Draft date: 2/24/25

2025 Spring National Meeting
Indianapolis, Indiana

FINANCIAL REGULATION STANDARDS AND ACCREDICATION (F) COMMITTEE
Tuesday, March 25, 2025
9:00 – 9:30 a.m.
JW Marriott Indianapolis—JW White River F–J—Level 1

ROLL CALL

Lori K. Wing-Heier, Chair	Alaska	Mike Causey	North Carolina
Sharon P. Clark, Vice Chair	Kentucky	Jon Godfread	North Dakota
Andrew R. Stolfi, Vice Chair	Oregon	Elzabeth Kelleher Dwyer	Rhode Island
Andrew N. Mais	Connecticut	Michael Wise	South Carolina
Vicki Schmidt	Kansas	Larry D. Deiter	South Dakota
Robert L. Carey	Maine	Scott A. White	Virginia
Michael T. Caljouw	Massachusetts	Jeff Rude	Wyoming
Eric Dunning	Nebraska		

NAIC Support Staff: Bailey Henning/Sara Franson/Dan Schelp

AGENDA

1. Consider Adoption of its 2024 Fall National Meeting Minutes —*Director Lori K. Wing-Heier (AK)* — Attachment One

2. Discuss Revisions Adopted in 2024 to NAIC Publications Referenced in the Accreditation Standards—*Director Lori K. Wing-Heier (AK)* — Attachment Two

3. Consider Exposure of Risk-Focused Surveillance (E) Working Group Proposed Revisions—*Director Lori K. Wing-Heier (AK)* — Attachment Three

4. Discuss Any Other Matters Brought Before the Committee —*Director Lori K. Wing-Heier (AK)*

5. Adjournment

Draft Pending Adoption

Date: 11/20/24

Financial Regulation Standards and Accreditation (F) Committee
Denver, Colorado
November 17, 2024

The Financial Regulation Standards and Accreditation (F) Committee met in Denver, CO, Nov. 17, 2024. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair (KY); Andrew R. Stolfi, Co-Vice Chair (OR); Alan McClain represented by Leo Liu (AR); Andrew N. Mais represented by Jack Broccoli (CT); Michael T. Caljouw represented by John Turchi (MA); Robert L. Carey represented by Vanessa Sullivan (ME); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning (NE); Elizabeth Kelleher Dwyer represented by John Tudino and Ted Hurley (RI); Michael Wise (SC); Larry D. Deiter (SD); Scott A. White represented by Doug Stolte and Greg Chew (VA); and Jeff Rude (WY).

1. Adopted its Summer National Meeting Minutes

Commissioner Clark made a motion, seconded by Rude, to adopt the Committee's Aug. 13 minutes (*see NAIC Proceedings – Summer 2024, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Director Wing-Heier said the Committee also met Nov. 16 in regulator-to-regulator session pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to Connecticut, Massachusetts, New York, and the U.S. Virgin Islands.

2. Adopted its 2025 Proposed Charges

Director Wing-Heier stated that the proposed 2025 charges include a new charge to appoint and oversee the Accreditation Scope and Alignment (F) Working Group. This group formalizes the third-party ad-hoc group that met several times throughout 2024. This new group is tasked with reviewing the current scope of the NAIC's Financial Regulation Standards and Accreditation Program to evaluate whether it aligns with the program's objectives and determine whether there are any multistate companies or activities that are not currently covered by the program's scope. This group will also analyze state regulations to identify any discrepancies or unique regulatory practices. She said it is expected that Broccoli will serve as the Working Group chair and that regulators interested in serving on this group should contact Bailey Henning (NAIC).

Commissioner Stolfi made a motion, seconded by Commissioner Clark, to adopt the 2025 proposed charges, including the appointment of the Accreditation Scope and Alignment (F) Working Group (Attachment One). The motion passed unanimously.

3. Adopted Proposed *Accreditation Program Manual* Revisions

Director Wing-Heier stated that at the Summer National Meeting, the F Committee exposed revisions to the *Accreditation Program Manual* related to the review team guidelines and the self-evaluation guide (SEG) for Part B1: Financial Analysis. The revisions to the review team guidelines align the analysis guidelines with the examination guidelines regarding the sufficiency of staff in overseeing contractors and evidence of the department's secondary review of the Insurer Profile Summary (IPS) and Group Profile Summary (GPS) when contractors are used. The revisions to the SEG update the information request for the number and type of analysis

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staff, as well as how that information is presented in the SEG. One comment letter (Attachment Two) was received from interested parties.

Keith Bell (The Travelers Companies) stated that interested parties agree with the proposed revisions to the review team guidelines to clarify the application of these guidelines in situations where independent contractors are used within the financial analysis function. Interested parties also support the proposed revisions to the SEG that allow for information regarding analysis staffing as part of the accreditation process to be collected on a more granular basis. Bell stated that the primary concern of interested parties is the increased involvement of independent contractors in the state regulatory financial analysis function and the additional risks that could occur as a result. Therefore, Bell stated that interested parties have simultaneously contacted the Risk-Focused Surveillance (E) Working Group with these concerns and expect to interact with that group as it begins drafting proposed guidance related to the use of independent contractors within the financial examination and analysis functions.

Director Dunning made a motion, seconded by Rude, to adopt the revisions to the *Accreditation Program Manual* (Attachment Three). The motion passed unanimously.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/F CMTE/2024Fall

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Commissioner Lori K. Wing-Heier, (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee

Commissioner Sharon P. Clark, (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

Commissioner Andrew Stolfi (OR), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Dale Bruggeman (OH), Chair, Statutory Accounting Principles (E) Working Group
Kevin Clark (IA), Vice Chair, Statutory Accounting Principles (E) Working Group

DATE: February 19, 2025

RE: Financial Regulation Standards – As of March 2025 *Accounting Practices and Procedures Manual*

In 2001, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Accounting Practices and Procedures Manual – Effective January 1, 2001, Version 1999* (AP&P Manual) as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Statutory Accounting Principles (E) Working Group has made to the AP&P Manual in 2024 up to the 2025 date of submission for publication. This memo is to provide the customary annual update regarding changes to the AP&P Manual.

Attachment A to this memo includes a detailed listing of the changes made to the AP&P Manual in 2024. (Note that several of the principles-based bond project updates which were adopted in 2023 but effective January 1, 2025, are shown in Attachment A. These items were referenced in last year's memo.) On behalf of the Working Group, it is our opinion that none of these items, either individually or collectively, should be considered "significant" as defined by the financial solvency accreditation standards.

As outlined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* (SAP Policy Statement), modifications will be made to the *AP&P Manual* each year. As such, it will be reprinted with an "as of" date associated with it. For example, the next printing of the AP&P Manual, which encompasses the attached modifications, will be titled *Accounting Practices and Procedures Manual – as of March 2025*. This process allows for an efficient way to update the AP&P Manual and virtually guarantees that users have the latest version. Reprints and updates are necessary because of the evolutionary nature of accounting—in both the statutory accounting principles and the generally accepted accounting principles arenas—and are positive for users of the AP&P Manual.

The Working Group sincerely requests that the Committee consider the items listed in Attachment A as "insignificant" changes to the AP&P Manual. We will continue to notify the Committee of any changes to the AP&P Manual and to advise if, in our opinion, those changes are "significant" by financial solvency accreditation standards.

cc Bailey Henning, Sara Franson, Sherry Shull, Robin Marcotte, Julie Gann, Jake Stultz, Wil Oden and Jason Farr

Https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2025/2024 SAPWG to Accreditation Memo.doc

Summary of Changes to the *As of March 2024 Accounting Practices and Procedures Manual* included in the As of March 2025 Manual

The following summarizes changes made to the *As of March 2024 Accounting Practices and Procedures Manual* (Manual) and shown in the As of March 2025 version.

Section 1 summarizes revisions that result in a new SSAP or new SAP concept to statutory accounting principles. Revisions that introduce original or modified accounting principles can be reflected in an existing or new SSAP. When revisions that result in a new SAP concept are made to an existing SSAP, the effective date is identified in the Status section, New SSAPs and new SAP concepts that revise existing SSAPs are commonly accompanied by a corresponding issue paper that reflects the tracked revisions for historical purposes. If language in an existing SSAP is superseded, that language is shaded and the new or revised SSAP is referenced. Completely superseded SSAPs and nullified interpretations are included in Appendix H.

