



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS



Date: 3/9/21

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Monday, April 12, 2021

5:30 – 6:30 p.m. ET / 4:30 – 5:30 p.m. CT / 3:30 – 4:30 p.m. MT / 2:30 – 3:30 p.m. PT

ROLL CALL

Elizabeth Kelleher Dwyer, Chair	Rhode Island	Troy Downing	Montana
Lori K. Wing-Heier, Vice Chair	Alaska	Bruce R. Ramage	Nebraska
Alan McClain	Arkansas	Mike Causey	North Carolina
Andrew N. Mais	Connecticut	Larry D. Deiter	South Dakota
Colin M. Hayashida	Hawaii	Doug Slape	Texas
Sharon P. Clark	Kentucky	Scott A. White	Virginia
Eric A. Cioppa	Maine	Jeff Rude	Wyoming
Gary D. Anderson	Massachusetts		

NAIC Support Staff: Becky Meyer/Sara Franson

AGENDA

1. Consider Adoption of its 2020 Fall National Meeting Minutes Attachment One
—*Superintendent Elizabeth Kelleher Dwyer (RI)*

2. Discuss Revisions Adopted in 2020 to NAIC Publications Referenced in the Accreditation Standards—*Superintendent Elizabeth Kelleher Dwyer (RI)* Attachment Two

3. Consider Exposure of Revisions to the Part A Preamble to Account for Inclusion of the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* as a New Accreditation Standard Attachment Three
—*Superintendent Elizabeth Kelleher Dwyer (RI)*

4. Discuss and Consider Exposure of the 2020 Revisions to the *Insurance Holding Company System Regulatory Act (#440)* and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (#450)* as an Update to the Accreditation Standards Attachment Four
—*Superintendent Elizabeth Kelleher Dwyer (RI)*

5. Discuss Any Other Matters Brought Before the Committee
—*Superintendent Elizabeth Kelleher Dwyer (RI)*

6. Adjournment

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Draft Pending Adoption

Date: 12/10/20

Financial Regulation Standards and Accreditation (F) Committee
Virtual 2020 Fall National Meeting
December 7, 2020

The Financial Regulation Standards and Accreditation (F) Committee met Dec. 7, 2020. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Mark Afable, Vice Chair, (WI); Lori K. Wing-Heier (AK); Jim L. Ridling (AL); Andrew N. Mais (CT); Sharon P. Clark (KY); Gary Anderson (MA); Eric A Cioppa (ME); Mike Causey represented by Jackie Obusek (NC); Bruce R. Ramge (NE); Tynesia Dorsey (OH); Larry D. Deiter (SD); Tanji J. Northrup (UT); Scott A. White (VA); and Jeff Rude (WY).

1. Adopted its Summer National Meeting Minutes

Commissioner Clark made a motion, seconded by Commissioner Afable, to adopt the Committee's Aug. 12 minutes (see *NAIC Proceedings – Summer 2020, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Superintendent Dwyer said the Committee met Dec. 3 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 its meeting, the Committee voted to award continued accreditation to Idaho, Kentucky, Oklahoma and Vermont.

2. Adopted its 2021 Proposed Charges

Superintendent Dwyer discussed a memorandum that includes the Committee's 2021 proposed charges, noting the proposed charges are unchanged from the Committee's 2020 charges.

Commissioner Rude made a motion, seconded by Director Wing-Heier, to adopt the Committee's 2021 proposed charges (Attachment One). The motion passed unanimously.

3. Adopted Revisions to the NAIC Accreditation Program Manual to Reference Salary Ranges

Superintendent Dwyer stated that the Risk-Focused Surveillance (E) Working Group recently developed new salary ranges for inclusion in both the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. The final salary ranges were the result of extensive research on job descriptions, industry comparisons and surveying states. The work also includes a process for the Working Group to maintain and update this guidance on an ongoing basis. The first iteration of the new salary ranges was published in the 2020 editions of both handbooks.

