

***American Forest Casualty Company***  
***Risk Retention Group***

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**VIA E-MAIL**

E-mail: [dfr.captivemail@vermont.gov](mailto:dfr.captivemail@vermont.gov)

June 12, 2019

Captive Insurance Division  
Department of Financial Regulation  
89 Main Street, Drawer 20  
Montpelier, VT 05601-3101

**Re: American Forest Casualty Risk Retention Group, Inc. (“AFCC”)  
NAIC Company Code: 11590; FEIN: 20-0167220  
Vermont Certificate of Authority #1056**

Dear Sir/Madam:

Please find enclosed a copy of AFCC’s Revised Governance Standards that were adopted by the Board of Directors during their Board Meeting on June 12, 2019. I have also included a copy of the original Governance Standards including all redline items so that you can see what has been changed.

Thank you. Should you have any questions or require anything further in connection with this submission, please do not hesitate to contact me by telephone at (941) 373-1162 or by e-mail at [pamela.lanese@pboa.com](mailto:pamela.lanese@pboa.com).

Sincerely,



Pamela Lanese

**Risk Services-Vermont, Inc.**  
As Managers For  
**American Forest Casualty Risk Retention Group, Inc.**

Enclosure

## **AMERICAN FOREST CASUALTY COMPANY RISK RETENTION GROUP GOVERNANCE STANDARDS**

The Board of Directors of American Forest Casualty Company Risk Retention Group (the “Corporation”) has adopted these Governance Standards (“Governance Standards”) to promote appropriate governance of the Corporation for the benefit of its shareholders, policyholders and other interested persons. To the extent of any conflict or inconsistency with the Corporation’s Bylaws, the Bylaws shall control.

### **Board Responsibilities**

The Board of Directors is responsible for overseeing the policies, strategies, operations, and management of the Corporation. The Board collectively, and each Director individually, is responsible for the following:

- Encouraging a corporate-wide culture of ethical behavior and legal compliance.
- Monitoring and, where appropriate, approving or disapproving fundamental financial and business strategies and corporate actions.
- Reviewing assessments of the major risks facing the Corporation – and reviewing options for their mitigation and management.
- Approving the investment of the Corporation’s assets, including reviewing its compliance with applicable laws and with any written investment policies adopted from time to time by the Board of Directors.
- Formulating and maintaining the Corporation’s governance standards.
- Reviewing and approving or disapproving material transactions outside of the ordinary course of business.
- Recommending and nominating candidates to the Board of Directors in accordance with the Bylaws.
- Developing policies of management succession to ensure continuity of corporate operations.

The Board of Directors shall furthermore:

- Assure that shareholders/policyholders of the Corporation receive evidence of their ownership interest in the Corporation;
- Adopt and comply with written Governance Standards that are consistent with the requirements for such standards as promulgated by the State of Vermont Department of Financial Regulation;
- Oversee the evaluation of the Corporation’s management, including but not limited to the performance of the captive manager, managing general underwriter or other party or parties responsible underwriting, determination of rates, collection of premium, adjusting or settling claims or the preparation of financial statements;
- Annually review and approve amounts to be paid for all material service providers; and,
- review and approve, at least annually:

- the Corporation’s goals and objectives relevant to the compensation of officers and service providers;
- the officers’ and service providers’ performance in light of those goals and objectives; and,
- the continued engagement of the officers and material service providers.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in a manner they reasonably believe to be the best interests of the Corporation. In discharging this obligation, each Director is entitled to rely upon any Board Committees of which the Director is not a member if the Director reasonably believes the committee merits confidence, the Corporation’s officers and employees whom the Director believes are reliable and competent in the matters presented, and legal counsel, public accountants and other outside advisors as to matters the Director reasonably believes are reliable and competent in the matters presented. Each Director of the Corporation is expected to spend the time and effort necessary to properly discharge the Director’s responsibilities.

### **Definition of Independence**

The Corporation’s Board of Directors shall consist of a majority of Independent Directors, as defined herein:

- No director qualifies as “independent” unless the Board of Directors affirmatively determines that the director has no “material relationship” with the Corporation. For this purpose, any person that is a direct or indirect owner of the Corporation -- or is an officer, director and/or employee of an insured of the Corporation, unless some other position of such officer, director or employee constitutes a “material relationship” -- is considered to be “independent”.
- “Material relationship” with the Corporation includes, but is not limited to:
  - (i) The receipt from the Corporation or a consultant or service provider to Corporation in any one 12-month period of compensation or payment of any other item of value by: (1) such person; (2) a member of such person’s immediate family; or (3) any business with such person is affiliated; that is greater than or equal to five percent (5%) of the Corporation’s gross written premium for such 12-month period, or two percent (2%) of its surplus, whichever is greater, as measured at the end of any fiscal quarter falling in such 12-month period. Such person is not independent until one year after receipt of the item or items of value or the compensation from the Corporation falls below the threshold.
  - (ii) A relationship with an auditor as follows: a director or a director’s immediate family member affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Corporation is not independent until one year after the affiliation, employment or auditing relationship ends.
  - (iii) A relationship with a related entity as follows: a director or a director’s immediate family member who is employed as an executive officer of another business entity that is affiliated with the Corporation by virtue of common ownership and control, if such entity meets all of the following criteria:
    - (a) the entity is not an insured of the Corporation;
    - (b) the entity has a contractual relationship with the Corporation; and,

- (iv) the governing board of that entity includes executive officers of the Corporation, unless a majority of that entity's governing board is composed of individuals who are members of the Corporation's board.

Such material relationship shall continue until the employment or service ends.