Section 2 summarizes revisions that clarify existing statutory accounting principles. These revisions are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Such revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be tracked in subsequent manuals. Revisions that clarify existing statutory accounting principles are effective when adopted unless a specific effective date is noted.

Section 3 summarizes revisions to the Manual appendices.

<table>
<tr><th colspan="3">1. Revisions that Resulted in a New SSAP or New SAP Concept – Statutory Accounting Principles</th></tr>
<tr><th>Section</th><th>Reference</th><th>Description</th></tr>
<tr><td rowspan="2">SSAP No. 2</td><td>2023-17</td><td>Revisions restrict the investments that are permitted for cash equivalent and short-term reporting. Revisions exclude all Schedule BA long-term invested assets and mortgage loans.</td></tr>
<tr><td>2024-09</td><td>Revisions eliminate references implying that asset-backed securities, mortgage loans, or other Schedule BA items are permitted to be reported as cash equivalents or short-term investments.</td></tr>
<tr><td>SSAP No. 21</td><td>2019-21</td><td>Revisions provide guidance for debt securities that do not qualify as bonds under the principles-based bond definition.

Revisions prescribe accounting guidance (measurement method) for all residual interests regardless of legal form.</td></tr>
<tr><td>SSAP No. 26</td><td>2024-01</td><td>Additional revisions to SSAP No. 26—Bonds to address debt securities issued by non-SEC registered funds that reflect operating entities can qualify as issuer credit obligations. The guidance requires assessment as to the purpose of the issued debt security and is explicit that debt securities issued for the raising of debt capital are required to be assessed as asset-backed securities.</td></tr>
</table>

SSAP No. 26 SSAP No. 43 Various SSAPs	2019-21	Revisions to *SSAP No. 26—Bonds* and *SSAP No. 43—Asset-Backed Securities* for the principles-based bond definition, the accounting for bonds (issuer credit obligations and asset-backed securities), and revisions to various SSAPs that have been updated to reflect the revised definition and/or SSAP references.
SSAP No. 93	2022-14	Revisions expand guidance within *SSAP No. 93—Investments in Tax Credit Structures* to include tax credit investments regardless of structure and type of state or federal tax credit program.
SSAP No. 94	2022-14	Revisions to *SSAP No. 94—State and Federal Tax Credits* expand guidance to include purchased state and federal tax credits.
2. Revisions that Resulted in a SAP Clarification – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 15	2023-26	Revisions adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements*.
SSAP No. 19	2024-02	Revisions adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common Control Arrangements*.
SSAP No. 20	2024-03	Revisions adopt, with modification, *ASU 2023-08, Accounting for and Disclosure of Crypto Assets* and nullify *INT 21-01: Accounting for Cryptocurrencies.*
SSAP No. 21	2023-28	Revisions incorporate a collateral loan disclosure for year-end 2024 to detail admitted and nonadmitted collateral loans and the underlying collateral supporting the loan.
SSAP No. 25 SSAP No. 63	2022-12	Revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* address transfers of assets when modifying intercompany pooling agreements. This agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*.
SSAP No. 26	2024-26EP	Adopted revisions to the annual audited disclosure for bonds in paragraph 39.e. of *SSAP No. 26—Bonds* prescribe that the information presented should be by category and subcategory as reported in annual statement Schedule D – Part 1, Section 1 (Issuer Credit Obligations) and Section 2 (Asset-Backed Securities).
SSAP No. 26 SSAP No. 30 SSAP No. 32 SSAP No. 43 SSAP No. 48	2024-08	Revisions to SSAPs to refer to *SSAP No. 21—Other Admitted Assets* for the residual definition and for accounting and reporting guidance.
SSAP No. 34 SSAP No. 48	2022-14	Consistency revisions in response to the changes made to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits*.

SSAP No. 48	2024-18	Consistency revisions to *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as part of the updates to SSAP No. 93 and 94.
SSAP No. 73	2024-02	Revisions adopt, with modification, *ASU 2023-01, Leases (Topic 842), Common* Control *Arrangements.*
SSAP No. 86	2023-26	Revisions adopt, with modification, certain disclosures from *ASU 2023-06, Disclosure Improvements*.
SSAP No. 93 SSAP No. 94	2024-18	Revisions to *SSAP No. 93—Investments in Tax Credit Structures* and *SSAP No. 94—State and Federal Tax Credits* address inconsistencies between the accounting guidance and journal entry illustration.
SSAP No. 97	2023-30	Revisions align the language in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entitie*s, paragraph 24, with the existing guidance provided in paragraphs 26 and 27.
SSAP No. 101	2024-11	Revisions reject *ASU 2023-09, Improvements to Income Tax Disclosures* for statutory accounting purposes and delete the disclosure in *SSAP No. 101—Income Taxes*, paragraph 23.b.
SSAP No. 107	2024-13	Revisions remove the federal Affordable Care Act transitional reinsurance program disclosures and the risk corridor disclosures as both programs have expired, and deleted the corresponding sections of the Exhibit B roll-forward illustration.
SSAP No. 108	2024-17	Revisions update the definition of a clearly defined hedging strategy (CDHS) to reflect the revised guidance pursuant to VM-01.
Various SSAPs	2024-14EP	Editorial revisions to the *Accounting Practices and Procedures Manual* remove “Revised” and “R” identifiers from SSAP titles and SSAP references throughout the Manual.
3. Revisions to the Appendices		
Section	**Reference**	**Description**
Appendix A		No revisions impacting this appendix were adopted in 2024.
Appendix B	INT 24-01 2019-21	*INT 24-01: Principles-Based Bond Definition Implementation Questions and Answers* addresses specific questions related to the implementation of the Principles-Based Bond Project.
Appendix C	AG 51	Revisions to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* clarify this guideline applies to filers of all statement filing types if the AG 51 filing criteria are met.

Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2023-25	*ASU 2023-03, Amendments to SEC Paragraphs*
	2023-27	*ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121*
	2024-19	*ASU 2024-02, Codification Improvements—Amendments to Remove References to the Concepts Statements*
Appendix E	2019-21	*Issue Paper No. 169—Principles-Based Bond Definition* documents the discussions and decisions related to the principles-based bond project. The adopted SSAPs impacted are effective January 1, 2025, and should be used as the source of authoritative guidance.
	2024-01	Additional revisions to *Issue Paper No. 169—Principles-Based Bond Definition*, debt securities issued by non-SEC registered funds that reflect operating entities can qualify as issuer credit obligations. The guidance requires assessment as to the purpose of the issued debt security and is explicit that debt securities issued for the raising of debt capital are required to be assessed as asset-backed securities.
Appendix F		No revisions impacting this appendix were adopted in 2024.
Appendix G		No revisions impacting this appendix were adopted in 2024.
Appendix H	INT 03-02 2022-12	Revisions to *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 63—Underwriting Pools* address transfers of assets when modifying intercompany pooling agreements. This agenda item also nullifies *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*.
	INT 21-01 2024-03	Revisions to *SSAP No. 20—Nonadmitted Assets* adopt, with modification, *ASU 2023-08, Accounting for and Disclosure of Crypto Assets*, and nullify *INT 21-01: Accounting for Cryptocurrencies.*

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Lori K. Wing-Heier, Chair
Financial Regulation Standards & Accreditation (F) Committee

FROM: Roy Eft, Chair
Blanks (E) Working Group

DATE: January 28, 2025

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2024. The Blanks Working Group adopts numerous changes to the Annual Statement Blanks and Instructions each year. Most of the changes are made to clarify current requirements or are considered enhancements to existing reporting. The changes adopted in 2024 do not represent a substantive change to any reporting requirements.

I am planning to be present when the Financial Regulation Standards & Accreditation (F) Committee meets in the event any member of the committee wishes to discuss these issues.

