



Date: 3/16/22

*2022 Spring National Meeting
Kansas City, Missouri*

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Tuesday, April 5, 2022

4:15 – 5:00 p.m.

Grand Ballroom 2501 AB—Convention Center—Level 2

ROLL CALL

Lori K. Wing-Heier, Chair	Alaska	Mike Causey	North Carolina
Vicki Schmidt, Co-Vice Chair	Kansas	Andrew R. Stolfi	Oregon
Sharon P. Clark, Co-Vice Chair	Kentucky	Elizabeth Kelleher Dwyer	Rhode Island
Alan McClain	Arkansas	Raymond G. Farmer	South Carolina
Andrew N. Mais	Connecticut	Larry D. Deiter	South Dakota
Eric. A. Cioppa	Maine	Scott A. White	Virginia
Gary D. Anderson	Massachusetts	Jeff Rude	Wyoming
Eric Dunning	Nebraska		

NAIC Support Staff: Becky Meyer/Sara Franson/Dan Schelp

AGENDA

1. Consider Adoption of its 2021 Summer National Meeting Minutes Attachment One
—*Director Lori K. Wing-Heier (AK)*
2. Discuss Revisions Adopted in 2021 to NAIC Publications Referenced in the Accreditation Standards—*Director Lori K. Wing-Heier (AK)* Attachment Two
3. Consider Referral from the Receivership and Insolvency (E) Task Force Regarding Receivership Updates to Holding Company Models Attachment Three
—*Director Lori K. Wing-Heier (AK)*
4. Consider a Recommendation from the Financial Condition (E) Committee Regarding Variable Annuity Captives—*Director Lori K. Wing-Heier (AK)* Attachment Four
5. Discuss Any Other Matters Brought Before the Task Force
—*Director Lori K. Wing-Heier (AK)*
6. Adjournment

SharePoint/FRS - Accreditation - National Meeting/Spring/Open

Draft Pending Adoption

Date: 8/18/21

Financial Regulation Standards and Accreditation (F) Committee
Columbus, Ohio
August 14, 2021

The Financial Regulation Standards and Accreditation (F) Committee met Aug. 14, 2021. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Lori K. Wing-Heier, Vice Chair (AK); Alan McClain (AR); Andrew N. Mais (CT); Colin M. Hayashida (HI); Sharon P. Clark (KY); Gary D. Anderson (MA); Eric A Cioppa (ME); Troy Downing (MT); Mike Causey represented by Jackie Obusek (NC); Eric Dunning (NE); Larry D. Deiter (SD); Doug Slape (TX); Scott A. White (VA); and Jeff Rude (WY). Also participating was: Justin Schrader (NE).

1. Adopted its Spring National Meeting Minutes

Director Wing-Heier made a motion, seconded by Commissioner Mais, to adopt the Committee's April 12 minutes (*see NAIC Proceedings – Spring 2021, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Superintendent Dwyer said the Committee met Aug. 13 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 Arkansas, District of Columbia, Indiana, Michigan, and New Jersey.

2. Adopted its 2022 Proposed Charges

Superintendent Dwyer discussed a memorandum that includes the Committee's 2022 proposed charges, noting the proposed charges are unchanged from the Committee's 2021 charges.

Commissioner Clark made a motion, seconded by Superintendent Cioppa, to adopt the Committee's 2022 proposed charges (Attachment One). The motion passed unanimously.

3. Adopted Revisions to the Part A Preamble to Account for Inclusion of Model #787 as a New Accreditation Standard

Superintendent Dwyer stated that at the 2019 Fall National Meeting, the Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787), more commonly referred to as the XXX/AXXX Model Regulation, as a new accreditation standard, and the decision was confirmed by Plenary at the 2020 Summer National Meeting. Model #787 establishes uniform standards governing reserve financing arrangements pertaining to term life and universal life insurance policies with secondary guarantees. Model development was prompted by concerns regarding the security held under these transactions and an interim solution, outlined by the XXX/AXXX Captive Reinsurance Framework, was included in the accreditation program through the Part A Preamble. With the adoption of Model #787, an update to the Part A Preamble to reference codification of the framework in the form of Model #787 was therefore exposed at the 2021 Spring National Meeting. There were no comment letters received during the exposure period.

In addition, the Preamble includes references to variable annuity and long-term care (LTC) captives, which both have to-be-determined effective dates. Previously, the Committee asked the Financial Condition (E) Committee to conduct some research into the extent these captives are now used. This information will help the Committee determine how to proceed regarding effective dates. That work is ongoing, and an update is expected at the Fall National Meeting.

Commissioner White made a motion, seconded by Commissioner McClain to adopt the revisions to the Part A Preamble to reference Model #787 (Attachment Two). The motion passed unanimously.

4. Exposed 2020 Revisions to Model #440 and Model #450 as an Update to the Accreditation Standards

Superintendent Dwyer stated that in December 2020, the NAIC adopted revisions to the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation* (#450). These revisions implement a group capital calculation (GCC) for the purpose of group solvency supervision and a liquidity stress test (LST) for macroprudential surveillance. A referral was exposed for a 30-day comment period, which ended May 13 (Attachment Three). The exposure recommended that the accreditation standard be applicable to all states with an effective date of Jan. 1, 2026.

Draft Pending Adoption

Superintendent Dwyer said there were five comment letters received during the exposure period from Louisiana, Mississippi, North Carolina, South Dakota, and Texas (Attachment Four). All five comment letters address the significant elements related to the exemptions to the GCC. Specifically, they recommend that commissioners should be allowed to grant exemptions to companies meeting the standards set forth in the regulation without requiring the GCC filing at least once. In addition, one comment letter recommends the LST requirements should only be applicable to states with a group subject to the LST. The Committee will consider whether to expose the revisions to the accreditation standards consistent with the initial referral or modify the significant elements for exposure to allow exemptions for qualifying groups meeting the standard set forth in Model #450, Section 21A and Section 21B without the requirement to file at least once.

Director Deiter stated he supports modifying the exposure to allow exemptions for qualifying groups meeting the standard set forth in Model #450, Section 21A and Section 21B without the requirement to file at least once. He said that the modifications satisfy the South Dakota Division of Insurance's concerns noted in its letter and that South Dakota supports the revisions as an accreditation standard.

Chief Deputy Commissioner Slape stated that Texas is supportive of the GCC and LST, but it is not supportive of the modifications to the accreditation requirement because the modifications do not fully address the concerns laid out in the comment letter from Texas. He said a "no" vote from Texas is not a signal of not supporting the models, but is a no to the proposed accreditation standard.

