

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 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 by 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 to 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 **September 3, 2024**. 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 the 2024 Summer National Meeting

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

August 22, 2024

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

September 3, 2024

The following technical items were adopted by the Financial Condition (E) Committee during the 2024 Summer National Meeting:

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

- Adopted the following new statutory accounting principle (SAP) concept revisions:
 - *Principles-Based Bond Project Issue Paper*: Adopted issue paper No. 169, which details the discussions and decisions underlying the adopted principles-based bond project. (Ref #2019-21)
- Adopted the following clarifications to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments*: Revisions eliminate lingering references implying that asset-backed securities (ABS), mortgage loans, or Schedule BA: Other Long-Term Invested Assets items are permitted as cash equivalents or short-term investments. (Ref #2024-09)
 - *SSAP No. 15—Debt and Holding Company Obligations and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions incorporated modified disclosures from *Accounting Standards Update (ASU) 2023-06, Disclosure Improvements* for unused commitments and lines of credit, as well as a disclosure of cash flows from derivatives. (Ref #2023-26)
 - *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 incorporate modified leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*. (Ref #2024-02)
 - *SSAP No. 20—Nonadmitted Assets*: Revisions clarify that directly held crypto assets are non-admitted assets and adopt the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets*. (Ref #2024-03)
 - *SSAP No. 25—Affiliates and Other Related Parties, SSAP No. 63—Underwriting Pools, and Interpretation (INT) 03-02: Modification to an Existing Intercompany Pooling Arrangement*: Revisions nullify INT 03-02 and address transfers of assets when modifying intercompany pooling agreements. (Ref #2022-12)
 - *SSAP No. 26R—Bonds, SSAP No. 21R—Other Admitted Assets, SSAP No. 30R—Unaffiliated Common Stock, SSAP No. 32R—Preferred Stock, SSAP No. 43R—Loan-Backed and Structured Securities, and SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies*: Revisions refer to SSAP No. 21R for the residual definition and accounting and reporting guidance. (Ref #2024-08)
 - *AP&P Manual Editorial Revisions*: Revisions remove the “Revised” and “R,” intended to identify a previously substantively revised SSAP or SSAPs with revisions that reflected new SAP concepts from SSAP titles and references. (Ref #2024-14EP)

- *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*: Revisions remove the transitional reinsurance program and risk corridor disclosures, with corresponding edits to the roll-forward illustration. (Ref #2014-13)

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

- None

3. *Financial Analysis Handbook Changes and Related Items*

- Adopted procedures and guidance into the *Financial Analysis Handbook* related to the analysis of affiliated investment management services and agreements.

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

- None

5. *Annual Statement Instructions Changes and Related Items*

- Adopted the following proposals:
 - 2023-12BWG Modified – Categorize debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26R or SSAP No. 43R and are captured in the scope of SSAP No. 21R.
 - 2024-01BWG – Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (Statutory Accounting Principles [E] Working Group agenda item 2023-23).
 - 2024-02BWG Modified – Remove categories from Schedule DA, Part 1, and Schedule E, Part 2 that should be reported on Schedule BA. Add clarifying instructions on what should be included in other short-term and other cash equivalent categories.
 - 2024-03BWG Modified – Update General Interrogatory 35 for private letter (PL) rating security reporting to clarify what should be included.
 - 2024-04BWG – Add clarifying language to the *Valuation Manual (VM)-20*, Requirements for Principle-Based Reserves for Life Products, supplement in the life blank to include separate accounts where applicable.
 - 2024-05BWG – Add language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors that have the discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory.
 - 2024-06BWG – Property/casualty (P/C) changes: Limit the requirement to send qualification documentation to the board of directors only at the initial appointment and not annually thereafter. Title changes: Update the title instructions so they are more similar to the P/C instructions.
 - 2024-07BWG – Update the illustration under Note 5S(A)—Investments for net negative (disallowed) interest maintenance reserve (IMR) to add a separate account breakout. Add a new general interrogatory for a company attestation for separate accounts.