The Board of Directors shall annually review compliance with the standards of independence set forth above, and shall disclose these determinations to the Department at least annually.

### **Director Qualification Standards**

The following qualifications are required to serve as a Director of the Corporation:

- Honesty and integrity
- Relevant education, training, experience and credentials
- Relevant business competency
- Sound business judgment

The Board as a whole should possess the following core competencies, to the fullest extent practicable:

- accounting and finance
- business judgment
- management/administration
- industry knowledge
- compliance
- risk management
- leadership/vision

### **Nomination and Election of Directors**

The following process will be observed for nomination of candidates for Director of the Corporation:

- Prior to the Corporation's Annual Meeting of the Shareholders each year, the Board of Director or any Committee designated by the Board for such purpose shall nominate the slate of Directors recommended for Board of Director service. In determining the composition of the annual slate of Directors, the Board or any such Committee shall review the performance each current Director considered for nomination to an additional term.
- Recommendations for Director nominees may be received from members of the Board of Directors, from insured-owners of the Corporation or from any other source.
- The qualifications of Director nominees shall be evaluated in accordance with the criteria set forth in these Governance Standards.
- The skills, background and expertise of existing and proposed Board members will be assessed, anticipating any potential Director departure from the Board.
- All Directors nominated for service shall stand for election at the Corporation's Annual Meeting of the Shareholders, in accordance with the Bylaws.

### **Director Orientation and Continuing Education**

The Corporation shall provide a Director orientation program. This program shall be designed to enable new Directors to become familiar with the Corporation's operations, policies, strategies, finances, and other key policies and practices.

Directors shall be encouraged to participate in continuing education programs. The Board of Directors or any Committee designated by the Board of Directors for such purpose shall make efforts to notify Directors of appropriate continuing education opportunities and oversee and periodically evaluate the Director orientation and continuing education programs.

### **Ethics and Conflicts of Interest**

All Directors must adhere to the Corporation's Code of Business Conduct and Ethics. Each Director shall read and acknowledge the Code of Ethics upon joining the Board and annually thereafter.

### **Director Compensation**

The Board of Directors of the Corporation shall determine the amount of Director compensation, if any, in accordance with the Bylaws of the Corporation. In making such determination, the Board shall consider whether a Director is otherwise compensated by the Corporation as an employee or service provider.

### **Board Performance Evaluations**

In order to continuously improve its performance, the Board of Directors shall conduct a performance self-evaluation at least annually.

### **Access to Senior Management and Employees**

The Board should serve as a resource for senior management and the Corporation's service providers in matters of planning and policy. Directors shall have full and open access to senior management, service providers and independent advisors of the Corporation as may be necessary and appropriate for Directors to serve the best interests of the Corporation.

### **Access to Outside Advisors**

The Board of Directors shall have the right to retain independent financial, legal, compensation, or other experts or consultants, for any purpose reasonably related to the duties of the Board of Directors or any Board Committee. The reasonable expenses of such experts or consultants shall be paid by the Corporation.

### **Independent Auditors**

The Board, through the Audit Committee (or, if permitted by the Commissioner of Insurance of the State of Vermont, by direct Board appointment and interface with the Auditor), shall engage an independent auditor to audit the Corporation's financial statements, to review internal controls over the Corporation's financial reporting, examine the amounts and disclosures in the financial statements, assess the accounting principles and significant estimates made by the Corporation's management, and evaluate the Corporation's overall financial statement presentation, including but not necessarily limited to the following:

- Oversee (1) the integrity of the financial statements, (2) the compliance with legal and regulatory requirements; (3) the qualifications, independence and performance of the independent auditor and actuary; and, (4) the performance of the captive manager, managing general underwriter or other party or parties responsible for underwriting, determination of rates, premium collection, claims adjustment and settlement, or the preparation of financial statements;
- Discuss the annual audited financial statements and quarterly financial statements with management;
- Discuss the annual audited financial statements, and if advisable, the quarterly financial statements, with the Corporation's independent auditor;
- Discuss policies with respect to risk assessment and risk management;
- Meet separately and periodically, either directly or through a designated representative or representatives, with management and the Corporation's independent auditor;
- Review any audit problems or difficulties and management's response with the Corporation's independent auditor;
- Set clear hiring policies of the Corporation as to the hiring of employees or former employees of the Corporation's independent auditor; and,
- Unless otherwise waived by the Commissioner of Insurance of the State of Vermont, require the independent auditor to rotate the lead (or coordinating) audit partner having primary responsibility for the Corporation's audit so that such individual does not perform audit services for more than five (5) consecutive fiscal years.

If a separate Audit Committee shall be designated by the Board of Directors of the Corporation or required by the Commissioner of Insurance of the State of Vermont, the following requirements shall apply:

- The Audit Committee shall be composed of at least three (3) "independent" board members as defined in the Section entitled "Definition of Independence" of these Governance Standards. A non-independent board member may participate in the activities of the Audit Committee, if invited, but cannot be a member of such committee.
- The Audit Committee shall have a written charter that defines the committee's purpose, which, at a minimum, shall include the standards and requirements set forth above.
- The Audit Committee shall report regularly to the Board of Directors of the Corporation.

### **Service Provider Contracts**

The term of any material service provider contract with the Corporation shall not exceed 5 years. Any such contract, or its renewal, shall require the approval of the majority of the Corporation's independent directors. The Corporation's Board of Directors shall have the right to terminate any service provider, audit or actuarial contracts at any time for cause, after providing adequate notice as defined in the contract. The service provider contract is deemed "material" if the amount to be paid under such contract is greater than or equal to either five percent (5%) of the Corporation's annual gross written premium or two percent (2%) of its surplus, whichever is greater.

