

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. 27, 2021**. 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 2021 Fall National Meeting

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

Dec. 16, 2021

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

Dec. 27, 2021

The following technical items were adopted by the Financial Condition (E) Committee during the 2021 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:
 - *Issue Paper No. 165—Levelized Commissions* to document the discussion that led to the adoption of nonsubstantive revisions to *Statement of Statutory Accounting Principles (SSAP) No. 71—Policy Acquisition Costs and Commissions* from agenda item 2019-24: Levelized and Persistency Commission. (Ref #2019-24)
- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *SSAP No. 32R—Preferred Stock*:
 - Revisions clarify that historical cost is not a permitted valuation method. (Ref #2021-17)
 - Revisions clarify that the “effective call price” valuation ceiling shall apply when the issuer has announced that the instrument will be called, or the call is currently exercisable by the issuer. (Ref #2021-10)
 - *SSAP No. 43R—Loan-Backed and Structured Securities*:
 - Revisions capture Securities Valuation Office (SVO)-identified credit tenant loans (CTLs) in scope and removed examples of securities from a non-scope paragraph. (Ref #2021-11)
 - Revisions direct that residual equity tranches shall be reported on Schedule BA: Other-Long Term Invested Assets for year-end 2022 reporting. However, for entities currently reporting on Schedule D-1, early application (reclassification) is permitted. In addition, the Working Group provided a joint memorandum with the Valuation of Securities (E) Task Force to the Blanks (E) Working Group to clarify that a self-assigned NAIC 5GI is not permitted for residual tranches, and such items reported on Schedule D-1 for year-end 2021 are required to be reported with an NAIC 6 designation. (Ref #2021-15)
 - *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions clarify that the required adjustments directed in SSAP No. 97, paragraph 9, may result in a negative equity valuation. Revisions also clarify that foreign insurance subsidiary, controlled and affiliated (SCA) entities, when applying paragraph 9 adjustments, may stop at zero if the entity does not provide services or hold assets on behalf of a U.S. based reporting entity. (Ref #2021-04)
 - *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*: Revisions clarify that salvage and subrogation estimates and recoveries should be reported as a reduction to both claims/losses and loss adjustment expenses (LAEs), as appropriate. (Ref #2021-13)
 - *NAIC Policy Statement on Maintenance of Statutory Accounting Principles: Revisions*, in response to a referral received from the Financial Condition (E) Committee, adopted modification to the terms “substantive” and “nonsubstantive.” Effective Jan. 1, 2022, substantive modifications will be identified as a “new SAP concept,” while nonsubstantive modifications will be an “SAP clarification.” (Ref #2021-14)
- Adopted an agenda item supporting supplemental reporting of Federal Home Loan Bank (FHLB) borrowings classified as a deposit-type contract and reported on Exhibit 7 – Deposit-Type Contracts. (Ref #2021-16)
- Adopted the following editorial revisions (Ref #2021-19EP and (Ref #2021-12EP):
 - Preamble: Incorporates a paragraph number for the existing statutory hierarchy section.
 - *SSAP No. 16R—Electronic Data Processing Equipment and Software*: Correct various paragraph references.

Financial Condition (E) Committee Technical Changes

- *SSAP No. 21R—Other Admitted Assets*: Updates improve the readability of paragraph 9 regarding receivables for securities.
- *SSAP No. 43R*: Remove outdated references to guidance previously deleted.
- *Appendix A-001*: Updates designation codes for preferred stock as noted in Section 2 of *Appendix A-001: Investments of Reporting Entities*.
- *Appendix C*: Updates reference to the former Emerging Actuarial Issues (E) Working Group, as well as adds reference to the Valuation Analysis (E) Working Group’s use of included interpretations.
- *Appendix C-2*: Updates reference to the former Emerging Actuarial Issues (E) Working Group, as well as adds reference to the Valuation Analysis (E) Working Group’s use of included interpretations.
- *Appendix B—Interpretations (INTs) of Statutory Accounting Principles*:
 - *Adopted INT 21-02: Extension of the Ninety-Day Rule for the Impact of Hurricane Ida*: This INT provides temporary options to the “90-day rule” in *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers* for policies affected by Hurricane Ida. The INT automatically nullifies Jan. 24, 2022. (Ref #2021-13)
 - *Nullified INT 20-10: Reporting Nonconforming Credit Tenant Loans*. (Ref #2021-11)

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

- Adopted revisions to the following sections of the *Financial Condition Examiners Handbook*:
 - Reserves/Claims Handling – Life, Reserves/Claims Handling – Health, Reserves/Claims Handling – Property/Casualty (P/C) and Underwriting examination repositories to incorporate additional procedures for evaluating the completeness and accuracy of data.
 - Section 1-1 (D): Coordination of Holding Company Group Exams to simplify and clarify the roles and responsibilities of states that are, or could be, involved in a coordinated examination.
 - Section 1-3 (A): General Information Technology Review, Exhibit C, Part One – IT Planning Questionnaire (ITPQ), and Exhibit C, Part Two – IT Work Program and Instructional Notes to incorporate guidance for evaluating the accessibility and transferability of policyholder data, if warranted, during the information technology (IT) review of a financial condition examination.
 - Section 1-3 (A): General Information Technology Review, and Exhibit C, Part Two – IT Work Program to incorporate high-level guidance for evaluating an insurer’s cyber hygiene and susceptibility to ransomware attacks.
 - Developed the *Cybersecurity Vulnerability Response Plan* document available on the Information Technology (IT) Examination (E) Working Group web page, which provides guidance for investigating emerging cyber vulnerabilities in the period between full scope examinations, when appropriate.
 - Section 1-2 (D): Salary and Per Diem Guidelines and Section 1-2 (E): General Salary Guidelines to include updated salary ranges and legacy daily rates for various financial examination positions adopted by the Risk-Focused Surveillance (E) Working Group.

3. *Financial Analysis Handbook Changes and Related Items*

- Updated salary ranges for various financial analyst positions adopted by the Risk-Focused Surveillance (E) Working Group
- Adopted guidance and procedures for lead state analysis of liquidity stress testing (LST) filings.
- Adopted guidance and procedures for lead state analysis of group capital calculation (GCC) filings.
- Adopted updates to guidance and procedures for analysis of P/C credit risk and reserves; life captive reinsurance transactions; and quarterly non-troubled assessment of risk retention groups (RRGs).

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 change to expand the number of lines of business reported on Schedule H to match the lines of business reported on the health statement. Modify the instructions so they will be uniform between life/fraternal and property (2021-14BWG).

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 the U.S. International Development Finance Corporation (DFC) to the “U.S. Government Full Faith and Credit – Filing Exempt” list.
 - Added Spanish generally accepted accounting principles (GAAP) to the list of Countries and Associated National Financial Presentation Standards after a technical procedural assessment.
 - Added back zero-loss criteria for legacy-modeled residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).
 - Removed residual tranches from receiving an NAIC designation.
 - Added clarifications to the 5GI mapping to NAIC designation category.

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

- Adopted the 2021 Catastrophe Event List.

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

- Adopted the Request for Disclaimer

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

- None

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

- None

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

- None

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

- None

14. Troubled Insurance Company Handbook Changes and Related Items

- None

15. Risk Retention Group Regulatory Tools and Related Items

- None

16. Group Capital Calculation Instructions and Template

- None