Changes to blanks and instructions adopted during 2024

1. Remove the reference to Identity Theft Insurance from the General Instructions. Remove the interrogatory questions from Part 1 that pertain to Identity Theft Insurance. Remove the column for Identity Theft Insurance from Parts 2 and 3. Remove claims-made and occurrence breakdown, as well as first-party and third-party breakdown from data collection. A cybersecurity insurance policy is generally written on a claims-made basis for the liability sections of the policy; therefore the breakdown is unnecessary. Additionally, most cybersecurity policies include both first-party and third-party coverage, so the breakdown does not provide significant data, as it is not an either/or situation. Remove the question in the interrogatories regarding tail policies. This has provided no meaningful information, due to the way cybersecurity insurance policies are written. Create state level transparency. (2023-05BWG Modified) Effective Dec. 31, 2024
2. Categorize debt securities on Schedule BA that do not qualify as bonds under SSAP No. 26 – Bonds or SSAP No. 43R – Asset-Backed Securities and are captured in scope of SSAP No. 21R – Other Invested Assets. (2023-12BWG Modified) Effective Jan. 1, 2025
3. Add new instruction and illustration under Note 5 – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR)and a new general interrogatory for a company attestation. **BWG Editorial moved this to Note 21J** (2023-13BWG Modified) Effective Dec. 31, 2024
4. Revise the Health Test Language and General Interrogatories to clarify and create better transparency in the calculation of the premium and reserve ratios in the health test. (2023-14BWG Modified) Effective Dec. 31, 2024
5. Add a new General Interrogatory to provide needed information for completing the C-2 mortality risk in the Life Risk-Based Capital (RBC). (2023-15BWG Modified) Effective Dec. 31, 2024
6. Change Schedule P to show 10 years of data and a “prior” row for all lines of business beginning in 2024. This modifies requirements for seven lines of business that currently only show 2 years of data and a “prior” row. (2023-16BWG Modified) Effective Dec. 31, 2024
7. Update the Investment Schedules General Instructions to identify that common and preferred stock residual interests should be reported on Schedule BA. (SAPWG Item 2023-23). (2024-01BWG) Effective Dec. 31, 2024
8. Update the Investment Schedules General Instructions to identify what should be included in the Other Short-Term and Other Cash Equivalent categories and to add clarity of what should be reported on Schedule BA. (SAPWG Item 2023-17). (2024-02BWG Modified) Effective Jan. 1, 2025
9. Update General Interrogatory 35 for private letter rating security reporting to clarify what should be included. (2024-03BWG Modified) Effective Dec. 31, 2024
10. Add clarifying language to VM-20 supplement to address the inconsistent reporting by companies not including separate account amounts on the supplement. (2024-04BWG) Effective Dec. 31, 2024
11. Add clarifying language to Annual General Interrogatory 29.05 (Quarterly General Interrogatory 17.5) to clarify that all investment advisors with discretion to make investment decisions, including sub-advisors, should be disclosed through the interrogatory. (2024-05BWG) Effective Dec. 31, 2024
12. Property/Casualty 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 Property/Casualty instructions. (2024-06BWG) Effective Dec. 31, 2024
13. Update the illustration under Note 5S(A) – Investments for Net Negative (Disallowed) Interest Maintenance Reserve (IMR) to add separate account breakout. Add a new general interrogatory for a company attestation for separate accounts. (This goes with adopted Blanks Working Group proposal 2023-13BWG) **BWG Editorial moved this to Note 21J** (2024-07BWG) Effective Dec. 31, 2024
14. Update the Interest Maintenance Reserve and Asset Valuation Reserve instructions for specific allocation guidance for NAIC Designation Changes for Debt Securities (excluding LBSS), Mortgage Loans, and perpetual preferred stocks. (SAPWG agenda items: 2023-15 & 2023-29) (2024-08BWG) Effective Dec. 31, 2024
15. Add a note (5T) to the Notes to Financials to be data captured to report the aggregate collateral loans by qualifying investment collateral. Add crosscheck between Schedule BA, Part 1 Book Adjusted Carrying Value column and Note 5(T) Total Line. **BWG Editorial moved this to Note 5S** (SAPWG INT 23-28) (2024-09BWG Modified) Effective Dec. 31, 2024

16. Remove the ACA 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 Property/Casualty) in the Annual Statement Instructions. (SAPWG Item 2024-13). (2024-10BWG Modified) Effective Dec. 31, 2024
17. Update the Annual and Quarterly Instructions and Blanks for the New Market Tax Credit changes. Changes will be made to: Annual – Assets, Notes to Financial Statements 5K, 14A, and 21E, AVR, and Schedule BA, Part 1, 3, and Verification Between Years. Quarterly changes – Assets and Schedule BA, Part 3 and Verification Between Years. (2024-11BWG Modified) Effective Jan. 1, 2025
18. Update the quarterly investment schedules for editorial items to the bond project. (Sch. D Verification, Sch. D Part 1B, Sch. D Part 3 & 4, Sch. DL Part 1 & 2, and Sch. E Part 1 & 2). Also 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) (2024-12BWG Modified) Effective Jan. 1, 2025

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Lori K. Wing-Heier, Chair, Financial Regulation Standards and Accreditation (F) Committee

FROM: Mike Yanacheak, Chair, Capital Adequacy (E) Task Force

DATE: February 1, 2025

RE: Accreditation Standards – Changes to the RBC Formulas and Instructions for Health, Life, and P/C

Attached please find a brief description of changes to the 2024 risk-based capital (RBC) reports, including an overview and instructions, for health, life, and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and the Executive (EX) Committee and Plenary in 2024. The significance of these changes was viewed as it relates to the overall RBC standard.

No changes to the RBC formulas or instructions were deemed to be significant for health, life, or P/C.

Any questions can be directed to NAIC staff:
P/C – Eva Yeung
Life – Kazeem Okosun
Health — Derek Noe

<u>Health RBC Formula</u>

Not Significant	Added a line to XR008 to include total residual tranches or interests on a standalone line with a 20% factor.
Not Significant	Removed the H0 reference from the column 12 heading on page XR002.
Not Significant	Removed the word "Common" from the column 13 heading on page XR002 and updated page XR010 and XR024 to clarify the line for the Market Value in Excess Affiliated Stocks includes amounts for both preferred and common stocks.
Not Significant	Updated the annual statement source for XR014, Column 1 Line 4 and Column 1 Line 10.
Not Significant	Updated the factors for health care receivables on page XR021. Line 26.1 has a 20% factor on the first $5 million and 3% on the remaining amount. Lines 26.2 through 26.6 in aggregate have 40% factor on the first $10 million and 5% on the remaining amount.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Not Significant	Updated the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on page XR013 to include a 5.5% investment yield adjustment.

Life RBC Formula

Not Significant	Added a line to LR009 to specifically address line 44 of the Asset Valuation Reserve (AVR) Equity Component and a factor of 0.0068 applied.
Not Significant	Updated LR008 to include the 45% RBC base factor for all residual tranches or Interests with effect from year-end 2024 and updated LR039 with the sensitivity test factor of zero.
Not Significant	Updated the factor changes for the Receivables for Securities (Line 5, Page LR012 & Line 14 LR010) to 0.016.
Not Significant	Updated LR008 and LR009 to allow collateral loans backed by mortgage loans to be assesses RBC charge utilizing LR009 BA mortgages look-through approach.
Not Significant	Added a line to LR033, Calculation of Total Adjusted Capital, to address the treatment of non-admitted insurance affiliates.
Not Significant	Updated the underwriting risk factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on page LR020 to include a 5.5% investment yield adjustment.