- All agreements with service providers shall be in the best interests of the Corporation.
- The Corporation shall not enter into any material service provider contract without the prior written approval of the Commissioner of Insurance of the State of Vermont.
- For all agreements with service providers as to which prior approval is not required hereby, executed copies of such agreements, amendments and renewals shall be filed with the Commissioner of Insurance of the State of Vermont.
- For purposes of this standard, “service providers” include captive managers, auditors, accountants, actuaries, investment advisors, lawyers, managing general underwriters or other party responsible for underwriting, rates determination, premium collection, claims adjustment and settlement and/or financial statement preparation. Any reference to ‘lawyers’ here does not include defense counsel the Corporation retains to defend claims, unless the amount of fees paid to such lawyers are “material” as defined above.

#### **Disclosure Regarding Corporate Governance**

These Governance Standards and the Bylaws of the Corporation shall be made readily available to the policyholders of the Corporation and to shareholders and policyholders upon request.

**As amended by the Board of Directors of American Forest Casualty Company Risk Retention Group on \_\_\_\_\_, 2019.**

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- Approving the investment of the Corporation’s assets, including reviewing its compliance with applicable laws and with any written investment policies adopted from time to time by the Board of Directors.
- Formulating and maintaining the Corporation’s governance standards.
- Reviewing and approving or disapproving material transactions outside of the ordinary course of business.
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The Board of Directors of shall furthermore:

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- Oversee the evaluation of the Corporation’s management, including but not limited to the performance of the captive manager, managing general underwriter or other party or parties responsible underwriting, determination of rates, collection of premium, adjusting or settling claims or the preparation of financial statements;
- Annually review and approve amounts to be paid for all material service providers; and,
- review and approve, at least annually:



- o the Corporation's goals and objectives relevant to the compensation of officers and service providers;
- o the officers' and service providers' performance in light of those goals and objectives; and,
- o the continued engagement of the officers and material service providers.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in a manner they reasonably believe to be the best interests of the Corporation. In discharging this obligation, each Director is entitled to rely upon any Board Committees of which the Director is not a member if the Director reasonably believes the committee merits confidence, the Corporation's officers and employees whom the Director believes are reliable and competent in the matters presented, and legal counsel, public accountants and other outside advisors as to matters the Director reasonably believes are reliable and competent in the matters presented. Each Director of the Corporation is expected to spend the time and effort necessary to properly discharge the Director's responsibilities.

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- "Material relationship" with the Corporation includes, but is not limited to:
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  - (ii) A relationship with an auditor as follows: a director or a director's immediate family member affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Corporation is not independent until one year after the affiliation, employment or auditing relationship ends.
  - (iii) A relationship with a related entity as follows: a director or a director's immediate family member who is employed as an executive officer of another business entity that is affiliated with the Corporation by virtue of common ownership and control, if such entity meets all of the following criteria: ~~company whose board of directors includes executive officers of the Corporation, unless a majority of the membership of such other company's board of directors~~

~~is the same as the membership of the board of directors of the Corporation, is not independent until one year after the end of such service or the employment relationship.~~

~~(a) the entity is not an insured of the Corporation;~~

~~(b) the entity has a contractual relationship with the Corporation; and,~~

~~(iv) (c) the governing board of that entity includes executive officers of the Corporation, unless a majority of that entity's governing board is composed of individuals who are members of the Corporation's board.~~

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The Board of Directors shall annually review compliance with the standards of independence set forth above, and shall disclose these determinations to the Department at least annually.

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- Recommendations for Director nominees may be received from members of the Board of Directors, from insured-owners of the Corporation or from any other source.
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### **Independent Auditors**

The Board, through the Audit Committee (or, if permitted by the Commissioner of Insurance of the State of Vermont, by direct Board appointment and interface with the Auditor), shall engage an independent auditor to audit the Corporation's financial statements, to review internal controls over the Corporation's financial reporting, examine the amounts and disclosures in the financial statements, assess the accounting principles and significant estimates made by the Corporation's management, and evaluate the Corporation's overall financial statement presentation, including but not necessarily limited to the following:

- Oversee (1) the integrity of the financial statements, (2) the compliance with legal and regulatory requirements; (3) the qualifications, independence and performance of the independent auditor and actuary; and, (4) the performance of the captive manager, managing general underwriter or other party or parties responsible for underwriting, determination of rates, premium collection, claims adjustment and settlement, or the preparation of financial statements;
- Discuss the annual audited financial statements and quarterly financial statements with management;
- Discuss the annual audited financial statements, and if advisable, the quarterly financial statements, with the Corporation's independent auditor;
- Discuss policies with respect to risk assessment and risk management;
- Meet separately and periodically, either directly or through a designated representative or representatives, with management and the Corporation's independent auditor;
- Review any audit problems or difficulties and management's response with the Corporation's independent auditor;
- Set clear hiring policies of the Corporation as to the hiring of employees or former employees of the Corporation's independent auditor; and,
- Unless otherwise waived by the Commissioner of Insurance of the State of Vermont, require the independent auditor to rotate the lead (or coordinating) audit partner having primary responsibility for the Corporation's audit so that such individual does not perform audit services for more than five (5) consecutive fiscal years.

