May 20, 2016 the Group Solvency Issues (E) Working Group conducted a survey of all state insurance departments to gather feedback on the effectiveness of the Form F (Enterprise Risk Report) reporting process. Responses were received from 36 different jurisdictions. This memo summarizes the responses received to each of questions included in the survey.

1. Please select from the responses below to indicate your state’s evaluation of the overall effectiveness of the Form F reporting process.
   a. Very effective, with most all groups providing valuable information on enterprise risks, including those emerging from non-insurance operations (where relevant)
   b. Effective, with a majority of groups providing valuable information on enterprise risks, including those emerging from non-insurance operations (where relevant)
   c. Somewhat effective, with some groups providing valuable information on enterprise risks, including those emerging from non-insurance operations (where relevant)
   d. Ineffective, with very limited information provided on enterprise risks

As indicated in the table above, 21 states (58% of respondents) indicated that the Form F reporting process is currently only Somewhat Effective. The next most common response was Ineffective, which was selected by 10 states (28% of respondents). Two states selected Very Effective, one state chose Effective and two states indicated that they had not yet received a Form F filing.

2. If the answer to #1 was Effective, Somewhat Effective, or Ineffective, please describe why.

A wide range of responses were received to explain the limited effectiveness of Form F reporting, including the following:
   • Many filers answer “No Changes” or “None” in responding to the topics listed in Item 1 of the report and indicate that no enterprise risks have been identified
• Many filers do not provide much (if any) information on non-insurance enterprise risks
  o Filings are often presented at the insurer level or perspective, as opposed to addressing all
    enterprise risks (including non-insurance risks) at the Ultimate Controlling Person (UCP) level
• Many filers appear to treat exercise as merely a compliance requirement that must be filed, as opposed to
  a tool to communicate important information on risk exposures to regulators
• Many larger insurance groups limit their filing to referencing publicly available information (e.g. SEC
  filings, news releases and MD&As), limiting the insight provided
• Some filers provide reference to a long list of generic risks that could impact all insurers, without
  providing additional detail regarding their specific exposures
• As the Form F does not require reporting on the group’s ERM processes, the information presented on
  enterprise risks may have limited value
• Some regulators indicated that initial filings provided very limited value, but have now improved to a
  certain extent due to conversations between the regulator and the group

3. Please select from the responses below to indicate your state’s evaluation of the overall value and utility
   of the Form F reports in regulatory analysis efforts.
   a. Very valuable and used as an integral part of our regulatory analysis efforts.
   b. Valuable and used in our regulatory analysis efforts.
   c. Somewhat valuable and sometimes used in our regulatory analysis efforts.
   d. Not valuable, rarely used in our regulatory analysis efforts.

   ![Value in Analysis Chart]

   As indicated in the table above, 20 states (56% of respondents) indicated that the Form F reporting process is
   currently only ‘Somewhat Valuable’ to financial analysis efforts. The next most common response was ‘Not
   Valuable’, which was selected by 8 states (22% of respondents). Four states selected ‘Valuable’, two states chose
   ‘Very Valuable’ and two states indicated that they had not yet received a Form F filing.

4. If the answer to #3 was Valuable, Somewhat Valuable, or Not Valuable, please describe why.

   A wide range of responses were received to explain the limited effectiveness of Form F reporting, the vast
   majority of which were consistent with the responses provided under #2 above.
5. Do you feel that the definition of enterprise risk (see excerpt from Model #440) is sufficiently clear to require groups to bring all relevant risks, especially non-insurance company enterprise risks, to the attention of regulators? (Y or N)

Of the respondents, 20 states (56%) indicated that the definition of Enterprise Risk is sufficiently clear, whereas 16 states (44%) indicated that it is not sufficiently clear.

6. If the answer to #5 is no, please discuss why and suggest potential improvements?

A wide range of responses were received from states that selected ‘No’ in responding to whether the definition of Enterprise Risk was sufficiently clear to bring all relevant risks to the attention of regulators, including the following suggested improvements:

- The definition should be enhanced to clarify that all activities of the UCP (including non-insurance operations) can be enterprise risks and should be reported through Form F
- The definition and supporting guidance should be enhanced to describe more significant prospective risks and anticipated developments that should be reported, particularly for non-insurance exposures
- As the definition does not adequately capture what is commonly understood as enterprise risk, we would suggest using language more aligned with the COSO definition
- Recommend modifying the language in the definition stating “if not remedied promptly, is likely to have a material adverse effect” to something like “if not effectively mitigated or remediated may have an adverse effect”
- The phrase “if not remediated promptly” can be construed to omit risks the company feels are remedied or managed and may lead to significant risks not being reported
- The term “any event” is limiting and could be replaced by something more inclusive, including more examples of situations or risk events that should be reported
- The use of the term “material” is not clear within the definition and may lead to different interpretations on what should be reported

7. Which of the areas of enterprise risk highlighted in Item 1 of Form F reporting template (see excerpt from Model #450) provide the greatest value or information to regulators?
Regulators indicated that most (if not all) of the areas highlighted in Item 1 can provide significant value, depending upon how the filing is interpreted and completed. The areas commonly identified as being the most beneficial included the following:

- Any material developments regarding strategy, internal audit findings, compliance or risk management affecting the insurance holding company system
- Business plan of the insurance holding company system and summarized strategies for next 12 months;
- Developments in various investigations, regulatory activities or litigation that may have a significant bearing or impact on the insurance holding company system
- Identification of material concerns of the insurance holding company system raised by supervisory college, if any, in last year
- Identification of insurance holding company system capital resources and material distribution patterns
- Identification of any material activity or development of the insurance holding company system that, in the opinion of senior management, could adversely affect the insurance holding company system.

