

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 it 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 meeting 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. 24, 2020. Any item(s) receiving an objection will be pulled from this automatic consideration, and a meeting will be scheduled to address the issue.

Action Taken During 2020 Virtual Fall National Meeting

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

Dec. 14, 2020

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

Dec. 24, 2020

The following technical items were adopted by the Financial Condition (E) Committee during the 2020 Virtual Fall National Meeting:

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

- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions require disclosure of cash equivalents that remain on the same reporting schedule for more than one consecutive reporting period. (Ref #2020-20)
 - *SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets*: Removed redundant paragraph references. (Ref #2020-25EP)
 - *SSAP No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*: Revisions allow leasehold improvements to have lives that match the associated lease term, which agrees with U.S. generally accepted accounting principles (GAAP) in Accounting Standards Codification (ASC) Topic 842 – Leases. (Ref #2020-23)
 - *SSAP No. 37—Mortgage Loans*: Revisions clarify a participant’s required financial rights in a mortgage loan participation agreement, which are reported as mortgage loans. (Ref #2020-19)
 - *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions update the financial modeling guidance/mapping instructions for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) to ensure consistency with guidance recently adopted in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). (Ref #2020-21)
 - *SSAP No. 62R—Property and Casualty Reinsurance*: Added a table that lists the questions addressed in Exhibit A – Implementation Questions and Answers. (Ref #2020-25EP)
 - *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:
 - Revisions update guidance, descriptive language, and the delivery process of completed subsidiary, controlled and affiliated (SCA) reviews for both domestic regulators and financial statement filers. The change in delivery of SCA review documents will occur on Jan. 1, 2021. (Ref #2020-17)
 - Revisions delete a previously superseded wording indicating that guarantees or commitments result in a negative equity valuation of the SCA and clarify language in Exhibit C, question 7. (Ref #2020-18)
 - *Appendix B—Interpretations of Statutory Accounting Principles*:
 - Extended the effective dates of three accounting interpretations (INTs) through the third-quarter 2020 financial statements, and confirmed expiration on Dec. 30, 2020, so they are not in effect for year-end 2020:
 - INT 20-02: Extension of 90-Day Rule for the Impact of COVID-19. Provides an optional extension of the 90-day rule before nonadmitting premium receivables and receivables from non-government uninsured plans.
 - INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19. Provides limited time exceptions to defer impairment assessments for bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans affected by COVID-19 forbearance or modifications.
 - INT 20-05: Investment Income Due and Accrued. This Provides an exception for the nonadmittance of recorded investment income due and accrued that becomes more than 90 days past due.

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

- Adopted revisions to the following sections of the *Financial Condition Examiners Handbook*:
 - Section 1-5: Reinsurance Review to incorporate concepts from recently revised *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786).
 - Reserves/Claims Handling – Life, Reserves/Claims Handling – Health, and Reserves/Claims Handling – Property/Casualty (P/C) examination repositories as part of the annual repository maintenance to ensure appropriate and relevant risks and procedures are included. Minor related updates were made to Section 1-6: Life Insurance Reserves Review for consistency purposes.
 - Section 1-6: Life Insurance Reserves Review, Reserves/Claims Handling – Life and Underwriting exam repositories, and Exhibit Y – Examination Interviews to incorporate consideration of long-term care insurance (LTCI).
 - Exhibit M – Corporate Governance and to the Reserves/Claims Handling P/C exam repository to incorporate feedback from the Actuarial Opinion (C) Working Group and the Casualty Actuarial and Statistical (C) Task Force regarding the definition of “qualified actuary” per the P/C Statement of Actuarial Opinion.
 - Section I-II (D) to adopt a 1% increase in the examiner’s daily rate compensation guidance.
 - Section 1-11, Exhibit M – Corporate Governance and Exhibit AA – Summary Review Memorandum to incorporate updates related to the review and utilization of the Own Risk and Solvency Assessment (ORSA) summary reports as part of a financial condition examination.
 - Exhibit C, Part One – Information Technology (IT) Planning Questionnaire, to include cyber self-assessments as a possible document to obtain during IT planning.

3. *Financial Analysis Handbook Changes and Related Items*

- Adopted amendments to the *Financial Analysis Handbook* including guidance and procedures for LTCI, risk retention groups (RRGs), non-troubled insurers and separate accounts; actuarial review considerations for P/C reserves; and revised guidance and review templates for analysis of ORSA summary reports.
- Adopted revisions to Life Insurance Regulatory Information System (IRIS) for ratio 10 (Change in Product Mix) to reflect annual statement changes.

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

- None.

5. *Annual Statement Instructions Changes and Related Items*

- Removed actuarial filing questions 29, 30, 31 and 32 from the Supplemental Exhibits and Schedules Interrogatories and removed the related instructions. (2020-24BWG)
- Added a new Column 5 to the annual and quarterly health blank for Schedule T with instructions to specifically capture the Children’s Health Insurance Program (CHIP) premium. Existing columns after the new Column 5 will be renumbered. (2020-25BWG)
- Added a new Column 5 to Schedule DB, Part D, Section 1 and renumbered the remaining columns. Added instruction for the new Column 5, added the column reference to Column 7 and adjusted other column references in crosschecks. Corrected column references for this schedule on the Liability Page, Asset Page and Schedule DB Verification. Modified instruction language for the disclosure Note 8A(8). (2020-26BWG)
- Added a new category line to Schedule E, Part 2 for Qualified Cash Pools Under SSAP No. 2R and renumbered the remaining category lines. Added a new disclosure 5R to the Notes to Financial Statements. (2020-27BWG)
- Modified the instructions and illustration for Note 3A – Business Combinations and Goodwill, Statutory Purchase Method and a new Note 3E for “Subcomponents and Calculations of Adjusted Surplus and Total Admitted Goodwill.” Modified the blank and instructions for Schedule D, Part 6, Section 1 and Section 2. (2020-22BWG)

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:

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- Instructions for exchange-traded funds (ETFs) that contain a combination of preferred stocks and bonds for possible inclusion on the Securities Valuation Office (SVO)-Identified Preferred Stock ETF list.
- Guidance on initial and subsequent annual filings, methodologies and documentation.

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

- Adopted edits to delete the federal Affordable Care Act (ACA) fee sensitivity test from all three formulas for 2021.
- Adopted edits to add a MAX function to line 17 of the health RBC forecasting formula for 2021.
- Adopted edits to renumber the health RBC forecasting due to the insertion of the bond designation expansion for 2021.
- Adopted the 2020 Catastrophe Event List.

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

- Adopted edits to include the corporate governance annual disclosure (CGAD) to the primary application checklist.
- Adopted revisions to the notary section of the Biographical Affidavit (Form 11) effective Jan. 1, 2021.

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

- None.

10. *Receiver's Handbook for Insurance Company Insolvencies and Related Items*

- Adopted amendments that address qualified financial contracts (QFCs).
- Adopted amendments that address administration of large deductible workers' compensation policies in receivership, subject to the NAIC's adoption of a new model Guideline for Administration of Large Deductible Policies in Receivership. The guideline will be considered for adoption by the NAIC at the 2021 Spring National Meeting.

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

- Adopted revisions to the Uniform Application Checklist for Certified Reinsurers and a new Uniform Checklist for Reciprocal Jurisdiction Reinsurers as adopted by the Reinsurance (E) Task Force on June 9.

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 (RRG) Regulatory Tools and Related Items

- None.