If a separate Audit Committee shall be designated by the Board of Directors of the Corporation or required by the Commissioner of Insurance of the State of Vermont, the following requirements shall apply:

- The Audit Committee shall be composed of at least three (3) "independent" board members as defined in the Section entitled "Definition of Independence" of these Governance Standards. A non-independent board member may participate in the activities of the Audit Committee, if invited, but cannot be a member of such committee.
- The Audit Committee shall have a written charter that defines the committee's purpose, which, at a minimum, shall include the standards and requirements set forth above.
- The Audit Committee shall report regularly to the Board of Directors of the Corporation.

#### **Service Provider Contracts**

The term of any material service provider contract with the Corporation shall not exceed 5 years. Any such contract, or its renewal, shall require the approval of the majority of the Corporation's independent directors. The Corporation's Board of Directors shall have the right to terminate any service provider, audit or actuarial contracts at any time for cause, after providing adequate notice as defined in the contract. The service provider contract is deemed "material" if the amount to be paid under such contract

is greater than or equal to either five percent (5%) of the Corporation's annual gross written premium or two percent (2%) of its surplus, whichever is greater.

- All agreements with service providers shall be in the best interests of the Corporation.
- The Corporation shall not enter into any material service provider contract without the prior written approval of the Commissioner of Insurance of the State of Vermont.
- For all agreements with service providers as to which prior approval is not required hereby, executed copies of such agreements, amendments and renewals shall be filed with the Commissioner of Insurance of the State of Vermont.
- For purposes of this standard, "service providers" include captive managers, auditors, accountants, actuaries, investment advisors, lawyers, managing general underwriters or other party responsible for underwriting, rates determination, premium collection, claims adjustment and settlement and/or financial statement preparation. Any reference to "lawyers" here does not include defense counsel the Corporation retains to defend claims, unless the amount of fees paid to such lawyers are "material" as defined above.

**Disclosure Regarding Corporate Governance**

These Governance Standards and the Bylaws of the Corporation shall be made readily available to the policyholders of the Corporation and to shareholders and policyholders upon request.

**As amended by the Board of Directors of American Forest Casualty Company Risk Retention Group on ~~December 5, 2018.~~ \_\_\_\_\_, 2019.**

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**AMERICAN FOREST CASUALTY COMPANY RISK RETENTION GROUP**  
**GOVERNANCE STANDARDS AND COMPLIANCE**

Subsection (g) of Title 8, Chapter 142, Section 6052, Vermont Statutes Annotated, prescribe certain governance standards and practices for Vermont chartered risk retention groups. The following definitions are contained in subdivision (g)(1)(C)(i) of Section 6052(g):

**"Independent director"** means a director who does not have a material relationship with the risk retention group. A director has a material relationship with a risk retention group if he or she, or a member of his or her immediate family:

(I) In any 12-month period, receives from the RRG, or from a consultant or service provider to the RRG, compensation or other item or items of value in an amount equal to or greater than five percent of the RRG's gross written premium or two percent of the RRG's surplus, as measured at the end of any fiscal quarter falling in such 12-month period, whichever is greater. This provision also applies to compensation or items of value received by any business with which the director is affiliated. Such material relationship shall continue for one year after receipt of the item or items of value or the compensation falls below the threshold established in this subdivision.

(II) Has a relationship with an auditor as follows: Is affiliated with or employed in a professional capacity by a current or former internal or external auditor of the RRG. Such material relationship shall continue for one year after the affiliation or employment ends.

(III)(aa) Is employed as an executive officer of another business entity that is affiliated with the risk retention group by virtue of common ownership and control, if such entity meets all of the following criteria:

(AA) the entity is not an insured of the risk retention group;

(BB) the entity has a contractual relationship with the risk retention group; and,

(CC) the governing board of the entity includes executive officers of the risk retention group, unless a majority of the membership of such entity's governing board is composed of individuals who are members of the governing board of the risk retention group is the same as the membership of the board of directors of the risk retention group. Such material relationship shall continue until the employment or service ends

(bb) Such material relationship shall continue until the employment or service ends.

Subdivision (g)(1)(C)(ii) of Section 6052(g) further provides that notwithstanding subdivision (g)(1)(C)(i), a director who is a direct or indirect owner of the risk retention group is deemed to be independent; and an officer, director or employee of an insured of the risk retention group is deemed to be independent, unless some other relationship of such officer, director, or employee qualifies as a material relationship.

**"Material service provider"** includes a captive manager, auditor, accountant, actuary, investment advisor, attorney, managing general underwriter, or other person responsible for underwriting, determination of rates, premium collection, claims adjustment or settlement, or preparation of financial statements, whose aggregate annual contract fees are equal to or greater than five percent of the RRG's annual gross written premium or two percent of its surplus, whichever is greater. It does not mean defense counsel retained by a RRG, unless his or her annual fees have been equal to or greater than five percent of a RRG's annual gross premium or two percent of its surplus, whichever is greater, during three or more of the previous five years.