Mr. Schrader stated that Nebraska is supportive of the proposed modification. He noted that the Financial Condition (E) Committee and the Group Capital Calculation (E) Working Group discussed this referral at great length and that this is an unusual situation where the Committee and accreditation is straying from the Financial Condition (E) Committee's recommendation in its referral. He asked for confirmation that the modification to the accreditation requirement would still give the states the authority to be stricter and does not preclude the commissioner from asking for a GCC in a situation that warrants it on a specific basis, even if that threshold was not met once this becomes an accreditation standard. He also asked that the Committee provide language so that states that do adopt the referral as modified have something to give their legislature to ensure consistency among states.

Dan Schelp (NAIC) stated that accreditation standards are minimum standards for solvency requirements and that states can be more conservative in their requirements. He also stated that the NAIC legislative counsel will provide information to the states regarding these changes and what options are available.

Ms. Obusek stated that North Carolina is in favor of the exposure as modified.

Director Deiter made a motion, seconded by Commissioner Rude, to expose the Financial Condition (E) Committee referral (Attachment Three), as modified (Attachment Five), for the Insurance Holding Company Systems accreditation standard to include the 2020 revisions to Model #440 and Model #450 related to CGC and LST for a one-year public comment period beginning Jan. 1, 2022. The proposed effective date is Jan. 1, 2026. The proposed standards for the GCC are modified from the original referral to allow exemptions to qualifying groups meeting the standards set forth in Model #450 Section 21A and Section 21B without the requirement to file at least once. This will be done by adding a question that states: "Although not required for accreditation, in order to grant an exemption, is the filing required at least once." The motion passed. Alaska, Arkansas, Connecticut, Hawaii, Kentucky, Maine, Massachusetts, Montana, Nebraska, North Carolina, South Dakota, Virginia, and Wyoming voted in favor. Texas voted against.

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

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MEMORANDUM

TO: Director Lori K. Wing-Heier, (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Vicki Schmidt, (KS), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Sharon P. Clark, (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

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

DATE: February 28, 2022

RE: Financial Regulation Standards – As of March 2022 *Accounting Practices and Procedures Manual*

In 2001, the Financial Regulation Standards and Accreditation (F) Committee approved a motion to adopt 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 2021 up to the 2022 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 2021. 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 2022*. 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 Becky Meyer, Sara Franson, Sherry Shull, Robin Marcotte, Julie Gann, Jim Pinegar, Jake Stultz and Jason Farr

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2022/2021 SAPWG to Accreditation Memo.doc](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat%20Acctg_Statutory_Referrals/2022/2021%20SAPWG%20to%20Accreditation%20Memo.doc)

Summary of Changes to the *As of March 2021 Accounting Practices and Procedures Manual* included in the *As of March 2022 Manual*

The following summarizes changes made to the *As of March 2021 Accounting Practices and Procedures Manual* (Manual) and tracked in the *As of March 2022* version.

Section 1 summarizes substantive¹ revisions to statutory accounting principles. Substantive revisions introduce original or modified accounting principles and can be reflected in an existing or new SSAP. When substantive revisions are made to an existing SSAP, the effective date is identified in the Status section, and the revised text within is depicted by underlines (new language) and strikethroughs (removed language). This tracking will not be shown in subsequent manuals. New and substantively revised SSAPs are commonly accompanied by a corresponding issue paper that reflects the revisions for historical purposes. If language in an existing SSAP is superseded, that language is shaded and the new or substantively revised SSAP is referenced. Completely superseded SSAPs and nullified interpretations are included in Appendix H.

Section 2 summarizes the nonsubstantive¹ revisions to statutory accounting principles. Nonsubstantive revisions are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Nonsubstantive revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be tracked in subsequent manuals. Nonsubstantive revisions are effective when adopted unless a specific effective date is noted.

Section 3 summarizes revisions to the Manual appendices.

1. Substantive Revisions – Statutory Accounting Principles		
Section	Reference	Description
<i>There were no substantive revisions to statutory accounting principles.</i>		
2. Nonsubstantive Revisions – Statutory Accounting Principles		
Section	Reference	Description
Preamble	2021-12EP	Revisions incorporate paragraph numbers in the statutory hierarchy section.
Preamble Q&A	2020-40	Revisions clarify that while any state in which a company is licensed can require supplementary financial information, the prescribed practices directed by the domiciliary state shall be reflected in the financial statements filed with the NAIC and are the ones subject to independent audit.

¹ Pending Content Alert – Effective January 1, 2022, references to “substantive” and “nonsubstantive,” which have historically been used to describe statutory accounting revisions, have been updated in the NAIC Policy Statement on Maintenance of Statutory Accounting Principles in Appendix F. Accordingly, where applicable, the concept/term, 1) “substantive” revision is being replaced with the phraseology “new SAP concept” and, 2) “nonsubstantive” revision is being replaced with the phraseology “SAP clarification” on a prospective basis. At the time of publication of the *As of March 2022 Accounting Practices and Procedures Manual*, conforming editorial revisions which impact the Preamble, Summary of Changes, How to Use this Manual, and NAIC Policy Statement on Statutory Accounting Principles Maintenance Agenda Process were exposed for public comment. When the exposed revisions are adopted, they will be made available as updates to the 2022 AP&P Manual.

SSAP No. 5R	2020-41	Revisions reject <i>ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity</i> for statutory accounting.
SSAP No. 16R	2021-19EP	Revisions correct cross paragraph references in paragraphs 11.b. and 12.b.
SSAP No. 21R	2021-12EP	Revisions improve the readability of paragraph 9 on receivables for securities.
SSAP No. 25	2019-34	Revisions clarify: 1) identification of related parties; 2) a non-controlling ownership over 10% results in a related party classification regardless of any disclaimer of control or affiliation; 3) a disclaimer of control or affiliation does not eliminate the classification as a “related party” and the disclosure of material transactions. Additionally, revisions reject several U.S. GAAP variable interest entities standards.
SSAP No. 26R	2020-22	Revisions clarify that perpetual bonds are within scope of <i>SSAP No. 26R—Bonds</i> . Those with an effective call option shall be amortized under the yield-to-worst concept, and those that do not shall be reported at fair value.
	2020-32	Revisions expand current called bond disclosures to include bonds terminated through a tender offer.
	2021-02	Revisions reject <i>ASU 2020-08, Premium Amortization on Callable Debt Securities</i> for statutory accounting.
SSAP No. 32R	2020-33	Revisions capture publicly traded preferred stock warrants in scope of <i>SSAP No. 32R—Preferred Stock</i> and require the warrants to be reported at fair value.
	2021-10	Revisions clarify that the “effective call price” valuation limitation shall only apply if the call is currently exercisable by the issuer or if the issuer has announced that the instrument will be redeemed/called.
	2021-17	Revisions remove lingering reference to “historical cost” and other minor updates to ensure consistency with prior modifications.
SSAP No. 43R	2020-34	Revisions incorporate minor scope modifications to reflect recent changes to the Freddie Mac Structured Agency Credit Risk (STACR) and Fannie Mae Connecticut Avenue Securities (CAS) programs and allow these credit risk transfer securities to remain in scope of <i>SSAP No. 43R—Loan-Backed and Structured Securities</i> .
	2021-11	Revisions identify that SVO-Identified Credit Tenant Loans are in scope of <i>SSAP No. 43R</i> and also remove examples from paragraph 27.b.
	2021-15	Revisions clarify that residual tranches or interests shall be reported on Schedule BA – Other Long-Term Investments and valued at the lower of amortized cost or fair value.
	2021-19EP	Revisions remove outdated references to guidance which was previously deleted in October 2017 (agenda item 2017-22).
SSAP No. 47	2021-08	Revisions reject <i>ASU 2021-02, Franchisors Revenue from Contracts with Customers (Subtopics 952-606)</i> for statutory accounting.
SSAP No. 48	2021-04	Revisions clarify that the equity method can result in a negative equity valuation regardless of if the investment is supported by an audit.
SSAP No. 53	2021-06EP	Editorial consistency revision to the statement title.