P/C RBC Formula

Not Significant	Removed pet insurance from the inland marine line of business and added a separate new line for pet insurance in PR035 to provide consistent treatment in the P/C RBC formulas.
Not Significant	Changed all the company record data to vendor link data for all RBC Schedule P short-tailed exhibits and removed PR301 through PR306.
Not Significant	Updated the Line 1 industry average development factors and industry average loss & loss adjustment expense ratio in PR017 and PR018 respectively.
Not Significant	Updated the Line 4 industry loss & expense RBC factors and industry loss & loss adjustment expense ratio in PR017 and PR018 respectively.
Not Significant	Updated the Line 8 adjustment for investment income and Line 7 adjustment for investment income in PR017 and PR018 respectively.
Not Significant	Added a series of questions in PR027INTA to collect additional details from insurers on the structure of the catastrophe reinsurance programs on an annual basis.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Not Significant	Added severe convective storm as one of the catastrophe perils for informational purposes only in the Rcat component.
Not Significant	Added the disclosures of climate-conditioned catastrophe exposure for hurricane and wildfire, which reflect adjusted frequency and severity for years 2024 and 2050. This information is intended to be useful for domestic regulators holding conversations with insurance companies who may have a greater degree of risk for these perils.
Not Significant	Removed the “R0 Component” reference from the Column 12 heading in PR003.
Not Significant	Removed the “Common” in the Column 13 heading in PR003 and updated pages PR007, Line 12 and PR031, Line 35 to clarify the line for the Market Value in Excess Affiliated Stocks includes amounts for both preferred and common stocks.
Not Significant	Update the underwriting risk factors for comprehensive medical, Medicare supplement, and dental and vision factors in PR020 instructions and RBC formulas to include a 5.5% investment yield adjustment.
Not Significant	Added “in part” and update the statement value to “Company Record” in PR019, Line 25.
Not Significant	Updated the receivable for securities factors in PR009 and PR011.
Not Significant	Added a line in PR008 to include the total of residual tranches or interests on a stand-alone line with 20% factor.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Eli Snowbarger (OK), Co-Chair, Financial Examiners Handbook (E) Technical Group
John Litweiler (WI), Co-Chair, Financial Examiners Handbook (E) Technical Group

DATE: Feb. 10, 2025

RE: Consideration for Financial Accreditation Standards
2025 *Financial Condition Examiners Handbook*

The *Accreditation Program Manual* (Manual) includes Review Team Guidelines to be used for financial examinations performed using the risk-focused surveillance approach that is found in the NAIC *Financial Condition Examiners Handbook* (Handbook). This memorandum is to update the Financial Regulation Standards and Accreditation (F) Committee (FRSAC) on changes the Financial Examiners Handbook (E) Technical Group has made to the Handbook in 2024.

Modifications are made to the Handbook each year, and a new edition is available annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The Technical Group made several changes to the Handbook in 2024, all of which it considers non-significant; i.e., having no impact on accreditation guidance.

During 2024, the Technical Group made the following changes:

Non-Significant Changes to the Handbook:

- Revisions to Exhibit C Part 2 (IT Work Program) to enhance cybersecurity procedures and further align the exhibit with the National Institute of Standards and Technology (NIST) framework.

- Revisions to Section 1-3 to incorporate best practices to existing guidance regarding the monitoring of run-off insurers.

- Revisions to the Capital and Surplus Repository to encourage examiners to review manual adjustments made to RBC, including those related to modified coinsurance (modco) reinsurance and separate account assets.

- Revisions to enhance guidance surrounding executive compensation in the following areas:
    - An example prospective was added to Exhibit V – Prospective Risk Assessment to demonstrate how an exam team could investigate a company's risk exposure related to its executive compensation practices.

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    - A few potential interview questions were added to Exhibit Y – Examination Interviews to help the examiner gather more information on the company's executive compensation structure.

- Revisions to Section 1-3 and the Investments Repository provide guidance to assist regulators in reviewing affiliated investment management agreements and services.

The Technical Group will continue to notify the FRSAC of any changes to the Handbook and advise if, in our opinion, these changes are "significant" by accreditation expectations.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Carrie Mears (IA), Chair Valuation of Securities (E) Task Force
Charles Therriault, Director, NAIC Securities Valuation Office

CC: Dan Daveline, Director, NAIC Financial Regulatory Services
Marc Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

DATE: February 10, 2025

RE: Report of the Valuation of Securities (E) Task Force

A. Purpose – This report is presented to assist the Financial Regulation Standards and Accreditation (F) Committee to determine if amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* adopted by the Valuation of Securities (E) Task Force in 2024 require corresponding changes in either the Financial Regulation Standards (defined below) or state laws or regulations adopted in conformity with Part A: Laws and Regulations of the Financial Regulation Standards.

B. Financial Regulation Standards – The NAIC Policy Statement on Financial Regulation Standards (SFRS) in the *2025 Accreditation Program Manual* consists of four parts: Part A identifies laws and regulations deemed necessary to financial solvency regulation;[1] Part B identifies regulatory practices and procedures that supplement and support enforcement of the financial solvency laws and regulations discussed in Part A;[2] Part C contains three standards related to an insurance department's organizational and personnel policies; and Part D focuses on Organization, licensing and change of control of domestic insurers. This report is concerned with the financial solvency standards in Part A. Those standards relevant to this report are shown immediately below and can be characterized as NAIC model legislation, codified NAIC guidance (i.e., *the Accounting Practices and Procedures Manual)*: analytical work product of the NAIC staff (including the NAIC Investment Analysis Office) and state laws and regulations that contain substantially the same standards as NAIC model legislation or guidance. A review indicates that the work product of the NAIC Investment Analysis Office is directly or indirectly incorporated into the following Part A standards. For example:

- Standard 5 requires that insurer owned securities be valued in accordance with the standards promulgated by the NAIC Investment Analysis Office;[3]

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- Standard 2, the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)[4] assigns RBC factors for securities based on their credit risk as measured by NAIC Designations;

- Standard 3, the *Accounting Practices and Procedures Manual*[5] uses NAIC Designations produced by the SVO or SSG, or by insurers through the filing exempt process and or Price Grids produced by the SSG to identify valuation rules applicable to an investment and the reserved capital amount the insurer must report;

- Standard 8, pertaining to state investment regulations often incorporate NAIC mechanisms that relate asset allocations to credit risk expressed in the form of NAIC Designations;[6] and

- Standard 10, the *Credit for Reinsurance Model Act* (#785)[7] identifies insurer owned securities compiled by the SVO into a List of Investment Securities published quarterly in the NAIC AVS+ product, and letters of credits issued by the institutions on the NAIC Qualified U.S. Financial Institutions List administered by the SVO, as eligible for use as collateral in reinsurance transactions.

C. Investment Analysis Office Standards Identified in the *Purposes and Procedures Manual* – All SVO and SSG standards related to the assessment of credit risk in insurer owned securities, identification of additional non-payment risk in securities, classification of certain assets as bonds or as bond-like for reporting purposes, the valuation of insurer owned securities, and other activities conducted by the SVO or the SSG in support of state insurance regulatory objectives, are determined and promulgated by the Valuation of Securities (E) Task Force and published in the *Purposes and Procedures Manual*. In 2024, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2024 effective for year-end financial reporting. Amendments to the *Purposes and Procedures Manual* would automatically be reflected in the SFRS if any or all of the SFRS Standards identified in paragraph A of this memorandum have been adopted by an accredited state or incorporated by reference into the laws or regulations of an accredited state. For example, amendments to the *Purposes and Procedures Manual* would be directly incorporated by reference if the laws or regulations of an accredited state refer to or incorporate Standard 5 on valuation. Amendments to the *Purposes and Procedures Manual* would be indirectly incorporated by reference if the law or regulations of a state refers to or incorporates any other Standard that itself uses NAIC Designations or other analytical products of the Investment Analysis Office as a component; for example, Standard 2 in the case of RBC and/or Standard 3 in the case of statutory accounting.

D. Conclusion – In our opinion, reasoning as discussed above, amendments to the *Purposes and Procedures M*anual adopted by the Valuation of Securities (E) Task Force in 2024 can be characterized as maintenance items consistent with the existing regulatory framework and automatically incorporated into the Part A Standards identified above. The amendments identified in Attachments One did not create processes or practices external to the *Purposes and Procedures Manual* or other NAIC model legislation, guidance or analysis of NAIC staff that would suggest the need to consider an amendment to NAIC model legislation or guidance or legislative action on the part of an accredited state.

We hope this is responsive to the issues and concerns before the Committee.

Attachment One

RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL
Published in the December 31, 2024 Publication

- **Adopted an update to the definition of Subsidiary, Controlled and Affiliated (SCA) and Related Party Bond or Preferred Stock Investments** – Within the definition of an SCA and related party bond, reference was made to paragraph 4.a. in Statements of Statutory Accounting Principles (SSAP) No. 43R – Loan-Backed and Structured Securities to define which structured or loan-backed investments would qualify as an SCA or related party bond. Subsequent to the adoption of the P&P Manual Amendment, SSAP No. 43R – Loan Backed and Structured Securities was amended so the paragraph referenced in the P&P Manual is no longer accurate. Additionally, with the implementation of the Principles Based Bond Definition by the Statutory Accounting Principles (E) Working Group the name of SSAP No. 43R will be changing from "Loan-Backed and Structured Securities" to "Asset-Backed Securities" on January 1, 2025. To avoid the need for further P&P Manual updates due to potential future amendments to SSAP No. 43R, the technical amendment (i) removed the paragraph specific reference to SSAP No. 43R and (ii) includes a note that, as of January 1, 2025, the P&P Manual references will be updated without any further action necessary by the Task Force to reflect SSAP No.43R's new name, "SSAP No. 43 - Asset-Backed Securities".