	Vermont Statutory/Regulatory Requirement	AFCC Compliance and Action Items
<p><b>Director Independence</b></p>	<ul style="list-style-type: none"> <li>• The Board must have a majority of independent directors</li> <li>• Any individual who is a direct or indirect owner and insured of the RRG as contemplated under the federal Liability Risk Retention Act is deemed to be independent</li> <li>• For any other person serving as a director (including any individual who serves as an officer, director or employee of an RRG owner or subscriber but is not otherwise personally a direct or indirect owner or subscriber of the RRG), such person will not qualify as independent if they have a material relationship with the RRG</li> <li>• As to overlapping boards, Vermont’s statutory provisions were revised by legislation adopted in 2019 to prescribe the materiality tests that apply where a director serves as an executive officer of another entity that is related by virtue of common ownership and control. Vermont Department Memo 2016/6 also provides:               <ul style="list-style-type: none"> <li>(a) a director will fail to qualify as “independent” due to employment as an executive officer of another company whose board includes executives officers of the RRG only if that other company is affiliated with the RRG by common ownership and control</li> <li>(b) “executive officer” means only those officers with general authority to act on behalf of/bind the company (such as President, Treasurer, CEO, COO or CFO)</li> </ul> </li> <li>• The Board must annually determine whether a director is independent and maintain a record of those determinations which shall be disclosed to the Vermont Commissioner annually</li> </ul>	<p>Compliant –AFCC’s written Governance Standards as adopted by the Board define director independence and direct the Board to annually assess the independence of its members and to maintain and submit a record of these determinations to Vermont.</p> <p>Actions – The Board annually determines and affirms whether each director is independent by collection and review of a questionnaire completed by each director; completed questionnaires are maintained in AFCC’s records; AFCC’s written governance standards mandate that these determinations shall be disclosed annually to the Vermont Commissioner</p>
<p><b>Material Services Provider Contract Terms</b></p>	<ul style="list-style-type: none"> <li>• Material service provider contracts are limited to a term of 5 years</li> <li>• The board must have the right to terminate material service provider contracts for cause at any time</li> <li>• All material service provider contracts must be approved by a majority of the RRG's independent directors</li> </ul>	<p>Compliant – The current terms of all service provider agreements do not exceed 5 years and include mandated contract provisions for termination</p> <p>Actions – the Board annually reviews and evaluates all service provider agreements to assess any “materiality” and to ensure the terms and any approvals required by the statute are obtained</p>

<p><b>Material Service Provider Contract Commissioner Approval</b></p>	<ul style="list-style-type: none"> <li>• No material service provider contract may be entered into without the prior written approval of the Vermont Commissioner</li> <li>• Vermont Department Memo 2016/6 clarified that for material service provider contracts with “evergreen” clauses, these need only be approved by the Board and the Vermont Commissioner prior to inception of any amendments and every 5 years</li> </ul>	<p>Compliant – All current service provider agreements were included in AFCC’s application for redomestication submitted to and approved by the Vermont Commissioner with AFCC’s redomestication effective 12/31/15; current service provider agreements are:</p> <ul style="list-style-type: none"> <li>(a) Risk Services-Vermont, Inc. captive management agreement originally effective 8/1/04 carried a 3 yr. initial term and renews automatically for successive 1 yr. periods</li> <li>(b) Risk Services underwriting agreement effective 1/1/10 carried an initial term of 3 yrs. and renews automatically for successive 1 yr. terms</li> <li>(c) WCLA Insurance Agency agreement effective 8/29/03 carried an initial term of 10 yrs. and was modified by amendment #3 effective 9/9/15 to renew automatically for successive 5 yr. terms</li> <li>(d) WCLA Services agreement effective 1/1/06 carried an initial term of 1 yr. and renews automatically for successive 1 yr. terms</li> <li>(e) Specialty Claims service agreement was effective 9/1/03 and is continuous until cancelled</li> </ul> <p>Actions -- the Board annually reviews and evaluates all service provider agreements to assess any “materiality” and to assess any approvals required by statute are obtained</p>



<p><b>Plan of Operations</b></p>	<p>Each RRG's plan of operation must include written policies approved by the Board that require the Board:</p> <ul style="list-style-type: none"> <li>• to provide evidence of ownership to each RRG member</li> <li>• develop governance standards applicable to the RRG</li> <li>• oversee evaluation of the RRG's management, to the performance of its service providers</li> <li>• review and approve amounts paid under material service provider contracts</li> <li>• at least annually, review and approve the RRG's goals and objectives relevant to compensation paid to officers and material service providers and the performance/continued engagement of officers and material service providers</li> </ul>	<p>Compliant – AFCC’s Governance Standards mandate conforming Board actions and Article VI of AFCC’s Amended and Restated Bylaws dictate the requirements applicable to evidence of ownership; the Board has adopted written Governance Standards which are published on AFCC’s website and available to each AFCC insured upon request</p> <p>Actions -- AFCC’s sole shareholder, Washington Contract Loggers Association, has been issued a physical stock certificate evidencing ownership in AFCC; the Board annually evaluates the performance of AFCC’s officers and service providers measured against the group’s goals and objectives, annually reviews and elects AFCC’s officers and annually reviews and approves the performance, compensation and continued engagement of AFCC’s service providers</p>
<p><b>Audit Committee</b></p>	<ul style="list-style-type: none"> <li>• Each RRG must have an audit committee composed of at least 3 independent directors unless the Vermont Commissioner waives this requirement and permits the Board to serve in the capacity of the audit committee</li> <li>• To consider such a waiver request, the RRG must demonstrate that having such a committee is impracticable and the Board itself is sufficiently able to perform the audit committee's duties</li> <li>• The audit committee must have a written charter defining its responsibilities, to include assisting Board oversight of the integrity of financial statements, compliance with legal and regulatory requirements and the qualifications, independence, and performance of the independent auditor and actuary, discussing audited and quarterly financial statements with management and the auditor, discussing risk assessment and risk management policies; meeting with management and independent auditors, reviewing with the independent auditor any audit problems and management's response; setting clear hiring policies applicable to employees or former employees of the auditor, and, unless waived by the Vermont Commissioner, requiring the external auditor to rotate the lead audit partner so that such individual does not perform these</li> </ul>	<p>Compliant – the Board is serving in the capacity of the audit committee otherwise required pursuant to waiver granted by the Vermont Commissioner on 1/20/16; the Board adopted an Audit Committee Charter which complies with Vermont’s standards</p> <p>Actions -- the Board regularly interacts with its approved captive manager and auditor in the development of AFCC’s financial statements; the Board annually approves the performance, compensation and selection of AFCC’s auditor and actuary, and monitors the required rotation of the partners of AFCC’s contracted auditor</p>