SSAP No. 55	2021-13	Revisions clarify that subrogation recoveries should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves, depending on the nature of the costs being recovered and updates the related disclosures.
SSAP No. 71	2019-24	Revisions clarify the guidance regarding levelized commissions with a December 31, 2021, effective date. The revisions affirm the long-standing guidance that acquisition costs, including commissions, shall be expensed when incurred. The revisions also clarify that acquisition costs shall be recognized consistently across insurers, regardless of third-party arrangements, and the obligating event is the writing of an insurance policy.
SSAP No. 72	2020-41	Revisions reject ASU 2020-06 for statutory accounting.
SSAP No. 86	2020-33	Revisions capture publicly traded preferred stock warrants in scope of SSAP No. 32R and require the warrants to be reported at fair value.
	2020-41	Revisions reject ASU 2020-06 for statutory accounting.
SSAP No. 97	2021-06EP	Corrects grammatical errors in paragraph 54 of <i>SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities</i> .
	2021-04	Revisions direct that when applying the “limited statutory accounting adjustments” (SSAP No. 97, paragraph 9) to foreign insurance SCAs (SSAP No. 97, paragraph 8.b.iv. entities), the equity value shall stop at zero in cases where the foreign insurance subsidiary is not providing services to, or holding assets on behalf of, U.S. insurers.
SSAP No. 103R	2021-03	Revisions incorporate additional disclosure and a data-capture template. The disclosures are for situations where an entity has transferred assets, but economic interest is retained by the reporting entity, its related parties or another member within the holding company group.
SSAP Glossary	2021-06EP	Editorial revision removes the footnote reference in the Glossary title and replace it with an updated opening paragraph.
3. Revisions to the Appendices		
Section	Reference	Description
Appendix A	2021-12EP	Revisions update designation codes for preferred stock as noted in section 2 of <i>Appendix A-001: Investments of Reporting Entities</i> .
Appendix B	2021-01	Revisions to <i>INT 20-01: ASUs 2020-04 & 2021-01 – Reference Rate Reform</i> provide temporary (optional) expedient and exception interpretative guidance, with an expiration date of December 31, 2022. This exception will allow for continuation of the existing hedge relationship and thus not require hedge dedesignation.
	2021-05	<i>INT 21-01: Accounting for Cryptocurrencies</i> clarifies that directly held cryptocurrencies do not meet the definition of cash in <i>SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments</i> nor the definition of an admitted asset per <i>SSAP No. 4—Assets and Nonadmitted Assets</i> .

Appendix C	AG-25	Revisions to <i>Actuarial Guideline XXV—Calculation of Minimum Reserves and Minimum Nonforfeiture Values for Policies with Guaranteed Increasing Death Benefits Based on an Index</i> align the guideline with the VM-02, Minimum Nonforfeiture Mortality and Interest, changes to the 2021 <i>Valuation Manual</i> .
	2021-12EP	Updates references in Appendix C and Appendix C-2 to the former Emerging Actuarial Issues (E) Working Group and adds reference to the Valuation Analysis (E) Working Group’s use of included interpretations.
Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2020-42	<i>ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities</i>
	2021-07	<i>ASU 2020-11, Financial Services – Insurance Effective Date</i>
Appendix E	2019-24	<i>Issue Paper No. 165—Levelized Commission</i> documents the historical discussion regarding nonsubstantive revisions to <i>SSAP No. 71—Policy Acquisition Costs and Commissions</i> .
Appendix F	2020-39	Revisions clarify the issuance and adoption of accounting interpretations in the <i>NAIC Policy Statement on Maintenance of Statutory Accounting Principles</i> .
	2021-14	Revisions to the <i>NAIC Policy Statement on Maintenance of Statutory Accounting Principles</i> modify the terminology used for types of accounting revisions. Beginning January 1, 2022, the phrase “new SAP concept” will reflect instances previously considered to be “substantive,” and the term “SAP clarification” for instances previously identified as “nonsubstantive.”
Appendix G	Not applicable	Revisions to the <i>Implementation Guide for the Annual Financial Reporting Model Regulation</i> , Section 11, require new information in the annual internal control reporting to facilitate a review of qualification and partner rotation requirements.
Appendix H	Not applicable	<i>INT 20-03 Troubled Debt Restructuring Due to COVID-19</i> automatically expired on January 2, 2022. This INT provided exceptions for mortgage loans and banks loans in line with the CARES Act in response to COVID-19.
	Not applicable	<i>INT 20-07 Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19</i> automatically expired on January 2, 2022. This INT provided exceptions for debt securities captured within <i>SSAP No. 36</i> in response to COVID-19.
	2021-11	<i>INT 20-10: Reporting Nonconforming CTLs</i> , which expired October 1, 2021, was explicitly nullified. The INT is not relevant because of revisions on the definition of CTLs in the <i>Purposes and Procedures Manual of the Investment Analysis Office</i> .
	Not applicable	<i>INT 21-02: Extension of Ninety-Day Rule for the Impact of Hurricane Ida</i> provided optional extension from the ninety-day rule under <i>SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers</i> for premium on policies that were directly impacted by Hurricane Ida. This interpretation automatically expired on January 23, 2022.