  The Valuation of Securities (E) Task Force adopted this amendment on May 2, 2024

- **Adopted an update to the U.S. Government Agency and Other U.S. Government Obligation Abbreviations** – In conjunction with the implementation of the Principles Based Bond Definition, there were related modifications made to Schedule D, Part 1 of the Annual Statements. The SVO identified abbreviations for various U.S. Government or Other U.S. Government entities that will need to be shortened given space limitations and need to eliminate conflicting abbreviations (e.g. "VA" for both Virgina and U.S. Department for Veterans Affairs) for insurance company statement blanks reporting purposes beginning Jan. 1, 2025. As noted in the changes to the annual statement instructions adopted by the Blanks (E) Working Group on Nov. 17, 2023, for Column 24 - Agency, Sovereign Jurisdiction or State Abbreviation, "For items captured as U.S. government or Other U.S. government, report "US" for U.S. Treasury issued items and for non-treasury items, report the abbreviation for the agency issuer captured within these categories. (Agency abbreviations are detailed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office in the listing of agencies approved for these categories.)". This technical amendment complies with the field size limitations on insurance company statement blanks in advance of the Jan. 1, 2025, implementation of the new statement blanks.

  The Valuation of Securities (E) Task Force adopted this amendment on May 2, 2024

- **Adopted updates to make current the List of SVO Processes in Part Two** – The P&P Manual references several processes by which the SVO identifies information, entities or securities for various lists for publication as part of its Compilation and Publication of the SVO List of Investment Securities responsibilities. This update removes those processes which the SVO no longer undertakes and inserts those processes which the SVO does perform but which are missing. Additionally, the name of a list related to one of the SVO processes, the "List of Counterparties Rated by the SVO," was changed to the "List of Counterparties Designated by the SVO," since the SVO produces Designations which are distinct from rating agency ratings.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted an update to clarify that an NAIC Designation 6* can be self-assigned by insurers** – An NAIC 6* can be self-assigned by an insurer in lieu of reporting the obligation with appropriate documentation in instances in which appropriate documentation does not exist, but the requirements for an insurance company to assign a 5.B GI are not met. An NAIC 6* can also be self-assigned when the security is deemed to possess the credit characteristics of securities assigned an NAIC 6, meaning the obligation is in or near default and payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement. An NAIC 6 obligation should incur the most severe treatment under the NAIC Financial Regulation Standards and Accreditation Program. The non-substantive update improves the clarity of the instructions for the self-assignment of an NAIC Designation of 6*.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted the addition of Spain to the list of jurisdictions eligible for counterparty exposure netting** – The purpose of identifying jurisdictions eligible for close-out netting is to permit the calculation of credit risk exposures to counterparties in Schedule DB, Part D, Section 1. The netting of offsetting liabilities with a counterparty will only be permitted in that Schedule if there exists a master agreement that provides for such netting and if there is adequate legal certainty that closeout netting would be enforced upon default of the counterparty. The P&P Manual provides for the addition of jurisdictions to the list of jurisdictions eligible for close-out netting if, in the SVO's opinion, legal opinions and/or other analysis provides adequate legal certainty that, upon default of the counterparty, closeout netting would be enforced. Upon its review of the Spanish law opinion, the SVO determined that it provides adequate legal certainty that closeout netting would be enforced (assuming, that master agreement provisions are consistent with the parameters explained in the netting opinion). The amendment also included a proviso that the SVO is authorized by the Task Force to assume that each master agreement complies with the parameters delineated in the netting opinion for the relevant jurisdiction.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted an amendment to permit NAIC Designations for short-term asset-backed securities (ABS)** – The Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 2R - Cash, Cash Equivalents, Drafts and Short-Term Investments in the Accounting Practices & Procedures Manual (AP&P) on Dec. 1, 2023. The revisions, which will be effective Jan. 1, 2025, further restrict the investments that are permitted for cash equivalent or short-term investment reporting. Asset-backed securities captured within scope of what will be the revised SSAP No. 43 – Asset Backed Securities, as of Jan. 1, 2025, are expressly excluded from the definition of Cash Equivalents and Short-Term Investments. The amendment permits the assignment of an NAIC Designation to these investments if they are captured within the scope of the revised SSAP No. 43 – Asset Backed Securities and are eligible to be reported on Schedule D, Part 1, Sub-part 2 as an Asset Backed Security.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

- **Adopted an amendment authorizing the procedures for the NAIC's Discretion over NAIC Designations assigned through the Filing Exemption (FE) Process** – At the Summer National Meeting held on Aug. 14, 2023, the Task Force discussed an initial draft of a proposed amendment to the P&P Manual authorizing the procedures for the discretion over NAIC designations assigned through the filing exemption (FE) process. The Task Force directed the SVO staff to consider the feedback from Task Force members and interested parties and update the proposal. At the subsequent Spring National Meeting held on March 16, 2024, the Task Force received additional comments on the updated amendment. The Task Force exposed another version of this amendment, dated June 4, 2024, for a 38-day comment period that ended on July 26, 2024. Additional updates were made based recommendations received from interested parties and the final version dated Jul. 30, 2024, including the following updates:

  - Clarification that the process will be consistently applied to all CRPs.
  - The term "authorized insurers" is defined.
  - Clarification of the SVO's written summary of its analysis during the review phase.
  - Including other authorized parties to discuss the security with the SVO.
  - IAO shall communicate in writing its opinion of the appropriate NAIC Designation Category.
  - The annual summary will be anonymized and will not disclose information on specific securities, CRPs or impacted insurers.
  - The SVO will publish within 45 days of a security being removed from the Filing Exemption process an anonymized summary (without references specific to the security or CRP, to avoid disclosing confidential information).
  - Impact to issuers that have multiple securities within the same debt class.

  The effective date is Jan. 1, 2026, but it can be amended if additional time is needed to implement the necessary technological enhancements.

  The Valuation of Securities (E) Task Force adopted this amendment on Aug. 13, 2024, the Financial Condition (E) Committee adopted this amendment on August 29, 2024, and the NAIC's Plenary adopted this amendment on November 19, 2024

- **Adopted an update to the Definition of an NAIC Designation** – NAIC Designations were explained and defined in both Parts One and Two of P&P Manual. The SVO proposed both consolidating these explanations and definitions in Part One only and clarifying the meaning of an NAIC Designation including their use, purpose and risks addressed. The amendment includes a new paragraph under the heading "Regulatory Objective" to explain why the term "investment risk," meaning the likelihood that an insurer will receive full and timely principal and expected interest, is replacing "credit risk," which traditionally focuses on the ability of an issuer to make payments in accordance with contractual terms. While credit risk is usually the overall fundamental and predominant determinant of what an NAIC Designation represents, focusing on credit risk alone would limit the SVO's ability to appropriately assess certain risks including, but not limited to, the performance component of a principal protected security (PPS) or certain funds which do not pay in accordance with contractual terms. The amendment also more clearly defines the term "investment risk" under the heading "Definitions".

  The Valuation of Securities (E) Task Force adopted this amendment on Aug. 13, 2024

- **Adopted an amendment to remove references to Subscript-S and update references to investment risk** – At the 2024 Summer National Meeting the Task Force adopted an updated definition of an NAIC Designation. The update included the removal of the concept "Other Non-Payment Risk" and the corresponding SVO administrative symbol "Subscript S", and the replacement of the term "credit risk" with the newly defined term "investment risk." This technical amendment removed references to Other Non-payment Risk, "subscript S" and, where appropriate, "credit risk" or "credit quality" with "investment risk" or the corresponding meaning. The amendment does not introduce any new policies or procedures and included the removal of Notching For NAIC Designation Subscript-S in Part Two.

