

Financial Condition (E) Committee Technical Changes

Background Information. At the 2009 Fall National Meeting, the NAIC membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted to provide these technical changes to the industry and affected parties as quickly as possible in an effort to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted

1. A list of technical items (shown on the page(s) that follow) will be provided from the Financial Condition (E) Committee to the Executive (EX) Committee and Plenary within one week of the completion of the national meeting.
2. The list contains only what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations or guidelines) or items considered controversial.
3. Members of the Executive (EX) Committee and Plenary have 10 days to review the attached list and voice any objection with respect to a specific item.
4. If no objections are raised on a particular item, or any of the items, each and all items will be considered adopted by the Executive (EX) Committee and Plenary, similar to the consent agenda process.
5. If there is an objection on any one or multiple items, a joint conference call of the Executive (EX) Committee and Plenary will be scheduled to address the particular item(s).
6. Items receiving no objection will be considered adopted and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation.

Request for Approval. Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by Dec. 23, 2019. Any item(s) receiving an objection will be pulled from this automatic consideration, and a conference call will be scheduled to address the issue.

Action Taken During 2019 Fall National Meeting

Date Released to Executive (EX) Committee and Plenary Members:

Dec. 12, 2019

Objections Due from Executive (EX) Committee and Plenary Members:

Dec. 23, 2019

The following technical items were adopted by the Financial Condition (E) Committee at the 2019 Fall National Meeting:

1. Accounting Practices and Procedures Manual (AP&P Manual) Changes and Related Items

- Adopted the following substantive revisions to statutory accounting guidance:
 - None
- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions adopt: 1) SSAP No. 61R disclosures with an effective date of Dec. 31, 2020; 2) A-791 Q&A updates regarding contracts with medical loss ratios (MLRs); and 3) updates to the 2c. Q&A regarding risk transfer and group term life yearly renewable term (YRT) reinsurance with an effective date of Jan. 1, 2021. (Ref #2017-28)
 - *SSAP No. 68—Business Combinations and Goodwill*: Revisions clarify that goodwill resulting from the acquisition of a subsidiary, controlled or affiliated (SCA) entity by an insurance reporting entity that is reported on the SCA financial statements (resulting from the application of pushdown) is subject to the 10% admittance limit based on the acquiring entity’s capital and surplus. (Ref #2019-12)
 - *SSAP No. 68 and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions reject *ASU 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. (Ref #2019-29)
 - *SSAP No. 86—Derivatives*: Revisions clarify the recognition and measurement guidance for derivatives that do not qualify as hedging, income generation or replication transactions. (Ref #2019-18)
 - *SSAP No. 97*: Revisions clarify that nonadmittance is required when there is an unalleviated substantial doubt about an SCA’s ability to continue as a going concern identified in any part of the audit report, accompanying financial statements or notes to the financial statements. (Ref #2019-23)
 - *SSAP No. 100R—Fair Value*: Revisions reject *ASU 2019-05, Targeted Transition Relief*. (Ref #2019-28)
 - *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions clarify that only wash sales that cross reporting period end-dates are subject to the wash sale disclosure. (Ref #2019-22)
 - *Supplemental Investment Risk Interrogatory (SIRI)*: Revisions clarify information captured in *Line 13: 10 Largest Equity Interests*, noting that a look-through should only occur for non-diversified funds. (Ref #2019-19)
 - *Appendix A—Excerpts of NAIC Model Laws*: Revisions incorporate the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) and the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (U.K. Covered Agreement), collectively the Covered Agreement, into *Appendix A-785—Credit for Reinsurance*. (Ref #2019-26)
 - *Appendix D—Nonapplicable GAAP Pronouncements*: Revisions reject the following ASUs as not applicable to statutory accounting:
 1. *ASU 2019-03, Updating the Definition of Collections*. (Ref #2019-30)

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2. *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* (Ref #2019-31)

- Adopted the following editorial revisions to statutory accounting (Ref #2019-27EP):
 1. *SSAP No. 62R—Property and Casualty Reinsurance*: Revisions clarify wording in an existing disclosure.
 2. *SSAP No. 86*: Revisions reference the definition of a structured note in *SSAP No. 26R—Bonds*.
 3. *SSAP No. 97*: Revisions add two new suffixes for Securities Valuation Office (SVO) filings that have been carried over from the prior year.