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

FROM: Pat Gosselin, New Hampshire Chief Financial Analyst, Chair
Blanks (E) Working Group

DATE: February 2, 2022

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2021. 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 2021 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 2021

1. Add a new Health Care Receivables Supplement to the Life\Fraternal Annual Statement that adds Exhibits 3 and 3A from the Health Annual Statement to the to the Life\Fraternal annual filings. Add a guidance document reference to Exhibit 3A of the Health Annual Statement (2020-32BWG) Effective Dec. 31, 2021.
2. Modify Annual Statement Lines (ASLs) used on Underwriting and Investment (U&I) Exhibits, State Page and Insurance Expense Exhibit (IEE). Change Health ASL categories used in Property to be consistent with other statement types. Update ASL references used in crosschecks. Update definitions used in the appendix for the Health ASLs. See next page for details (2020-33BWG) Effective Jan. 1, 2022.
3. Add definitions for the Occupational Accident, Fiduciary Liability, Premises and Operations (OL&T and M&C), Professional Errors and Omissions Liability, Kidnap & Ransom Liability and Tuition Reimbursement Plans products to the appropriate line of business in the appendix (2020-34BWG) Effective Dec. 31, 2021.
4. Expand the number of characters used from seven to 10 in the investment line categories for Schedules D, DA, DL and E excluding Schedule D, Part 6 (Sections 1 and 2) and Schedule E (Part 1 and 3). Add line categories for Unaffiliated Certificates of Deposit and Exchange Traded Funds. Split the line categories for Mutual Funds, Investment Unit Trusts and Closed-End Funds into lines indicating if the fund has been assigned a designation by the Securities Valuation Office (SVO). Make changes to Summary Investment Schedule, Summary by Country and Schedule D, Part 1A (Sections 1 and 2) to reflect the additional line categories (2020-35BWG) Effective Jan. 1, 2022.
5. Modify the General Schedules Investment Instructions and Schedule DB General Instructions to reflect treatment of publicly traded stock warrants as being in the scope of *SSAP No. 30R—Unaffiliated Common Stock* or *SSAP No. 32R—Preferred Stock* and reporting as common and preferred stock (SAPWG 2020-33) (2020-36BWG) Effective Dec. 31, 2021.
6. Add a new Schedule Y, Part 3 to capture all entities with ownership greater than 10%, the ultimate controlling parties of those owners and other entities that the ultimate controlling party controls (SAPWG 2020-34) (2020-37BWG) Effective Dec. 31, 2021.
7. Make changes to the Accident and Health Policy Experience Exhibit by adding new columns, removing lines distinguishing with and without contract reserves, adding some new product lines, eliminating summary tables, changing the date that the exhibit is due and having it reported by state (2020-38BWG) Effective Dec. 31, 2021.
8. Add reference to health care receivables to Line 24 – Health Care and Other Amounts Receivable on the Asset Page, change description of Line 0699999 to read Other Health Care Receivables on Exhibit 3, and modify column headers for Exhibit 3A (2021-01BWG) Effective Dec. 31, 2021.
9. Add questions to the General Interrogatories, Part 1 regarding depository institution holding companies as it pertains to the group capital calculation (GCC). Additionally, modify the terminology in the first two questions for consistency with the new questions, which has been modified to consider that many insurers that are part of a depository institution holding company are savings and loan holding companies, which is picked up with the broader terminology compared to the more specific term of bank holding company (2021-02BWG) Effective Dec. 31, 2021.
10. Modify the tables for Interrogatory Questions 1.01, 1.01A, 2.5 and 4.2 in the Separate Accounts General Interrogatories by adding category lines to reflect additional granularity in the reporting on those tables (SAPWG 2020-37 and 2020-38) (2021-03BWG) Effective Dec. 31, 2021.
11. Add interrogatory questions 24.1 and 24.2 to the General Interrogatories, Part 1 “Financial” section asking if the insurer utilizes third parties to pay agent commissions in which the amounts advanced by the third parties are not settled in full within 90 days. Renumber the remaining questions (SAPWG 2019-24) (2021-04BWG) Effective Dec. 31, 2021.
12. Modify the instructions for Note 17B(4)b1(a) – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities and add a table to the illustrations to data capture some aspects of the disclosure (SAPWG 2021-03) (2021-05BWG) Effective Dec. 31, 2021.
13. Add crosschecks between Long-term Care (LTC) Form 5 and Form 1 for Columns 2, 3, 4, 6 and 7 of Form 5 (2021-06BWG) Effective Dec. 31, 2021.

14. Add additional line categories to the instruction for Column 26 – Collateral Type to capture collateral type data for all residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and loan-backed and structured securities (LBSS) securities regardless of reporting category (2021-07BWG) Effective Dec. 31, 2021.
15. Add a new supplement Mortgage Guaranty insurance Exhibit to capture more information from mortgage guaranty insurers (2021-08BWG) Effective Dec. 31, 2021.
16. Remove language in quarterly General Interrogatories Part 1, line 4.1 that requires filing of a quarterly merger/history form. The annual form shall still be required (2021-10BWG) Effective Jan. 1, 2022.
17. Expand the number of lines of business reported on Schedule H to match the lines of business reported on the Health Statement. Modify the instructions so they will be uniform between life/fraternal and property (2021-14BWG) Effective Dec. 31, 2022.

MEMORANDUM

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

FROM: Tom Botsko, Chair
Capital Adequacy (E) Task Force

DATE: February 1, 2022

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 2021 *Risk-Based Capital Report Including Overview and Instructions* for health, life and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and Executive (EX) Committee and Plenary in 2021. Significance of these changes was viewed as it relates to the overall risk-based capital (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 – Dave Fleming

Health — Crystal Brown

Health RBC Formula

Not Significant Deleted the ACA Fee Sensitivity Test from the XR026.

Not Significant Added the MAX function to Line 17 – RBC Growth Safe Harbor on page XR022.

Not Significant Split bonds and miscellaneous assets into separate pages, XR007 and XR008, respectively.

Not Significant Bond Modification in XR006, XR007 and XR012 included:

- 1) modified the structure and instructions;
- 2) revised the factors for 20 bond designations; and
- 3) reclassified hybrid securities.

Not Significant Incorporated the term “incentives” into the managed care instructions and blanks as “Bonuses/Incentives.”

Not Significant Updated the Line 38 receivable for securities factors on page XR008.

Not Significant Incorporated a 0.5% investment income adjustment into XR013 Underwriting Risk factors for comprehensive medical, Medicare supplement, and dental and vision.

Life RBC Formula

Not Significant Bond factor changes for the expanded NAIC designation categories which also included a bond size adjustment and tax factor changes.

Not Significant Update the RBC calculation for real estate to reflect the updated experience.

Not Significant Include factors for a longevity risk charge.