	<p>audit services for more than 5 consecutive years, and reporting regularly to the Board</p>	
<p><b>Written Governance Standards</b></p>	<ul style="list-style-type: none"> <li>• Each RRG's board must adopt written governance standards to include a process by which the directors are elected; director qualification standards and responsibilities, director access to management and independent advisors, compensation, director orientation and continuing education, policies and procedures for management succession, and policies and procedures for annual performance evaluation of the Board</li> <li>• These governance standards must be available to the RRG members through electronic or other means and provided to the members upon request.</li> </ul>	<p>Compliant – AFCC’s Board adopted written governance standards that conform with Vermont’s standards; Section 3.2 of AFCC’s Amended and Restated Bylaws and AFCC’s written governance standards describe the process, qualifications and requirements for election of AFCC’s Board of Directors; AFCC’s Governance Standards are published on AFCC’s website and available to AFCC insureds upon request; the Board has formally adopted a management succession planning policy and succession plan for AFCC</p> <p>Actions -- Each new director of AFCC receives an orientation program that includes AFCC’s plan of operation, most recent financial statements and current governance documents; all directors are informed about and encouraged to participate in seminars, events and other educational opportunities relevant to AFCC’s business and the industry of its members; directors complete an evaluation form each year to assess the performance of the Board overall and their individual performance which the Board reviews to address any areas for improvement; the Board periodically reviews AFCC’s management succession plan for any changes</p>
<p><b>Code of Business Conduct and Ethics</b></p>	<ul style="list-style-type: none"> <li>• The board of each RRG must adopt a written code of business conduct and ethics applicable to the RRG's directors, officers, and any employees that addresses conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of RRG assets, compliance with applicable laws, rules, and regulations; and, mandatory reporting of illegal or unethical behavior affecting operation of the RRG</li> <li>• The business code of conduct and ethics must be available to the members through electronic or other means and provided to the members upon request</li> </ul>	<p>Compliant – AFCC’s Board adopted a written Code of Business Conduct and Ethics on 1/4/16 that conforms with Vermont’s standards; AFCC’s Code of Business Conduct and Ethics is published on AFCC’s website is available to AFCC insureds upon request</p> <p>Actions – Annually, each director and officer of AFCC must complete a conflict of interest questionnaire and certify acknowledgment of and adherence to AFCC’s Code of Business Conduct and Ethics, which are reviewed by the Board</p>

<b>Noncompliance Reporting</b>	The President or CEO of the RRG must promptly notify the Vermont Commissioner in writing of any known material noncompliance of the RRG with these governance standards	Compliant – In accordance with AFCC’s Code of Business Conduct and Ethics, all directors and officers, including the President, are expected to be familiar with all of the laws applicable to AFCC
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## AMERICAN FOREST CASUALTY COMPANY RISK RETENTION GROUP

### GOVERNANCE STANDARDS AND COMPLIANCE

Subsection (g) of Title 8, Chapter 142, Section 6052, Vermont Statutes Annotated, prescribe certain governance standards and practices for Vermont chartered risk retention groups. The following definitions are contained in subdivision (g)(1)(C)(i) of Section 6052(g):

~~On May 7, 2015, the Vermont Governor signed into law certain governance standards and practices for Vermont chartered risk retention groups codified in Subsection (g) of Title 8, Chapter 142, Section 6052, Vermont Statutes Annotated. The legislation required compliance of every Vermont domestic risk retention group ("RRG") by May 7, 2016. American Forest Casualty Company Risk Retention Group ("AFCC") has adopted and/or revised its governing policies, documents and procedures to conform to these requirements of Vermont law.~~

~~The following definitions are contained in the standards adopted in Vermont and applicable to all RRGs in Vermont:~~

~~**"Independent director"** means a director who does not have a material relationship with the risk retention group. A person that is a direct or indirect owner of or subscriber in the risk retention group or is an officer, director, or employee of such an owner and insured, unless some other position of such officer, director, or employee constitutes a "material relationship" as contemplated under subdivision 3901(a)(4)(E)(ii) of the federal Liability Risk Retention Act, is considered to be "independent." A director has a material relationship with a risk retention group if he or she, or a member of his or her immediate family:~~

~~(i) In any 12-month period, receives from the RRG, or from a consultant or service provider to the RRG, compensation or other item or items of value in an amount equal to or greater than five percent of the RRG's gross written premium or two percent of the RRG's surplus, as measured at the end of any fiscal quarter falling in such 12-month period, whichever is greater. This provision also applies to compensation or items of value received by any business with which the director is affiliated. Such material relationship shall continue for one year after receipt of the item or items of value ~~is received~~ or the compensation ~~ceases or~~ falls below the threshold established in this subdivision, ~~as applicable.~~~~

~~(ii) Has a relationship with an auditor as follows: Is affiliated with or employed in a professional capacity by a current or former internal or external auditor of the RRG. Such material relationship shall continue for one year after the affiliation or employment ends.~~

~~(iii)(aa) Is employed as an executive officer of another business entity that is affiliated with the risk retention group by virtue of common ownership and control, if such entity meets all of the following criteria: Has a relationship with a related entity as follows: Is employed as an executive officer of another company whose board of directors includes executive officers of the RRG, unless a majority of the membership of such other company's board of directors is the same as the membership of the board of directors of RRG.~~

~~(AA) the entity is not an insured of the risk retention group;~~

~~(BB) the entity has a contractual relationship with the risk retention group; and,~~

~~(CC) the governing board of the entity includes executive officers of the risk retention group, unless a majority of the membership of such entity's governing board is composed of individuals who are members of the governing board of the risk retention group is the same as the~~

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membership of the board of directors of the risk retention group. Such material relationship shall continue until the employment or service ends.