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

- **Adopted an update to the List of NAIC Credit Rating Providers (CRP) and the NAIC Use of CRP Credit Ratings** – The P&P Manual in Part Three lists the credit rating providers (CRP) to the NAIC along with the classes of credit ratings for which they have CRP status. Only those classes of credit ratings for which the CRP is registered by the U.S. Securities and Exchange Commission (SEC) as a nationally recognized statistical ratings organization (NRSRO) are eligible to be used for NAIC CRP purposes. This amendment updates the review date and corrects one editing error. Additionally, the amendment includes clarification that the NAIC only uses credit ratings from those classes of credit rating for which the NAIC Credit Rating Provider is registered with the SEC as an NRSRO and that the SEC's definitions are distinct from those used for statutory accounting asset classification purposes.

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

- **Adopted an update to require Annual Reviews of Regulatory Transactions** – The Regulatory Transactions instructions in the P&P Manual in Part Three do not specifically provide instructions for a periodic review by the Securities Valuation Office (SVO) or Structured Securities Group (SSG). All other assessments of investment risk by the SVO or SSG in the P&P Manual must be updated at least annually and the insurer is required to notify the SVO of any material changes. The amendment updates the instructions for the production of SVO Analytical Values for Regulatory Transactions to require an annual review, require the relevant insurance company to notify to the SVO or SSG of any material changes and to clarify the an insurance company's limited ability to self-assign an SVO Analytical Value with a "Z".

  The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2024

- **Adopted an update to change the Effective Date for the Financial Modeling of CLOs by SSG to 2025** – At the 2024 Spring National Meeting the Structured Securities Group (SSG) requested a change to the effective date for the financial modeling of collateralized loan obligations (CLOs) to assign NAIC Designations and NAIC Designation Categories to year-end 2025 from year-end 2024. The Task Force agreed to this change.

  The Valuation of Securities (E) Task Force adopted this amendment on Jun. 18, 2024

END NOTES

[1] "…The purpose of the Part A: Laws and Regulations standards are to assure that an accredited state has sufficient authority to regulate the solvency of its multi-state domestic insurance industry in an effective manner. … A state may demonstrate compliance with a Part A standard through a law, a regulation, an established practice, which implements the general authority granted to the state or any combination of laws, regulations or practices, which achieves the objective of the standard …" Accreditation Program Manual. "…For those standards included in the Part A … where the term "substantially similar" is included, a state must have a law, regulation, administrative practice or a combination of the above that addresses the significant elements included in the NAIC model laws or regulations. ... Accreditation Interlineations (Substantially Similar)

[2]" …Part B sets out standards required to ensure adequate solvency regulation of multi-state insurers … In addition to a domestic state's examination and analysis activities, other checks and balances exist in the regulatory environment. These include … analyses by NAIC's staff, … and to some extent the evaluation by private rating agencies…" Accreditation Program Manual

[3] The SFRS requires that securities owned by insurance companies be valued in accordance with standards promulgated by the NAIC's Capital Markets and Investment Analysis Office approved by VOS TF while other invested assets should be valued in accordance with procedures promulgated by the Financial Condition (E) Committee. The Investment Analysis Office refers to two independent staff functions: i.e., that of the SVO and that of the NAIC Structured Securities Group (SSG). The SSG was formally established as an NAIC staff function in 2013 and assumes responsibility for the conduct of the year-end financial surveillance of insurer owned residential mortgage backed securities (RMBS) and commercial mortgage backed securities (CMBS), conducted by the SVO since 2009. The SSG is also presumptively the segment of NAIC professional staff that would lead assessment of structured finance products generally.

The financial modeling process administered by the SSG generates intrinsic price values (referred to Price Grids) for legacy RMBS and CMBS and NAIC Designations for non-legacy RMBS and CMBS. These standards are contained in Part Four of the Purposes and Procedures Manual. Price Grids are used by insurers to generate NAIC Designations in accordance with procedures specified in Statement of Statutory Accounting Principles (SSAP) No. 43R *Loan Backed and Structured Securities* of the NAIC Accounting Practices and Procedures Manual. Accordingly, to the extent that the NAIC Accounting Practices and Procedures Manual are incorporated by reference in any standard, Price Grids and NAIC Designations derived by reference to them would also be incorporated.

[4] The SFRS requires the adoption of the *Risk Based Capital (RBC) for Insurers Model Act* (#312) or a substantially similar law or regulation. RBC factors are tied to NAIC designations assigned by the SVO or in certain cases, for example in the case of Mortgage Referenced Securities, by the SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the Purposes and Procedures Manual or NAIC Designations derived by insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R. "*…This standard does not articulate a threshold level for minimum capital and surplus required for insurers to transact business ... Risk-based capital will, however, effectively require minimums when adopted by states*." Accreditation Interlineations - Financial Regulation Standards

[5] The SFRS requires the use of the codified version of the *Accounting Practices and Procedures Manual*. Valuation procedures applicable to long-term invested assets are determined by the nature of the insurer (life or property/casualty) and the NAIC designation assigned to the security by the SVO or SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the Purposes and Procedures Manual or NAIC Designations derived by insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R. " …*To satisfy this standard, … specific adoption of the* NAIC *Annual Statement Blank*, NAIC *Annual Statement Instructions*, and the NAIC *Accounting Practices and Procedures Manual* [is required]…Accreditation Interlineations - Financial Regulation Standards

[6] The SFRS requires a diversified investment portfolio. Although the Investment of Insurers Model Act (Defined Limits or Defined Standards) is not specifically identified, portions of one or the other model acts have been adopted by many of the states and these relate specific asset allocations to NAIC designations provided by the SVO or in some cases by the SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the *Purposes and Procedures Manual* or NAIC Designations derived by insurance companies for RMBS and CMBS from Price grids produced by the SSG pursuant to SSAP No., 43R. " … *This standard … [will require] that statutes, together with related regulations and administrative practices, provide adequate basis … to prevent, or correct, undue concentration of investment by type and issue and unreasonable mismatching of maturities of assets and liabilities. The standard is not interpreted to require an investment statute that automatically leads to a fully diversified portfolio of investments.* Accreditation Interlineations - Financial Regulation Standards

The *NAIC Investment of Insurers Model Act (Defined Limits Version*) (# 280) imposes a 3% limit on the amount an insurer can invest in a single person (the threshold diversification limit) and also imposes a percentage limit on total investments of a defined credit quality, expressed by reference to NAIC Designation categories (the threshold credit quality limit). An additional percentage limit is then assigned to specific asset categories, which may or may not be subject to adjustment with the two threshold requirements. The limits identified in the Model Act are what would guide portfolio allocation decisions. Once made the insurer would shift to monitoring changes in the portfolio and rebalancing the allocations accordingly. Assuming a process for the identification of concentrations caused by indirect exposures, the insurer would aggregate such exposures with similar risks across all activities.

[7] The SFRS requires the adoption of the *Credit for Reinsurance Model Act* (#785), *Credit for Reinsurance Model Regulation* (#786) and *Life and Health Reinsurance Agreement Model Regulation* (#791) or substantially similar laws. The SVO maintains a list of banks that meet defined eligibility criteria to issue letters of credit in support of reinsurance obligations or that are eligible to serve as trustees under various arrangements required by state insurance law.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Director Lori K. Wing-Heier (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee, Commissioner Sharon P. Clark (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee, Director/Insurance Commissioner Andrew R. Stolfi (OR), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Rachel Hemphill (TX), Chair, Life Actuarial (A) Task Force,
Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force
Kevin Dyke (MI), Chair, Health Actuarial (B) Task Force
Ryan Jubber (UT), Vice Chair, Health Actuarial (B) Task Force

DATE: March 25, 2025

RE: Financial Regulation Standards – As of March 2025 *Valuation Manual*

In 2017, the Financial Regulation Standards and Accreditation (F) Committee approved a motion to adopt the *Valuation Manual – Effective January 1, 2020* as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Life Actuarial (A) Task Force and the Health Actuarial (B) Task Force made to the Valuation Manual in 2024. The changes were adopted by the Executive (EX) Committee and Plenary at the 2024 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the Valuation Manual in 2024. The 2024 Valuation Manual amendments could be characterized as clarifications, additional guidance, or requests for additional documentation. In light of the considerations above and on behalf of the Task Forces, it is our opinion that none of these items, either individually or collectively, should be considered "significant" as defined by the financial solvency accreditation standards.