- Not Significant Updated the reinsurance calculation to allow for the inclusion of amounts held for reciprocal jurisdiction reinsurance.
- Not Significant Incorporated the term “incentives” into the managed care instructions and blanks as “Bonuses/Incentives.”
- Not Significant Updated the receivable for securities factors to 0.015.
- Not Significant Incorporated a 0.5% investment income adjustment into the factors on the Underwriting Risk – Experience Fluctuation Risk pages for comprehensive medical, Medicare supplement, and dental and vision.
- Not Significant Deleted the ACA Fee Sensitivity Test from the LR033.

P/C RBC Formula

- Not Significant Modified PR027 interrogatories instructions to clarify how insurers with no gross exposure to earthquake or hurricane should complete the interrogatories.
- Not Significant Removed the embedded 3% operational risk component contained in the reinsurance contingent credit risk of Rcat component in PR027A and PR027B.
- Not Significant Deleted the ACA Fee Sensitivity Test from the PR029.
- Not Significant Incorporated the term “incentives” into the PR021 managed care instructions and blanks as “Bonuses/Incentives.”
- Not Significant Incorporated a 0.5% investment income adjustment into PR029 Underwriting Risk factors for comprehensive medical, Medicare supplement, and dental and vision.
- Not Significant Incorporated examples to clarify how the reporting companies should select the designation in the Annual Statement Part 3, Reinsurer Designation Equivalent Rating column if the reporting entities subscribe to one or multiple rating agencies.
- Not Significant Bond Modification in PR006, PR011 and PR015 included:
 - 4) modified the structure;
 - 5) revised the factors for 20 bond designations;
 - 6) modified the bond size factor;
 - 7) reclassified hybrid securities and eliminated the hybrid securities section in PR007.
- Not Significant Updated the Line 1 industry average development factors in PR017 and PR018.
- Not Significant Updated the Line 1 receivable for securities factors in PR009 and PR011.



MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Susan Bernard (CA), Chair, Financial Examiners Handbook (E) Technical Group
John Litweiler (WI), Vice-Chair, Financial Examiners Handbook (E) Technical Group

DATE: Feb. 9, 2022

RE: Consideration for Financial Accreditation Standards
2022 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 on changes the Financial Examiners Handbook (E) Technical Group has made to the Handbook in 2021.

Modifications are made to the Handbook each year, and a new edition is printed 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 2021, the majority of which it considers non-significant; i.e., having no impact on accreditation guidance.

The Technical Group noted an opportunity to better align the guidance in the Handbook and the Manual as it relates to exam coordination. This change should be considered “significant” for accreditation purposes, which the Technical Group defines as a change that may immediately warrant a change to at least one accreditation standard or the Review Team Guideline(s) for said standard. Although this change is categorized as “significant” by the Technical Group, this is not meant to suggest the modifications are synonymous with the term “significant” within the accreditation context.

During 2021, the Technical Group made the following changes:

Significant Changes to the Handbook Affecting Accreditation Standards and/or Review Team Guidelines:

- Revisions to the Coordination Framework to clarify the roles and responsibilities of each state that has a company in a holding company group.

When reviewing the guidance contained in the Coordination Framework, the Technical Group noted that Handbook guidance requires the use of Exhibit Z – Exam Coordination when documenting coordination efforts for examinations of holding company groups *with insurers domiciled in multiple states*. This is

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inconsistent with the guidance in the Manual, which requires the use of Exhibit Z for examinations of holding company groups *with multiple insurers*.

To ensure a consistent approach to documenting coordination efforts, the Technical Group advises the Committee to consider revising the guidance pertaining to Accreditation Standard B2(e): General Examination Procedures and Accreditation Standard B2(g): Scheduling of Examinations, as well as the related questions on the Accreditation SEG/IAR Form regarding the use of Exhibit Z. The Technical Group suggests incorporating the tracked revisions below to reflect this change in the Manual:

Accreditation Standard B2(e): Use of Appropriate Guidelines and Procedures, Results-Oriented Guideline 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 that includes more than one insurer.

Accreditation Standard B2(e): Use of Appropriate Guidelines and Procedures, Process-Oriented Guideline 3:

If the company being examined is part of a holding company group with ~~multiple~~ 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).

Accreditation Standard B2(g): Use of Appropriate Guidelines and Procedures, Process-Oriented Guideline 3:

The department should document the attempt to coordinate examination efforts with departments of other states consistent with the coordinated exam approach prescribed in the Examiners Handbook. Each company that is part of a holding company group ~~that includes more than one insurer with insurers~~

domiciled in multiple states should include a copy of the coordination plan, documented in Section A of Exhibit Z, Part Two (or similar document), in its examination file.

Accreditation SEG/IAR Form, Standard B2(e), Question 5:

For examinations of companies that are part of a holding company group with insurers domiciled in multiple states~~that includes more than one insurer~~, does the department complete the applicable section of Exhibit Z – Examination Coordination based on its role in the examination?

Non-Significant Changes to the Handbook:

- Revisions to the Reserves Repositories (Life, Health and Property/Casualty [P/C]), as well as the Underwriting Repository, to provide additional possible completeness and accuracy procedures for examination teams to consider that align with the testing approach used by external auditors. Additionally, procedures were added to enhance collaboration with the actuary to determine significant lines of business/data elements to focus on for testing purposes.
- Revised guidance related to information technology (IT) in the following areas:
 - Additional guidance for evaluating the accessibility and transferability of policyholder data was incorporated into the following sections of the Handbook: 1) Section 1-3 narrative guidance; 2) Exhibit C, Part Two – IT Planning Questionnaire (ITPQ); and 3) Exhibit C, Part Two – IT Work Program and Instructional Notes.
 - Ransomware guidance was incorporated into the following sections of the Handbook: 1) Section 1-3 narrative guidance; and 2) Exhibit C, Part Two – IT Work Program.

If there are any questions regarding the proposed recommendations, please contact either me or NAIC staff (Bailey Henning at bhenning@naic.org) for clarification. Thank you for your consideration.



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
Mark Perlman, Managing Investment Counsel, NAIC Securities Valuation Office

DATE: February 28, 2022

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 2021 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 *2022 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
- 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;

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Kansas City 1100 Walnut Street NW, Suite 1500, Kansas City, MO 64106-2197	p 816 842 3600	f 816 783 8175
New York One New York Plaza, Suite 4210, New York, NY 20004	p 212 398 9000	f 212 382 4207

- 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 + Plus 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 2021, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2021 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 Manual* adopted by the Valuation of Securities (E) Task Force in 2021 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, 2021 Publication*

- **Adopted updates to the financial modeling instructions for RMBS/CMBS for non-legacy securities** – the changes move away from financial modeling price breakpoints to a single NAIC Designation and NAIC Designation Category for all non-Legacy Securities (those financially modelled RMBS/CMBS securities that closed on or after to Jan. 1, 2013). Making this change only effects non-Legacy Securities and preserves the historical treatment for Legacy Securities.