*(bb) Such material relationship shall continue until the employment or service ends.*

Subdivision (g)(1)(C)(ii) of Section 6052(g) further provides that notwithstanding subdivision (g)(1)(C)(i), a director who is a direct or indirect owner of the risk retention group is deemed to be independent; and an officer, director or employee of an insured of the risk retention group is deemed to be independent, unless some other relationship of such officer, director, or employee qualifies as a material relationship.

"Material service provider" includes a captive manager, auditor, accountant, actuary, investment advisor, attorney, managing general underwriter, or other person responsible for underwriting, determination of rates, premium collection, claims adjustment or settlement, or preparation of financial statements, whose aggregate annual contract fees are equal to or greater than five percent of the RRG's annual gross written premium or two percent of its surplus, whichever is greater. It does not mean defense counsel retained by a RRG, unless his or her annual fees have been equal to or greater than five percent of a RRG's annual gross premium or two percent of its surplus, whichever is greater, during three or more of the previous five years.

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	Vermont Statutory/Regulatory Requirement	AFCC Compliance and Action Items
<b>Director Independence</b>	<ul style="list-style-type: none"><li>The Board must have a majority of independent directors</li><li>Any individual who is a direct or indirect owner and insured of the RRG as contemplated under the federal Liability Risk Retention Act is deemed to be independent</li><li>For any other person serving as a director (including any individual who serves as an officer, director or employee of an RRG owner or subscriber but is not otherwise personally a direct or indirect owner or subscriber of the RRG), such person will not qualify as independent if they have a material relationship with the RRG</li><li>As to overlapping boards, <u>Vermont's statutory provisions were revised by legislation adopted in 2019 to prescribe the materiality tests that apply where a director serves as an executive officer of another entity that is related by virtue of common ownership and control.</u> Vermont Department Memo 2016/6 also provides:<ul style="list-style-type: none"><li>(a) a director will fail to qualify as "independent" due to employment as an executive officer of another company whose board includes executives officers of the RRG only</li></ul></li></ul>	<p>Compliant – AFCC's written Governance Standards as adopted by the Board define director independence and direct the Board to annually assess the independence of its members and to maintain and submit a record of these determinations to Vermont.</p> <p>Actions – The Board annually determines and affirms whether each director is independent by collection and review of a questionnaire completed by each director; completed questionnaires are maintained in AFCC's records; AFCC's written governance standards mandate that these determinations shall be disclosed annually to the Vermont Commissioner</p>

	<p>if that other company is affiliated with the RRG by common ownership and control</p> <p>(b) “executive officer” means only those officers with general authority to act on behalf of/bind the company (such as President, Treasurer, CEO, COO or CFO)</p> <ul style="list-style-type: none"> <li>The Board must annually determine whether a director is independent and maintain a record of those determinations which shall be disclosed to the Vermont Commissioner annually</li> </ul>	
<p><b>Material Services Provider Contract Terms</b></p>	<ul style="list-style-type: none"> <li>Material service provider contracts are limited to a term of 5 years</li> <li>The board must have the right to terminate material service provider contracts for cause at any time</li> <li>All material service provider contracts must be approved by a majority of the RRG’s independent directors</li> </ul>	<p>Compliant – The current terms of all service provider agreements do not exceed 5 years and include mandated contract provisions for termination</p> <p>Actions – the Board annually reviews and evaluates all service provider agreements to assess any “materiality” and to ensure the terms and any approvals required by the statute are obtained</p>
<p><b>Material Service Provider Contract Commissioner Approval</b></p>	<ul style="list-style-type: none"> <li>No material service provider contract may be entered into without the prior written approval of the Vermont Commissioner</li> <li>Vermont Department Memo 2016/6 clarified that for material service provider contracts with “evergreen” clauses, these need only be approved by the Board and the Vermont Commissioner prior to inception of any amendments and every 5 years</li> </ul>	<p>Compliant – All current service provider agreements were included in AFCC’s application for redomestication submitted to and approved by the Vermont Commissioner with AFCC’s redomestication effective 12/31/15; current service provider agreements are:</p> <ul style="list-style-type: none"> <li>(a) Risk Services-Vermont, Inc. captive management agreement originally effective 8/1/04 carried a 3 yr. initial term and renews automatically for successive 1 yr. periods</li> <li>(b) Risk Services underwriting agreement effective 1/1/10 carried an initial term of 3 yrs. and renews automatically for successive 1 yr. terms</li> <li>(c) WCLA Insurance Agency agreement effective 8/29/03 carried an initial term of 10 yrs. and was modified by amendment #3 effective 9/9/15 to renew automatically for successive 5 yr. terms</li> </ul>