As outlined in the Valuation Manual, amendments will be adopted annually by the Executive (EX) Committee and Plenary at each NAIC Summer Meeting. As such, the Valuation Manual will be reposted with an effective date of January 1 of the year following Executive Committee and Plenary adoption. For example, the current Valuation Manual, which encompasses the attached modifications, is titled the *2025 Edition - Valuation Manual*. This process allows for an efficient way to update the Valuation Manual and ensures that users have the latest version.

The Task Force sincerely requests that the Committee consider the items listed in Attachment A as "insignificant" changes to the Valuation Manual. We will continue to notify the Committee of any changes to the Valuation Manual and to advise if, in our opinion, those changes are "significant" by financial solvency accreditation standards.

Life VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-08	VM- 20 Section 7.D.7, VM-30 Section 3.B.5	Clarifies the allocation of negative interest maintenance reserves (IMR) for VM-20 and VM-30 and that non-admitted IMR is excluded from the allocation.	8/31/2023
2023-09	VM-20 Section 9.C.2.h	This amendment requires companies to apply historical mortality improvement rates, which may be negative.	10/5/2023
2023-11	VM-20 Section 8.C.17 and VM-21 Section 1.C.3	This amendment proposes removal of references to risk-based capital (RBC) in VM-20 and VM-21 that are inconsistent with the purpose, scope, and intended use of RBC to be consistent with improvements made in related sections of the VM-22 draft.	1/25/2024
2023-12	VM-01 and VM-30 Section 3.B	This amendment clarifies expectations on the reflection of equity return volatility in VM-30 cash-flow testing.	2/29/2024
2024-01	VM-01 "Qualified Actuary"	Model 820 specifically calls out a qualified actuary as a person “who meets the requirements specified in the valuation manual.” This amendment adds the requirement that "A qualified actuary must meet the specific qualification standard for providing a NAIC Annual Statement Opinion".	4/25/2024
2024-02	VM-G Governance in PBR Actuarial Report, VM-31 Section 3.C.7 and Sections 3.C.8 - 3.C.11, VM-31 Section 3.B.6	This amendment clarifies that documentation on VM-G applies to all products subject to principle-based reserves (PBR). Currently VM-G documentation is only required in the Life PBR Actuarial Report.	2/29/2024
2024-04	VM-20 Section 9.D.5	This amendment updates the industry lapse experience table used for minimally funded universal life with secondary guarantee (ULSG) policies to the term-to-100 lapse experience table published by the Canadian Institute of Actuaries in December 2021.	4/25/2024
2024-06	VM-22 Section 3.C.3	This amendment permits companies to elect to consistently determine statutory maximum valuation interest rates for non-jumbo contracts as if they were jumbo contracts, with prior approval of the domiciliary commissioner.	6/6/2024
2024-05	Valuation Manual II, Subsection 3: Deposit-Type Contracts	This amendment allows companies to consistently determine statutory maximum valuation interest rates monthly rather than annually for certain simple deposit-type contracts with prior approval of the domiciliary commissioner.	6/6/2024
2024-09	VM-21 Section 3.A and VM-21 Section 4.B.1	This amendment corrects the order of operations for the pre-tax IMR application in VM-21.	6/6/2024
2023-13	VM-M Sections 1 and 2, VM-31 Section 3.D.3, VM-20 Sections 3.C.1.h, 9.C.3.b and 9.C.3.g	This amendment requires the use of non-U.S. mortality tables for blocks of business issued in foreign countries covering insureds who are not residents of the U.S. These tables must be approved by LATF before being used for reserve purposes. This amendment also adds several annuity tables to VM-M.	6/13/2024
2024-07	VM-21 Section 6.C.2, VM-21 Section 6.C.6, VM-21 Section 6.C.9, VM-21 Section 11.B.3	This amendment makes updates to VM-21 standard projection amount maintenance expense, full surrender, and mortality assumptions.	6/13/2024
2024-08	VM-21 Section 4.B.3	This amendment clarifies the calculation of the Net Asset Earned Rate (NAER) on additional assets, providing additional detail on how the initial additional asset portfolio is constructed and how it is reinvested.	6/13/2024

Attachment A

Health VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	HATF Adoption Date
2024-10	VM-26, Section 3.B	Updates the margins for credit disability insurance reserves based on the Society of Actuaries' "2023 Credit Disability Study Report"	5/13/24

The individual amendment proposals reside on the Industry tab on the NAIC website and are accessible by following the link below: **Plenary Adopted Amendments for the 2025 VM**.

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Director Lori Wing-Heier (AK), Chair, Financial Regulation Standards and Accreditation (F) Committee

FROM: Amy Malm, Chair, Risk-Focused Surveillance (E) Working Group

DATE: February 26, 2025

RE: Response to Referral on Use of Contractors for Analysis and Examinations

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The Financial Regulation Standards and Accreditation (F) Committee (Committee) sent a referral to the Risk-Focused Surveillance Working Group (Working Group) on July 26, 2024, related to standards and expectations for state insurance departments in using contractors to conduct financial analysis and examination projects. The referral asked the Working Group to consider several questions related to supervisory expectations and timelines in this area.

The Working Group held multiple calls to discuss the issues raised in the referral, before developing proposed revisions to the Accreditation Review Team Guidelines, Financial Analysis Handbook, and Financial Condition Examiners Handbook to outline additional regulatory guidelines and expectations in this area. The proposed revisions were subject to a 45-day public comment period, during which comment letters were received from a joint group of interested parties and the Georgia Office of the Insurance Commissioner.

Many of the comments received were incorporated into an updated draft of the guidance, which was discussed at the Working Group's Feb. 26 virtual meeting. During the meeting, the Working Group agreed to some additional edits before finalizing the guidance for referral back to the Committee and the relevant handbook groups. The proposed edits to the Accreditation Review Team Guidelines are provided in **Attachment One** of this memorandum for Committee consideration.

If there are any questions regarding the proposed edits, please contact me or NAIC staff (Bruce Jenson at *bjenson@naic.org*) for clarification.

Attachment One

NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

REVIEW TEAM GUIDELINES

Part B1: Financial Analysis

a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review the financial condition of all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified analysts (including department reviewers) or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform analysis tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
   - The quality of the work performed by the financial analysis staff as documented in the financial analysis files.
   - The financial analysis staff's knowledge and comprehension of the insurance industry and its domestic insurers, as demonstrated during interviews with the staff.

2. The analysis of various financial filings should be completed timely, as discussed in the process-oriented guidelines. If the analysis tasks and procedures were not completed timely, consideration should be given to the size and complexity of the department's multistate insurers and the insurance holding company systems for which the department acts as the lead state. If the analysis tasks and procedures were not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The financial analysts and supervisors, including contractors (if applicable), as well as those reviewing contract supervisor work, should have an accounting, insurance, financial analysis and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees should focus on accounting, insurance, finance, business or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.

2. The analysis of priority insurers should be completed by the analyst and reviewed by the supervisor (including department review of contract supervisor work) by:
   - Annual statements and actuarial-related filings: End of April.
   - Quarterly statements: Within 60 days from receipt of filing.
   - Supplemental filings (excluding holding company filings): Within 60 days from receipt of filing.
   - Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

3. The analysis of non-priority insurers should be completed by the analyst and reviewed by the supervisor (including department review of contract supervisor work) by:
   - Annual statements and actuarial-related filings: End of June or if a preliminary analysis, as outlined in the NAIC *Financial Analysis Handbook* (Analysis Handbook), indicates no immediate concerns, then by the end of July.
     — Preliminary analysis performed and relied upon for analysis completion dates should be completed within two weeks from receipt of filing.
   - Quarterly statements: Within 90 days from receipt of filing.
   - Supplemental filings (excluding holding company filings): Within 120 days from receipt of filing.
   - Holding company filings: by Oct. 31st for analysis conducted by the lead state; by Dec. 31st for analysis conducted by the domestic state.

c. Appropriate Supervisory Review

Standard: The department's financial analysis process should provide for appropriate supervisory review and comment. Supervisory review may be conducted by the analyst's supervisor or a senior-level analyst whose job functions include such review duties.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the analyst's findings. An in-depth and challenging review should ensure the financial analyses performed are thorough and substantive. When assessing whether the supervisory review is in-depth and challenging, consideration should be given to the following:
   - Substantive review notes provided by the supervisor. Although supervisory review notes may assist the accreditation review team in assessing the supervisory review, they are not required to be created or maintained.
   - The overall quality of the analysis work as documented in the analysis file, including whether all material matters have been identified and adequately discussed.
   - Why issues with the quality of the analysis were not identified and resolved by the supervisor.