The Valuation of Securities (E) Task Force adopted this amendment on Mar. 22, 2021

- **Adopted updates to the list of NAIC CRPs to reflect NRSRO changes** – these changes reflect the Jul. 2, 2019, Morningstar, Inc. acquisition of DBRS with the new entity being DBRS, Inc., doing business as “DBRS Morningstar Credit Ratings” or “DBRS Morningstar” along with other updates to the rating agency names on the List of NAIC Credit Rating Providers and the CRP Credit Rating Equivalents to NAIC Designations and NAIC Designation Categories tables to match those on the U.S. Securities and Exchange Commission’s Office of Credit Ratings list of Current NRSROs.

The Valuation of Securities (E) Task Force adopted this amendment on Mar. 22, 2021

- **Adopted additional instructions for the review of funds to clarify guidance for fund leverage and the use of derivatives** - a fund’s exposure to: (i) derivatives under which a fund is or may be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination, whether as margin or settlement payments or otherwise, (ii) short sale borrowings and (iii) reverse repurchase agreements or similar financing, would be limited to 10% of the fund’s net assets in normal market conditions. Exposure would be calculated based on the gross notional amounts of derivatives, the value of assets sold short for short sale borrowings, and the proceeds received by the fund but not repaid for reverse repurchase agreements. Certain currency and interest rate derivatives that hedge currency or interest rate risk associated with one or more specific equity or fixed-income investments of the fund would be exempt from the 10% exposure calculation. For derivatives under which a fund shall not be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination, whether as margin or settlement payments or otherwise, exposure would be calculated based on the derivative’s market value. As defined in the P&P Manual, “Predominantly Hold” means, in part, “The fund will hold at least 80% of its assets in bonds if the fund is a bond fund or at least 80% of its assets in preferred stock if the fund is a preferred stock fund, in normal market conditions.” This existing requirement, therefore, limits total derivatives, short sale borrowing and reverse repurchase agreement exposure in any fund to 20%, exclusive of the currency and interest rate derivatives mentioned above.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 15, 2021

- **Adopted changes to permit securities that are Credit Tenant Loan-like (CTL-like) and Ground Lease Financing-like (GLF-like) transactions to use NAIC credit rating provider (CRP) ratings through the Filing Exempt (FE) process if they are structured as securities** – the amendment clarifies the difference between Credit Tenant Loans and Ground Lease Financings, and real estate lease-backed securities for purposes of amending the Filing Exemption eligibility for each. The amendment modifies the P&P definition of CTL and GLF by clarifying that CTLs and GLFs only refer to “mortgage loans in scope of SSAP No. 37,” and, by default, not “securities,” which would be in scope of SSAP Nos. 26R or 43R. Real estate lease-backed securities would include CTL-like and GLF-like transactions which meet all the CTL or GLF guidelines in the P&P Manual but for a feature making it a security, such as a trust issued certificate. Only CTLs or GLFs with mortgage loans in scope of SSAP No. 37 need to be filed with the SVO for review and potential assignment of an NAIC Designation. All other real estate lease-backed transactions which meet the definition of a “security”, including those with balloon payments in excess of 5%, would be eligible for Filing Exemption, and have the option to file with the SVO.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 15, 2021

- **Adopted guidance to conform to the Statutory Accounting Principles (E) Working Group’s adopted change to Statement of Statutory Accounting Principles (SSAP) No. 105R—Working Capital Finance Investments** - The Statutory Accounting Principles (E) Working Group adopted updates to *SSAP No. 105R Working Capital Finance Investments* on May 20, 2020. Key revisions are summarized as follows: Functionally Equivalent Foreign Regulators - Removed the requirement that the Securities Valuation Office (SVO) determine if the International Finance Agent is the functional equivalent of the U.S. regulator; Commingling Prohibitions - Removed the finance agent prohibitions on commingling; Investor Rights Edit - Removed duplicative text regarding exercising of investor rights; Requirements for filer to Certify Perfected Interest – Removed requirements, with revisions allowing the SVO to determine if a first priority perfected interest has been obtained; Finance Agent Validation Requirements – Broadened the independent review requirements to allow independent review of the finance agent by either audit or through an internal control report; Default Date - Changed the default provisions from 15 to 30 days so the default date and the cure period are consistent; Possible Domestic Regulator Approval – Removed the statement that the reporting entity may need to seek approval from the domestic regulator. This amendment removes inconsistencies between the P&P Manual and *SSAP No. 105R Working Capital Finance Investments*.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 15, 2021

- **Adopted instructions to add back Zero Loss Criteria for Legacy Modeled RMBS and CMBS** - modeled Legacy Security RMBS or CMBS tranches that have no expected loss under any of the selected modeling scenarios would be assigned an NAIC 1 Designation and NAIC 1.A Designation Category regardless of the insurer’s book/adjusted carrying value.

The Valuation of Securities (E) Task Force adopted this amendment on Sep. 30, 2021

- **Adopted the addition of Spanish GAAP to the list of Countries and Associated National Financial Presentation Standards** - financial statements submitted to the Security Valuations Office (SVO) for analysis must be audited and prepared in accordance with either a Global Financial Presentation Standard (U.S. Generally Accepted Accounting Principles (U.S. GAAP) or International Financial Reporting Standards (IFRS) or a Reconciled Financial Presentation Standard (local GAAP reconciled to U.S. GAAP or IFRS) unless the SVO has been specifically authorized to use a National Financial Presentation Standard. The amendment permits filings presented on the basis of Spanish GAAP, subject to the presentation of additional documentation as specified and annually thereafter.

The Valuation of Securities (E) Task Force adopted this amendment on Sep. 30, 2021

- **Adopted the addition of Bank Loans** - Since 2018 the *Accounting Practices and Procedures Manual* (AP&P Manual) has included bank loans issued directly by a reporting entity or acquired through a participation, syndication or assignment in *SSAP No. 26R – Bonds*. Pursuant to SSAP No. 26R, bank loans means fixed-income instruments, representing indebtedness of a borrower, made by a financial institution. In order to maintain consistency with the bond definition in SSAP No. 26R - Bonds, this amendment clarifies that the SVO can assess and assign NAIC Designations to bank loans. The filing instructions and methodology would follow that of other corporate obligations.