2. *Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items*

- 2020 examiners' suggested salary expressed as a daily rate.
- Troubled companies – Revisions incorporate insights from the Troubled Company Handbook on the following topics: priority ratings guidance, communication expectations for companies that are troubled or potentially troubled and pre-receivership considerations.
- Management letters – Revisions clarify which level of the management letter should be addressed and the level of information that should be included therein.
- Exhibit V (Prospective Risk Assessment) – Revisions encourage enhanced testing of overarching prospective risks and to better facilitate the communication of examination results with the financial analysts.
- Exhibit AA (Summary Review Memorandum) – Revisions add guidance for determining level of concern and overall trend for a particular risk component.
- C-level Interviews - Revisions address the order in which C-level interviews should be conducted, as well as provide a new interview template for interviewing a chief marketing officer.
- Compensation study – Revisions include a description of commonly held roles and responsibilities for commonly held regulatory positions and suggest salary ranges for examiners and analysts based on the results of a state insurance regulator compensation study.
- Information technology (IT) review conclusions – Revisions clarify the scope of the IT review and the way examiners should respond to IT review findings.
- Use of third-party work – Revisions clarify the ways that third-party work can be evaluated and used during an exam's IT review.
- Cybersecurity self-assessment tools – Revisions allow state insurance regulators to incorporate the results of a company's completed self-assessment. Additionally, a drafting group developed a mapping between IT exam guidance and the cybersecurity self-assessment tool developed by the Financial Services Sector Coordinating Council (FSSCC) to facilitate state insurance regulator use of the information contained within the tool.

3. *Financial Analysis Handbook Changes and Related Items*

- Adopted revisions to the *Financial Analysis Handbook* for procedures within the risk repository, regulatory guidance related to parental guarantees, salary compensation, intercompany pooling and interstate communication and coordination, and holding company analysis including lead state guidance, corporate governance, Form F and non-lead state analysis.
- Adopted changes to *Insurance Regulatory Information Systems (IRIS)* for Life ratios to address 2020 annual statement filing blank changes.
- Adopted revisions to regulator only financial analysis solvency tools.

4. *Implementation Guide for the Annual Financial Reporting Model Regulation (#205) Changes and Related Items*

- None

5. *Annual Statement Instructions Changes and Related Items*

- Adopted the following changes to the annual financial statement blanks and/or instructions:

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- 2019-21BWG – Modify the illustrations for Note 33 to disclose individually the Separate Account with Guarantees Products and Separate Account Nonguaranteed Products.
- 2019-22BWG – Add a question regarding the Executive Summary of the PBR Actuarial Opinion to the Supplemental Exhibits and Schedules Interrogatories.
- 2019-23BWG – Modify the instructions and illustration for Note 8 – Derivatives for disclosures captured in *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees*. Add instructions and a blank Page for Schedule DB, Part E, to the quarterly statement.
- 2019-24BWG – Add a Life Experience Data Contact to the electronic Jurat page for life/fraternal companies.
- Editorial/nonsubstantive listing

6. *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) and Related Items*

- Adopted the following amendments to the P&P Manual:
 - Added instructions for new administrative fields that identify regulatory transactions that have been submitted to the Securities Valuation Office for analysis, “RTS,” and those that have not been submitted, “RT.”
 - Updated the interim reporting guidance to insurers on how to assign an NAIC designation to a newly issued or newly acquired for Mortgage Reference Securities prior to the publication of the annual surveillance data.
 - Added instructions for the definition, filing and analysis of Ground Lease Financing (GLF) transactions. The amendment permits the SVO a decision tree analysis approach: 1) the SVO would analyze it to see if it meets the credit tenant loan criteria and the SVO could analyze the sub-leases; 2) assess if the Structured Security Group can model the GLF; and 3) if a ratings agency rating was assigned, authorize the SVO to use that analysis in its assessment.

7. *NAIC Risk-Based Capital (RBC) Formula Changes and Related Items*

- Adopted proposal 2019-14-CR (2019 Catastrophe Event Lists).
- Adopted proposal 2019-11-P (Clarification to Instructions Regarding Lloyd’s of London) and the 2019 reporting guideline.
- Adopted proposal 2019-12-P (Remove PR038 Adjustment for Reinsurance Penalty).
- Adopted the RBC Preamble.

8. *Uniform Certificate of Authority Application (UCAA), Company Licensing Best Practices Handbook and Related Items*

- Adopted revisions to the Biographical Affidavit to capture subsidiary information if the affiant was employed at a holding company level.
- Adopted revisions to the Consent to Service of Process form to include “statutory” in front of the home office address listing and add the requirement for the state where regulated if different from the state where organized.
- Adopted revisions to the Company Licensing Best Practices Handbook.
- Adopted revisions to the Biographical Affidavit to specify the purpose of the affidavit and instructions that addendum pages should be signed by the affiant.

9. *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual (ORSA Guidance Manual) and Related Items*

- None.

10. *Receivers Handbook for Insurance Company Insolvencies and Related Items*

- Adopted guidance and best practices in administering a large deductible workers’ compensation receivership.

11. *Process for Evaluating Qualified and Reciprocal Jurisdictions and Related Items*

- None.

12. NAIC Enterprise Risk Report (Form F) Implementation Guide and Related Items

- None.

13. *Troubled Insurance Company Handbook* Changes and Related Items

- None.

14. Risk Retention Group Regulatory Tools and Related Items

- Adopted Frequently Asked Questions (FAQ) and Best Practices documents for risk retention groups (RRGs) to assist states with the registration of RRGs. The new guidance is intended to clarify expectations for RRGs registering in non-domiciliary states and facilitate compliance with the federal Liability Risk Retention Act (LRRRA).