2. If a department elects to utilize a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This review should result in the department employee understanding and assessing the overall quality of the analysis work performed.

Process-Oriented Guidelines:

1. There should be evidence of at least one level of supervisory review on the financial analysis. This does not include scenarios when the company "passed" an automated review, such as the Quarterly Assessment of Non-Troubled Insurers. The supervisory review should be evidenced by sign-off and dating.

2. If the department uses an automated review such as the Quarterly Assessment of Non-Troubled Insurers, and the company did not "pass" the automated review but the analyst documented the rationale that no further documented analysis was necessary, a supervisor should approve the conclusion.

3. The supervisory review should include a review of the risk assessment and significant supporting documentation, and include at least some review of the source documents, the level of which should be based on the experience of the analyst.

4. The supervisory review should be performed within two to three weeks of completion of the original analysis.

5. The supervisory review should include a review of any written responses from the company received by the primary analyst that contain significant information.

6. The supervisory review should include a review of any change in an insurer's priority rating.

7. If the department utilizes a contractor to perform the primary supervisory review of financial analysis, an additional level of review is required on the IPS and/or Group Profile Summary (GPS) by a qualified department employee. This department review should be completed within three weeks of the primary supervisory review, or prior to the overall analysis timeliness deadlines (whichever is sooner).

Part B2: Financial Examinations

a. Sufficient Qualified Staff and Resources

Standard: The department should have the resources to effectively examine all domestic insurers on a periodic basis in a manner commensurate with the financial strength and position of each insurer.

Results-Oriented Guidelines:

1. The department should have qualified examiners (including department designees) or contractual resources with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform examination tasks and procedures. Such experience should match the sophistication and complexity of the domestic industry. When assessing whether a department has qualified staff and resources, consideration should be given to the following:
   - The quality of the work performed by the financial examination staff and/or contractors as documented in the financial examination files.
   - The financial examination staff's and/or contractor's knowledge and comprehension of the insurance industry and the company under examination, as demonstrated during interviews with the staff.

2. The department should have sufficient examination staff and/or contractual resources to appropriately perform necessary target and limited scope examinations.

Process-Oriented Guidelines:

1. The financial examiners and supervisors (including department designees) should have an accounting, insurance, financial analysis, financial examination, information technology (IT) and/or actuarial background, and insurance backgrounds should be financial in nature. College degrees

should focus on accounting, insurance, finance or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial examinations.

2. The department should perform a full-scope examination on each domestic company in accordance with the respective state law or at least once every five years, whichever is less.

d. Appropriate Supervisory Review

Standard: The department's procedures for examinations should provide for supervisory review of examination workpapers and reports to ensure that the examination procedures and findings are appropriate and complete and that the examination was conducted in an efficient and timely manner.

Results-Oriented Guidelines:

1. The supervisory review should be an in-depth and challenging review of the examiner's findings and the concepts applied in performing the work. When assessing compliance with this guideline, consideration should be given to the following:
   - Depth and challenging nature of supervisory review notes, although maintenance of review notes is not required.
   - The overall quality of the work performed, including whether the examination procedures appear to be complete and appropriate and no material matter remains unaddressed.
   - Discussions with department staff that verify occurrence and sufficiency of supervisory review, including, but not limited to, the EICs.
   - Why issues with the quality of the examination were not identified and resolved by the supervisor.

2. If a department elects to use contractors to complete the supervisory review of the examination, the department should demonstrate involvement of appropriate department personnel (i.e., department designees) during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures. This should result in the department designee providing effective contractor oversight (e.g., status updates, budget oversight), as well as understanding and assessing the overall quality of the work performed.

Process-Oriented Guidelines:

1. All workpapers, including work performed by the EIC, should receive at least one level of supervisory review evidenced by sign off and dating by the reviewer.

2. The work of specialists should be reviewed by the EIC for familiarity and understanding.

3. The supervisory review (including department designee review) of planning (Phase 1 and Phase 2), including the Examination Planning Memorandum and risk matrices, should be done before work has begun in Phase 3. The review of planning should include each of the following:
   - Identification of key activities.
   - Identification and assessment of inherent risks.

4. The supervisory review (including department designee review) of Phase 3, Phase 4 and the first part of Phase 5 should be documented by a review of the risk matrices and any associated coaching notes or correspondence before any applicable substantive test work has begun. The review of Phase 3, Phase 4 and the beginning of Phase 5 should include each of the following:

- Identification and evaluation of risk mitigation strategies/controls.
- Determination of residual risk.
- Established detail examination procedures.

5. The primary supervisory review of workpapers should occur within a reasonable period after completion of the item being examined (generally two to four weeks).

6. Upon the conclusion of examination fieldwork, the Chief Examiner or designee should complete the general review outlined in the Review and Approval Summary exhibit of the Examiners Handbook (or substantially similar document) to ensure an appropriate depth of review has been performed.

~~6.~~7. The examination report should be reviewed by at least one person other than the preparer.

~~7.~~8. The examination report should be approved by the commissioner or the commissioner's designee prior to final issuance.

e. General Examination Procedures

Standard: The department's policies and procedures for the conduct of examinations should generally follow those set forth in the Examiners Handbook. Appropriate variations in methods and scope should be commensurate with the financial strength and position of the insurer.

Results-Oriented Guidelines:

1. The examiner should utilize a risk-focused approach and prepare examination documentation in sufficient detail to provide a clear understanding of the work performed. The content and organization of the documentation should support conclusions reached and effective execution of the risk-focused approach. When assessing compliance with this guideline, consideration should be given to the following:
   - Utilization of a risk-focused approach in establishing priority of accounts or operational areas.
   - The clarity and accuracy of the documentation used to support examination conclusions.
   - Extent of involvement with contract examiners if utilized.
   - Utilization of audit work when relied upon to support an identified risk.
   - Fulfillment of coordination efforts as determined by the state in Exhibit Z – Examination Coordination, and consistent with their role as described in the Examiners Handbook, for companies that are part of a holding company group with insurers domiciled in multiple states.

Process-Oriented Guidelines:

1. The examiner should prepare a Risk Assessment Matrix, or substantially similar document, that addresses each of the seven phases.

2. The examiner should prepare a planning memo that includes a discussion of each of the following:
   - Scope and objective of the examination.
   - Materiality assessment.
   - Results of the analytical review.
   - Results of the IT review.
   - Corporate governance assessment.
   - Results of the audit function assessment (internal and external), including review of external auditors' workpapers and reports.

- Summary of the key activities selected.
- Scope of the prospective risk assessment procedures to be performed.
- Intended reliance on work completed by auditors and accredited states (if applicable).
- Exam staffing and time budgets.

3. If the company being examined is part of a holding company group with insurers domiciled in multiple states, the state should complete the appropriate section of Exhibit Z, Part Two (or similar document) as follows:
   - If the state is the exam facilitator conducting a fully coordinated group examination, Exhibit Z, Part Two, Section B (or similar document) should be completed.
   - If the state is a participating state in a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section C (or similar document).
   - If the state did not participate in a coordinated group examination or utilized existing work outside of a fully coordinated group examination, the state should complete Exhibit Z, Part Two, Section D (or similar document).

4. The data supplied by the company or an outside source and utilized (relied upon) by the examiners should be tested for both accuracy and completeness in accordance with the respective residual risk assessment.

5. The sampling techniques used should conform to guidance set forth in the Examiners Handbook or other appropriate authoritative guidance.

6. If a department elects to utilize contract examiners, the department should demonstrate involvement of appropriate department personnel during the course of the examination in accordance with the Examiners Handbook and the department's policies and procedures.

7. The department should utilize qualified EICs and department designees. The Examiners Handbook provides guidance on the authority, responsibilities and credentials for ~~a~~ qualified EICs and department designees. If the department utilizes an EIC who does not hold the CFE designation or is not directly supervised by someone holding the CFE designation, the department should document in the Financial Exam Electronic Tracking System (FEETS) when calling the exam how this individual is qualified to act in the capacity of an EIC on a multi-state insurer examination. Factors that may be considered include other professional designations, prior insurance experience, familiarity with the NAIC risk-focused surveillance process, etc.