The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2021

- **Adopted the addition of the United States International Development Finance Corporation to the U.S. Government Full Faith and Credit – Filing Exempt List** - In October 2018 the Better Utilization of Investments Leading to Development (“BUILD”) Act was signed into law. The BUILD Act reorganized and merged existing United State government development finance and aid programs, the U.S. Overseas Private Investment Corporation (“OPIC”) and the Development Credit Authority of the United States Agency for International Development (“USAID”), into a new agency called the U.S. International Development Finance Corporation (“DFC”). Pursuant to the BUILD Act, the support provided by the DFC shall, and existing support provided by OPIC and USAID shall continue, to constitute obligations of the United States, and the full faith and credit of the United States is thereby pledged for the full payment and performance of such obligations. The DFC is authorized to borrow from the U.S. Treasury to fulfill such obligations of the United States. Based on this express full faith and credit, the DFC was added to the “U.S. Government Full Faith and Credit – Filing Exempt” list in Part One. However, for the avoidance of doubt, as noted in this Manual, any security issued by an entity on the “U.S. Government Full Faith and Credit – Filing Exempt” list shall be filed with the SVO if the security is not fully guaranteed by the U.S. government. For certain entities on the list, statute may require parties other than the U.S. government full faith and credit guarantor to bear a risk of loss equal to a specified percentage of the guaranteed support. For example, the BUILD Act requires parties to a project to bear the risk of loss in an amount of at least 20 percent of the guaranteed support of the DFC. If an insurance company, as investor, is the party bearing that risk of loss, meaning the securities it purchased are not fully guaranteed by the DFC or another entity on the list, it would need to file those securities with the SVO.

The Valuation of Securities (E) Task Force adopted this amendment on Nov. 17, 2021

- **Adopted technical corrections for Private Letter Rating Securities and the corresponding NAIC Designation Category for NAIC 5GI** - At the May 24, 2021 Task Force meeting, an amendment was adopted to the P&P Manual requiring the submission of Private Rating Letter Rationale Reports with certain Private Rating Letters filed with the SVO. In the May amendment certain language, currently in the printed December 2020 version of the P&P Manual, which clarifies that an NAIC 5GI Designation is the equivalent of an NAIC 5.B Designation Category, was erroneously omitted. This non-substantive technical amendment re-inserts the omitted language.

The Valuation of Securities (E) Task Force adopted this amendment on Dec. 12, 2021

- **Adopted clarify instructions to exclude Residual Tranches and Interests from Schedule D-1 reporting and to provide temporary NAIC Designation instructions** - The Statutory Accounting Principles (E) Working Group (the “Working Group”) identified inconsistencies in how residual tranches and interests were being reported with some entities reporting them on Schedule BA – Other Long Term Invested Assets and others reporting them on Schedule D-1: Long-Term Bonds with either self-assigned NAIC 5GI or NAIC 6 Designations. To prevent further inconsistency and direct appropriate reporting, at its Nov. 10, 2021 meeting, the Working Group adopted an amendment to *SSAP No.43R – Loan Backed and Structured Securities* to clarify that residual tranches and interests shall be report on Schedule BA and made a referral to the Valuation of Securities (E) Task Force requesting a similar change to the P&P Manual. The amendment creates a December 31, 2022 effective date for all residual tranches and interests to be reported on Schedule BA without an NAIC Designation with a provision which permits residual tranches and interests currently reported on Schedule D-1 to continue to be reported on Schedule D-1 for reporting year 2021 but only with an NAIC 6* Designation.

The Valuation of Securities (E) Task Force adopted this amendment on Dec. 12, 2021

- **Adopted instructions to require the filing of private rating letter rationale reports with the Securities Valuation Office (SVO) beginning Jan. 1, 2022** - for a private letter rated (PLR) security to receive an NAIC Designation the SVO must receive, along with the private rating letter, a related private rating letter rationale report providing a more in-depth analysis of the transaction, the methodology used to arrive at the private rating, and, as appropriate, discussion of the transaction's credit, legal and operational risks and mitigants. With both the private rating letter and the private rating letter rationale report the SVO would be able to determine whether the privately rated security is eligible to receive an NAIC Designation with an NAIC CRP Credit Rating. A private rating letter rationale report should mirror the work product that a CRP would produce for a similar publicly rated security. The amendment has provisions for delayed submission and waived submission PLR securities, depending upon their issuance date.

The Valuation of Securities (E) Task Force adopted this amendment on May 24, 2021

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 ..." 2014 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..." 2014 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 RMBS and CMBS instead of an NAIC Designation. 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.

MEMORANDUM

TO: Director Lori K. Wing-Heier (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee, Commissioner Vicki Schmidt, (KS), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee and Commissioner Sharon P. Clark, (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Mike Boerner (TX), Chair, Life Actuarial (A) Task Force,
Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force

DATE: March 8, 2022

RE: Financial Regulation Standards – As of March 2022 *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 made to the *Valuation Manual* in 2021. The changes were adopted by the Executive (EX) Committee and Plenary at the 2021 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the *Valuation Manual* in 2021. On behalf of the Task Force, 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 *2022 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.

It should be noted that revisions have been made to the Life PBR Exemption through adoption of amendment proposal 2019-33, which provides for the inclusion of individually underwritten group life business in the calculation of premium volume to become effective in 2024. The accreditation standard provides as follows: “Although not required for accreditation, a state’s laws and regulations may allow an exemption from the reserving requirements of the *Valuation Manual* similar to that provided in the *Valuation Manual*. **For such cases, do the laws and regulations contain provisions that are similar to those provided in the *Valuation Manual*?**” [Emphasis added]. We are aware of several states that have adopted the Life PBR Exemption directly into their statutes, and that it may be necessary for those states to amend their statutes by 2024 in order to make them consistent with the updated Life PBR Exemption.

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2019-33	Sect II, VM-20, VM-51	Clarify the definition of individually underwritten life insurance and the applicability of PBR requirements for group contracts with individual risk selection issued under insurance certificates.	7/1/2021
2020-02	VM-20 Section 2.H and new Section 2.I	Provide clearer guidance on the boundaries of a company's latitude in following VM-20 steps	10/29/2020
2020-03	VM-20 Section 3.B.3	Clarify NPR calculation requirements	8/27/2020
2020-08	VM-20 Section 9.C.2.d.vi.	Clarify and introduce a third permissible technique for the calculation of company experience rates.	12/3/2020
2020-09	VM Section II, Subsection 1.D	Modify Life PBR Exemption	11/5/2020
2020-10	VM-20, VM-31	Mortality improvement	6/10/2021
2020-11	VM Section II, Subsection 1.D.4	Modify Life PBR Exemption-Part 2	2/11/2021
2020-13	VM-20, Sec 7.D.3	Asset Collar	4/8/2021
2021-03	VM-21, Section 6.C.5:	Update the reference to required minimum distribution age	5/6/2021
2021-04	VM-02 Section 3.A	Clarify the language in the previously adopted edits to VM-02 to avoid any potential circularity.	4/29/2021
2021-05	VM-01, VM-20 7.E, VM-21 4.D, VM-31 3.D.6, 3.F.6	Clarify modeled company investment strategy and comparison to the alternative investment strategy	5/20/2021
2021-06	VM-50, VM-51	Revise VM-50 and VM-51 to allow experience reporting a reinsurer or third-party administrator and a correction to VM-51 Appendix 4	5/27/2021
2021-07	VM-20 Section 2.A.3, 3.A, 3.B 3.C and 6.B	Clarify ULSG NPR Calculation Requirements	6/24/2021
2021-09	VM-21 Section 1.E (new), 3.H (new), VM-31 Section 3.E.1, 3.F.2.e	Update VM-31 materiality language to be consistent new section of VM-21 addressing materiality.	7/1/2021
2021-10	VM 51 App 4	Remove "at issue" from Smoker Status data element name to allow for use of the smoker status at the time of data submission	6/24/2021