Superintendent Dwyer stated that following adoption into the respective handbooks, the Working Group turned its attention to its charge to consider how the salary range recommendations and supporting guidance should affect accreditation standards and guidelines. The Working Group recommended revisions to the Review Team Guidelines that states report if their salaries fall below the established range. The revised guideline is contained in Part C: Organizational and Personnel Practices of the *NAIC Accreditation Program Manual* because this section already addresses issues related to resources and compensation. In addition, Part C is not taken into consideration by the review team in making a recommendation regarding the state insurance department's overall accreditation standing. Placing the guideline in this section allows for a review of department practices in this area, without directly affecting a state's accreditation standing if it cannot compensate state insurance regulators within the established ranges.

Superintendent Dwyer stated that other standards relating to the sufficiency and qualifications of staff are already included in Part B of the accreditation standards, which are taken into consideration in making a recommendation on a state insurance department's overall accreditation standing.

There were no comments received during the exposure period.

Commissioner Clark made a motion, seconded by Commissioner Mais, to adopt the referral to reference salary ranges in Part C: Organizational and Personnel Practices in the *NAIC Accreditation Program Manual* (Attachment Two). The motion passed unanimously.

Draft Pending Adoption

4. Adopted the Referral from the Risk Retention Group (E) Task Force Related to the RRG Analysis Guideline

Superintendent Dwyer stated that the accreditation Review Team Guidelines include an analysis guideline specifically related to risk retention groups (RRGs). The extra review by the domiciliary state required by the guideline is important due to the limitations on non-domiciliary state regulation set by the federal Liability Risk Retention Act (LRRRA).

Superintendent Dwyer stated that the referral from the Risk Retention Group (E) Task Force recommends a change to the guideline to clarify that the Task Force intends the guideline to be applied to all RRGs regardless of accounting treatment (generally accepted accounting principles [GAAP]/statutory accounting principles [SAP]) or organizational structure (captive/traditional). To do this, the referral recommends removing a reference to the “Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet” in the *Financial Analysis Handbook*. The reference implies the guideline is only applicable to GAAP filers, which can be misleading. The recommendation does not change the substance of the guideline. In addition, the referral recommends changing the term “business plan” to “plan of operations” for consistency with terminology used in the LRRRA. No comments were received during the exposure period.

Commissioner White made a motion, seconded by Commissioner Rude, to adopt the revision to the Review Team Guidelines as described in the referral dated Aug. 3, 2019 (Attachment Three). The motion passed unanimously.

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

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MEMORANDUM

TO: Superintendent Elizabeth Kelleher Dwyer (RI), Chair, Financial Regulations Standards and Accreditation (F) Committee and Commissioner Lori K. Wing-Heier, (AK), Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

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

DATE: February 8, 2021

RE: Financial Regulation Standards – As of March 2021 *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 2020 through 2021 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 2020. 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. Although some of the changes have been categorized as “substantive” by the Working Group, this is not meant to suggest the modifications are synonymous with the term “significant” within the Committee’s context.

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 2021*. 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, Fatima Sediqzad and Jake Stultz

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**Summary of Changes to the
As of March 2020 Accounting Practices and Procedures Manual
included in the As of March 2021 Manual**

The following summarizes changes made to the *As of March 2020 Accounting Practices and Procedures Manual* (Manual) to create the *As of March 2021* version.

Section 1 summarizes substantive 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 nonsubstantive 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
SSAP No. 32R	2019-04	Revisions update the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project.
SSAP No. 105R	2019-25	Revisions provide updates to the Working Capital Finance Investments Program requirements. In addition, Issue Paper No. 163 was issued to provide historical documentation of the adopted revisions.
SSAP No. 106	2020-05	Revisions supersede SSAP No. 106 and nullify <i>Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums</i> . In 2021, annual statement revisions removed related disclosures.
2. Nonsubstantive Revisions – Statutory Accounting Principles		
Section	Reference	Description
SSAP No. 2R	2019-20	Revisions incorporate additional concepts which restrict the classification of certain related party or affiliated investments as a cash equivalent or short-term investment. An additional disclosure was adopted to identify short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year.
	2019-42	Revisions reflect that certain cash/liquidity pools meeting defined criteria shall be reported as cash equivalents.
	2020-16EP	Revisions update the reporting line for qualifying cash pools and make other paragraph referencing edits.
	2020-20	Revisions expand current “rolled” short-term investments disclosures (as adopted in 2019-20) to include certain cash equivalent investments.