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- 2024-08BWG – Update the IMR and asset valuation reserve (AVR) instructions for specific allocation guidance for NAIC designation changes for debt securities (excluding loan-backed and structured securities [LBSS]), mortgage loans, and perpetual preferred stocks. (Statutory Accounting Principles [E] Working Group agenda items 2023-15 and 2023-29).
- 2024-09BWG Modified – Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral.
- 2024-10BWG Modified – Remove the SSAP No. 107 disclosure on the transitional reinsurance program and the risk corridors program from Note 24E in the Notes to Financials (Note 24F for P/C) in the *Annual Statement Instructions*.
- 2024-11BWG Modified – Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes will be made to the Annual include Assets; Notes to Financial Statements 5K, 14A, and 21E; AVR; Schedule BA, Part 1 and 3; and Verification Between Years. Quarterly changes include Assets; Schedule BA, Part 3; and Verification Between Years.
- 2024-12BWG Modified – Update the quarterly investment schedules for editorial items to the bond project. (Schedule D Verification; Schedule D, Part 1B; Schedule D, Parts 3 and 4; Schedule DL, Parts 1 and 2; and Schedule E, Parts 1 and 2) Update the Quarterly Investment Schedule General Instructions for the changes that were adopted in the Annual Investment Schedule General Instructions. (Reference: adopted proposal 2023-06BWG).
- Adopted its editorial listing.

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

- Adopted the following amendments to:
 - Permit NAIC designations for short-term ABS.
 - Add Spain to the List of Foreign (Non-U.S.) Jurisdictions Eligible for Netting for Purposes of Determining Exposures to Counterparties for Schedule DB, Part D, Section 1.
 - Change the effective date for the implementation of collateralized loan obligation (CLO) modeling to Dec. 31, 2025.
 - Clarify permitting insurers to self-assign an NAIC designation 6*.
 - Make current the list of Securities of Valuation Office (SVO) processes.
 - Update U.S. government agency and other U.S. government obligation abbreviations.
 - Update the definition of an NAIC designation.

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

- Adopted the following proposals:
 - 2024-04-L – Add a line to LR033 to address the treatment of non-admitted insurance affiliates.

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- 2024-05-L – Add a line to LR009 to address line 44 of the AVR equity component.
 - 2024-08-CA – Remove the reference to “H0 Component” and “R0 Component” from the Column 12 heading on pages XR002 and PR003, respectively.
 - 2024-09-CA – Annual update of the underwriting factors for comprehensive medical, Medicare supplement, and dental and vision for investment income adjustment.
 - 2024-10-P – Address the current double-counting issue for companies with stop-loss premium, as the stop-loss premium is expected to be entered on line 9 of PR019.
 - 2024-11-P – Change the underwriting risk reserves and premiums line 4 and line 8 factors based on the 2023 American Academy of Actuaries’ (Academy’s) *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors* report. The Working Group decided to use 50% indicated change with capped international and product liability lines for reserves and 50% indicated change with capped financial mortgage guaranty line for premium for 2024 reporting.
 - 2024-12-H (Modified) – Adjust the health care receivable factors in XR021 to include a tiered adjustment factor on pharmaceutical and non-pharmaceutical rebate receivables in aggregate (i.e., aggregation of claim overpayment receivables, loan and advances to providers, capitation arrangement receivables, risk sharing receivables, and other health care receivables).
 - 2024-13-CA – Update the RBC factors for receivables for securities.
 - 2024-14-P – Annual update of the industry underwriting factors (premium and reserve) in the P/C RBC formula.
 - 2024-15-L – Modify pages L008 and L009 for collateral loans backed by mortgages.
 - 2024-17-L – Add a factor for the line added to LR009 to specifically address line 44 of the AVR equity component as part of proposal 2024-05-L. This AVR line was not included in the LR009 changes made with the mortgage methodology change in 2013.
 - 2024-18-CA – Add a 20% charge for the total residual tranches or interests in PR008 for P/C and XR008 for health.
- Considered revisions to the charge for residual tranches for life entities. Revisions were not supported, resulting in adoption action to retain the 45% charge for residual tranches or interests with a 0% sensitivity factor for year-end 2024 as adopted in 2023-09-IRE.

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

- Adopted modifications to the expansion application form (Form 2).
- Adopted modifications to the expansion application questionnaire (Form 8).
- Adopted modifications to the expansion application plan of operation (narrative template).

- 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 (Receiver’s Handbook)* and Related Items**
 - None

- 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 (RRG) Regulatory Tools and Related Items**
 - None

- 15. Group Capital Calculation (GCC) Instructions and Template**
 - None.

- 16. Financial Stability/Macroprudential Risk Assessment Tools and Related Items**
 - None