The individual amendment proposals reside on the Industry tab on the NAIC website and are accessible by following the link below:

[LATF Adopted Amendments for the 2022 VM.](#)



Date: November 30, 2021

To: Superintendent Elizabeth Kelleher Dwyer (RI), Chair of Financial Regulation Standards and Accreditation (F) Committee

From: Commissioner Cassie Brown (TX), Chair of Receivership and Insolvency (E) Task Force

Re: 2021 Amendments to the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)

On August 17, 2021, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450). The revisions help ensure efficient coordination with affiliates and to enforce the continuation of essential services by an affiliate to an insurer in the event of insolvency.

These revisions were drafted by the Receivership Law (E) Working Group under charges assigned by the Receivership and Insolvency (E) Task Force. These revisions, referred to as the “receivership revisions” do not include recent revisions to Models #440 and #450 for group capital calculation or liquidity stress test. The receivership revisions address the continuation of essential services through affiliated intercompany agreements with an insurer that is placed into receivership by: 1) bringing affiliate service providers deemed “integral” or “essential” to an insurer’s operations under the jurisdiction of a rehabilitator, conservator, or liquidator for purposes of interpreting, enforcing, and overseeing the affiliate’s obligations under the service agreement and give the commissioner authority to require that “integral” or “essential” affiliate service providers consent to such jurisdiction; 2) further clarifying the ownership of data and records of the insurer that are held by the affiliate; and 3) clarifying that premiums of the insurer held by the affiliate are the property of the insurer and rights of offset are determined by receivership law. See attachment A for a copy of the amendments.

The recommendation for Part A Accreditation Standards is that these receivership revisions be considered acceptable, but not required to be adopted by states. However, the revisions are considered important and all states are encouraged to adopt them. States may consider adoption of the changes in conjunction with opening their holding company laws to consider adoption of the Group Capital Calculation and Liquidity Stress Test revisions.

The Task Force will continue to encourage states to adopt these revisions based on the benefits these revisions add to state regulation, and to the goal of improving efficiencies in receivership and reducing costs to a receivership estate.

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Superintendent Elizabeth Kelleher Dwyer, Chair of the Financial Regulation Standards and Accreditation (F) Committee

FROM: Commissioner Scott A. White, Chair of the Financial Condition (E) Committee

DATE: Nov. 19, 2021

RE: Use of Captives to Reinsure Variable Annuity and Long-Term Care Business

I received your April 14 memo requesting information on the extent the referenced captives are used, any trends on the use of the captives, reasons for such trends, and any relevant updates on work done in the areas of variable annuities and long-term care insurance (LTCI). Upon receiving your memo, I referred your request to the Financial Analysis (E) Working Group. Since the Working Group ultimately collected the information on the use of captives by surveying domestic states using the states' confidentiality standards, the Working Group's response memo will be submitted to the Financial Regulation Standards and Accreditation (F) Committee as a separate regulator-only document. However, for the purposes of this memo, I would note that one of the key takeaways from the Working Group is that the current impact to the risk-based capital (RBC) of the domestic insurers utilizing these captives is minimal.

I would also like to provide you with updates on work done on variable annuities and LTCI. In 2018, the Financial Condition (E) Committee adopted a revised framework for variable annuities, which became effective Jan. 1, 2020. The changes were specifically designed to remove the non-economic volatility within the previous framework, therefore removing the major reason for the use of captives for variable annuities. The Committee believes it is an appropriate time to remove the to be determined (TBD) effective date in the Accreditation Preamble and replace it with a reference to VM-21, Requirements for Principle-Based Reserves for Variable Annuities.

For LTCI, the Financial Condition (E) Committee has not developed any new standards that could be used to justify the removal of the TBD status. Although the impact of the use of captives for LTCI still appears to be minimal, the Committee recommends that this aspect of the Accreditation Preamble be retained and that the Financial Regulation Standards and Accreditation (F) Committee continue to monitor the use of captives for LTCI.

In summary, the Financial Condition (E) Committee recommends a replacement of the TBD in the Accreditation Preamble for variable annuities with VM-21 and retaining the TBD for LTCI.

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Excerpt from Accreditation Manual – Part A Preamble

Captive Reinsurers

The following Part A standards apply to the regulation of a state's domestic insurers licensed and/or organized under its captive or special purpose vehicle statutes or any other similar statutory construct (captive insurer) that reinsure business covering risks residing in at least two states, but only with respect to the following lines of business:

- 1) Term and universal life with secondary guarantee policies that are applicable under Section 3 of the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787)(commonly referred to as XXX/AXXX policies). The application of this provision is intended to have a prospective-only effect, so that regulation of captive insurers, special purpose vehicles and any other entities that reinsure these types of policies will not be subject to the Part A standards if the policies assumed were both (1) issued prior to Jan. 1, 2015, and (2) ceded so that they were part of a reinsurance arrangement as of Dec. 31, 2014. [Drafting Note: This paragraph of the Preamble became effective Jan. 1, 2016]
- 2) Variable annuities valued under Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43) or VM-21: Requirements for Principle-Based Reserves for Variable Annuities. [Drafting Note: ~~This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.~~ This paragraph of the Preamble was addressed through revisions to VM-21 of the Valuation Manual.]
- 3) Long term care insurance valued under the *Health Insurance Reserves Model Regulation* (Model #10). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]

With regard to a captive insurer, special purpose vehicle, or any other entity assuming XXX/AXXX business, regulation of the entity is deemed to satisfy the Part A accreditation requirements if the applicable reinsurance transaction complies with Model #787.

[Drafting Note: The Part A standards with respect to entities assuming ~~variable annuities and~~ long term care reinsurance business are intended to be effective with respect to both currently in-force and future business. However, the effective dates for ~~variable annuities and~~ long term care insurance ~~are is~~ not yet determined, and ~~their~~ its application to in-force business need further discussion].