8. Are there any areas of enterprise risk that should be added to or deleted from Item 1 of the Form F reporting template or otherwise clarified? (Y or N)

As shown above, 20 states (56% of respondents) indicated that the areas of enterprise risk highlighted in Item 1 of Form F were sufficient, whereas 15 states (42% of respondents) indicated that additions to or deletions from Item 1 would be beneficial and one state did not offer a response.

9. If yes, please elaborate and describe any needed additions, deletions or improvements

Respondents provided a wide-range of responses to this question, including a list of potential additions or adjustments as well as items to be considered for deletion.

Suggested additions/adjustments included the following:

- Update the areas listed under Item 1 to be more specific and require a written response
- Add risks in the holding company's IT system that, in the opinion of senior management, could adversely affect the insurance holding company system
- Have the group differentiate between no inherent material risks or a list of these inherent risks that the group has a process to promptly remediate would be helpful, including what the remediation is
Add a section specific to Corporate Governance risks associated with change in management and/or philosophy would be helpful.

We would add or modify Item 1 elements to specifically indicate the company’s means of addressing non-insurance operations and to also reference the ORSA Summary Report, which is not publicly available, if applicable, to provide better insight into the company’s ERM.

Item 1 of the Form F should require that a holding company describe its ERM framework.

Item 1 should require the company to provide a narrative response to each of the items listed.

Although, a response of “no” (i.e. no enterprise risk) may be appropriate for many of the areas listed under Item 1, the Registrant should be encouraged to expand on areas assessed, when arriving at the response of “no,” so the Department can adequately assess the completeness, appropriateness and thoughtfulness of the response.

Identify any material non-insurance risks that have the potential to adversely affect the insurance holding company system.

Add emphasis or clarification indicating that the responses should be provided at the UCP/Enterprise level as opposed to the insurance holding company level.

Group questions into general areas of risk i.e. financial, operations, compliance, market, macroeconomic risks, etc., or some guidance on what types of risks are expected in each question.

The question on business plan needs to specify the exact detail needed. This will help avoid, “yes we have a plan”, or getting only a short “proforma” income statement with no narrative, which is of limited use.

Suggested deletions included the following:

- Rather than having the reporting entity report on the ten categories for Item 1, we recommend that we limit the categories to no more than five. For example: acquisitions/disposal, capital resources, guarantees and business plan could be combined under strategy.
- Several of the areas listed under Item 1, including the third (changes to shareholders) and seventh (HC capital resources), may be duplicative with Form B reporting requirements and should be considered for deletion.
- Several of the areas listed under Item 1 may be addressed in more detail in an ORSA Summary Report for those groups that are subject to that filing requirement. Therefore, regulators should consider exempting ORSA filers from the Form F reporting requirements.
- We recommend removing the question regarding identification of material concerns of the insurance holding company system raised by the supervisory college because regulators should already be aware of those concerns.

10. Please compare and contrast the information provided by groups in their Form F vs. their ORSA Summary Report, if your state has received both filings from a particular group. For example, please provide comments on the following:
   a. The level at which reports are provided (e.g. UCP, Insurance Holding Company, etc.);
   b. The scope of entities covered by the reports (e.g. insurers, non-insurance subsidiaries, non-insurance affiliates, holding companies, etc.);
   c. The types of risks/issues highlighted in the reports (e.g. insurance risks vs. non-insurance enterprise risks); and
   d. If your state can’t provide input in this area, please describe why (e.g. haven’t adopted ORSA, haven’t yet received ORSA reports, not a lead state for ORSA groups, etc.).

22 states (58% of respondents) indicated they had not yet had an opportunity to compare information reported through the Form F and ORSA due to various factors. From the other 14 states (42% of respondents) a wide range of responses were received, which have been summarized as follows:
Level at Which Reports are Provided - Filers took different approaches and the experiences of states in this area was inconsistent. Some filers argued that non-insurance entities are excluded from the scope of the ORSA as it applies to group-wide insurance operations.

The Scope of Entities Covered by the Reports – Again, states reported inconsistent results in this area with some Form F filings and ORSA Summary Reports covering all entities under the UCP (including non-insurance entities) and others limiting their scope to insurance entities. As noted above, some filers argued that the ORSA only applies to insurance operations.

Types of Risks/Issues Highlighted in the Reports – Most respondents indicated that ORSA reports have provided much more information and detail on individual risks than the Form F. However, several respondents indicated that neither of the two reports is providing a detailed assessment of non-insurance risks that can impact the insurance operations beyond general "market risks."