		<p>(d) WCLA Services agreement effective 1/1/06 carried an initial term of 1 yr. and renews automatically for successive 1 yr. terms</p> <p>(e) Specialty Claims service agreement was effective 9/1/03 and is continuous until cancelled</p> <p>Actions -- the Board annually reviews and evaluates all service provider agreements to assess any "materiality" and to assess any approvals required by statute are obtained</p>
<p><b>Plan of Operations</b></p>	<p>Each RRG's plan of operation must include written policies approved by the Board that require the Board:</p> <ul style="list-style-type: none"> <li>• to provide evidence of ownership to each RRG member</li> <li>• develop governance standards applicable to the RRG</li> <li>• oversee evaluation of the RRG's management, to the performance of its service providers</li> <li>• review and approve amounts paid under material service provider contracts</li> <li>• at least annually, review and approve the RRG's goals and objectives relevant to compensation paid to officers and material service providers and the performance/continued engagement of officers and material service providers</li> </ul>	<p>Compliant – AFCC’s Governance Standards mandate conforming Board actions and Article VI of AFCC’s Amended and Restated Bylaws dictate the requirements applicable to evidence of ownership; the Board has adopted written Governance Standards which are published on AFCC’s website and available to each AFCC insured upon request</p> <p>Actions -- AFCC’s sole shareholder, Washington Contract Loggers Association, has been issued a physical stock certificate evidencing ownership in AFCC; the Board annually evaluates the performance of AFCC’s officers and service providers measured against the group’s goals and objectives, annually reviews and elects AFCC’s officers and annually reviews and approves the performance, compensation and continued engagement of AFCC’s service providers</p>
<p><b>Audit Committee</b></p>	<ul style="list-style-type: none"> <li>• Each RRG must have an audit committee composed of at least 3 independent directors unless the Vermont Commissioner waives this requirement and permits the Board to serve in the capacity of the audit committee</li> <li>• To consider such a waiver request, the RRG must demonstrate that having such a committee is impracticable and the Board itself is sufficiently able to perform the audit committee's duties</li> <li>• The audit committee must have a written charter defining its responsibilities, to include assisting Board oversight of the</li> </ul>	<p>Compliant – the Board is serving in the capacity of the audit committee otherwise required pursuant to waiver granted by the Vermont Commissioner on 1/20/16; the Board adopted an Audit Committee Charter on 1/4/16 which complies with Vermont’s standards; <del>the Audit Committee Charter will be amended to conform with current statutory requirement requiring rotation of only the lead auditor</del></p>

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	<p>integrity of financial statements, compliance with legal and regulatory requirements and the qualifications, independence, and performance of the independent auditor and actuary, discussing audited and quarterly financial statements with management and the auditor, discussing risk assessment and risk management policies; meeting with management and independent auditors, reviewing with the independent auditor any audit problems and management's response; setting clear hiring policies applicable to employees or former employees of the auditor, and, unless waived by the Vermont Commissioner, requiring the external auditor to rotate the lead audit partner so that such individual does not perform these audit services for more than 5 consecutive years, and reporting regularly to the Board</p>	<p>Actions -- the Board regularly interacts with its approved captive manager and auditor in the development of AFCC's financial statements; the Board annually approves the performance, compensation and selection of AFCC's auditor and actuary, and monitors the required rotation of the partners of AFCC's contracted auditor</p>
<p><b>Written Governance Standards</b></p>	<ul style="list-style-type: none"> <li>• Each RRG's board must adopt written governance standards to include a process by which the directors are elected; director qualification standards and responsibilities, director access to management and independent advisors, compensation, director orientation and continuing education, policies and procedures for management succession, and policies and procedures for annual performance evaluation of the Board</li> <li>• These governance standards must be available to the RRG members through electronic or other means and provided to the members upon request.</li> </ul>	<p>Compliant –AFCC's Board adopted written governance standards <del>as amended on December 6, 2017</del> that conform with Vermont's standards; Section 3.2 of AFCC's Amended and Restated Bylaws and AFCC's written governance standards describe the process, qualifications and requirements for election of AFCC's Board of Directors; AFCC's Governance Standards are published on AFCC's website and available to AFCC insureds upon request; the Board <u>has</u> formally adopted a management succession planning policy and succession plan for AFCC <del>on June 13, 2018</del></p> <p>Actions -- Each new director of AFCC receives an orientation program that includes AFCC's plan of operation, most recent financial statements and current governance documents; all directors are informed about and encouraged to participate in seminars, events and other educational opportunities relevant to AFCC's business and the industry of its members; directors complete an evaluation form each year to assess the performance of the Board overall and their individual performance which the Board reviews to address any areas for improvement; the Board periodically reviews AFCC's management succession plan for any changes</p>



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<b>Code of Business Conduct and Ethics</b>	<ul style="list-style-type: none"><li>• The board of each RRG must adopt a written code of business conduct and ethics applicable to the RRG's directors, officers, and any employees that addresses conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of RRG assets, compliance with applicable laws, rules, and regulations; and, mandatory reporting of illegal or unethical behavior affecting operation of the RRG</li><li>• The business code of conduct and ethics must be available to the members through electronic or other means and provided to the members upon request</li></ul>	Compliant – AFCC’s Board adopted a written Code of Business Conduct and Ethics on 1/4/16 that conforms with Vermont’s standards; AFCC’s Code of Business Conduct and Ethics is published on AFCC’s website is available to AFCC insureds upon request  Actions – Annually, each director and officer of AFCC must complete a conflict of interest questionnaire and certify acknowledgment of and adherence to AFCC’s Code of Business Conduct and Ethics, which are reviewed by the Board
<b>Noncompliance Reporting</b>	The President or CEO of the RRG must promptly notify the Vermont Commissioner in writing of any known material noncompliance of the RRG with these governance standards	Compliant – In accordance with AFCC’s Code of Business Conduct and Ethics, all directors and officers, including the President, are expected to be familiar with all of the laws applicable to AFCC