Other Comments Received:
- ORSA reports generally provide more value than the Form F, but aren’t required of all groups.
- Information contained within the ORSA reports is generally more valuable as the statute and guidance manual requires specific topics to be discussed including identification, prioritization, and assessment of risks.
- ORSA reports are primarily limited to insurers and insurance risk, whereas Form Fs are supposed to include contagion risks and non-insurance risks as they relate to the Insurance Holding Company System and are filed on behalf of the UCP. However, the reports we are currently receiving don’t necessarily take this approach.

11. Please provide additional suggestions your state has identified to improve the Form F reporting process, if any.

In addition to the suggestions made in response to questions discussed above, a number of additional suggestions and recommendations were received from states in responding to this question, including the following:

- We recommend that a comprehensive instruction/guidance as well as examples for each of the category in Item 1 be provided to assist smaller companies in providing meaningful and valuation information in their Form Fs.
- Form F should only be required of groups that do not file an ORSA. Consideration should be given to adding questions to the holding company analysis related to the analysis of Form F (ERM) for non ORSA filers.
- Clarity as to what is expected, perhaps with a few examples would be helpful for the Form F instructions. Also, the instructions should focus on the 9 branded risk categories, given that the financial analyst has to transcribe the Form F information received into the branded risks matrix that we all use. Additionally, the Form F material could be added to the financial analysis and examiners handbook as suggestions for meeting topics to discuss with insurers. The regulator is more likely to get a comprehensive dialogue face to face, where the regulator can get clarification, than in a written document.
- In our experience so far, those responses which have been deemed to be inadequate require pressure on filer to provide sufficient levels of detail. We have had varying levels of success so far.
- Add a signature block with contact information to the Form F Report format to suggest that this report is to come from the Ultimate Controlling Party rather than the lead insurer. This would provide the regulator direct access to the appropriate party to contact for further information or feedback, as is available on the Forms B, C, and D.
- We need to develop a strategy or process on how to instruct the respondents to correctly complete the Form F so that is actually useful to them and to the regulators.
- Branded Risk categories may be helpful to add as part of Item 1 to assist in completion of the Insurer Profile Summaries and Risk Focused field examinations. Separate from the Form F filing, our
Department submits: 1) a request for a Business Plan and projections, and 2) a Branded Risk questionnaire, to our domestic insurers each year. The questionnaire asks the company to discuss their Business Plan in relation to the 9 Branded Risk categories

- It is recommended that the definition of Enterprise Risk be revised to include language regarding the risks that non-insurance affiliates and subsidiaries pose on insurance entities in a holding company system. These risks are the real reason for the Form F filing. This language could also be included in Section 4, which refers to material risks to insurers in a holding company system but does not specifically target the non-insurance entities.

- Consider having NAIC create and maintain a NAIC Guidance Manual (Manual) or Best Practices Guide (Guide) for insurance groups to illustrate how to adequately respond to the Form F items. The Manual or Guide could provide examples of complete and thoughtful responses. Additionally, the proposed Manual or Guide could inform the registrant that for insurance groups that provide an ORSA Summary Report, the internal assessment that takes place to populate the Form F should include all activities within the holding company system, which is much broader in scope than the ORSA (i.e. typically focused on the insurance operations). In fact, the insurance group should be prepared to discuss how the Form F considered items not discussed or contemplated within the ORSA Summary Report. The registrant is also encouraged to reference specific pages or sections of the ORSA Summary Report for insurance operation considerations, similar to how it references responses in the SEC filings. The proposed Manual or Guide could also discuss how to address situations where the SEC filing disclosures do not provide sufficient detail to adequately and completely address the Form F items, so supplemental disclosure is encouraged.

- A reference guide that includes examples of an acceptable response to each reporting requirement would be helpful. This could provide the analyst additional insight into what to look for in a response.

- The Form F filing appears to be focused on notifying a state insurance regulatory agency of any possible immediate concerns that may threaten a company and/or its affiliates. If this is the intended purpose it should be made clear to the reporting entities so that there is less room for interpretation of the filing and to eliminate any duplicative reporting. We don’t find the Form F checklist necessary, as the included items are duplicative of work performed in the level 1 checklist.

- Form F needs its own section in the Model Law, as opposed to being combined with the Form B section. Combining them makes it difficult to know how much of Section 4, if any, applies to Form F. This will help avoid the Form F being filed as part of Form B (attached in the same PDF), and the problematic issues associated with that. It will also allow Form F to get its own instructions, separate from Form B.

- Instructions for Form F should require respondents to include the questions and their numbering sequence on the completed form, (similar to Form B). This will help avoid filings where the only words on the paper are, a) None;  b) None;  c) None.

- Form F needs a signature and certification page at the end of the form, similar to Form B. This is pretty important to establish authenticity etc.

- The purpose of “Obligation to Report” in Item 2 is not clear. Theoretically, few will submit a Form F with no enterprise risks since risk exists in every company. That being said, it may be best to include this statement in the signature & certification section at the end (if added). That way, it becomes a verifying statement for all respondents, not just those with little to say.