SSAP No. 3	2019-47	Revisions add reference to disclosures and accounting for the <i>Valuation Manual</i> , Section 21 Requirements for Principle-Based Reserves for Variable Annuities, and phase-in requirements for reporting changes in the valuation basis for years beginning January 1, 2020.
SSAP No. 5R	2018-26	Revisions state that the reported equity method losses of an SCA will not go negative (thus stop at zero unless there are other valuation adjustments). However, to the extent there is a financial guarantee or commitment, the guarantee or commitment would be captured in SSAP No 5R.
	2019-43	Revisions reject <i>ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging</i> and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities.
	2020-25EP	Revisions remove redundant paragraph references in SSAP No. 5R.
SSAP No. 19	2020-23	Revisions update the amortization guidance for leasehold improvements. The updated language will allow leasehold improvements to have lives that match the associated “lease term” as reflected in SSAP No. 22R.
SSAP No. 21R	2020-06EP	Adopted editorial revisions which remove quoted guidance.
SSAP No. 25	2019-33	Revisions data-capture existing narrative format disclosures from SSAP No. 25.
SSAP No. 26R	2020-01	Revisions eliminate references to the NAIC Bond Fund List (Bond List) in SSAP No. 26R and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R.
	2020-02	Revisions clarify that the accounting and reporting of investment income and capital gain/loss, due to the early liquidation either through a called bond or a bond tender offer, shall be similarly applied.
	2020-14	Revisions clarify the assessment of other-than-temporary impairment (OTTI) to require use of modified contract terms. These revisions provide consistency with guidance in <i>SSAP No. 36R—Troubled Debt Restructuring</i> and <i>SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> .
SSAP No. 30R	2020-01	Revisions eliminate references to the NAIC Bond Fund List (Bond List) in SSAP No. 26R and add reference to the “NAIC Fixed Income-Like SEC Registered Funds List” in SSAP No. 30R.
SSAP No. 32R	2020-31	Revisions permit early adoption of the substantively revised <i>SSAP No. 32R—Preferred Stock</i> .
SSAP No. 37	2020-19	Revisions clarify that the “financial rights and obligations” required for a loan participation are not required to extend beyond the attachment of cashflows.
SSAP No. 41R	2019-37	Revisions require additional disclosures regarding the issuance of surplus notes, specifically for those that are structured in a manner in which cash flows have been reduced or eliminated.
SSAP No. 43R	2019-41	This item was disposed without statutory revisions.
	2020-21	Revisions reflect the recently updated final NAIC designation category guidance for RMBS/CMBS securities as recently adopted by the Valuation of Securities (E) Task Force in the P&P manual.
SSAP No. 47	2020-08	Revisions reject <i>ASU 2016-20, Technical Corrections & Improvements – Topic 606, Revenue from Contracts with Customers</i> for statutory accounting.
	2020-09	Revisions reject <i>ASU 2018-18, Collaborative Arrangements – Topic 808</i> for statutory accounting.

SSAP No. 48	2020-28	Revisions reject <i>ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815</i> for statutory accounting.
SSAP No. 51R	2019-35	Revisions add consistency edits to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosure, correct an identified inconsistency in a new disclosure, and adds a cross-reference to the existing disclosures.
	2019-47	Revisions add reference to disclosures and accounting for <i>Valuation Manual, Section 21 Requirements for Principle-Based Reserves for Variable Annuities</i> , and phase-in requirements for reporting changes in the valuation basis for years beginning January 1, 2020.
	2020-04	Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the <i>Valuation Manual</i> , shall be reported and disclosed as a change in valuation basis.
	2020-06EP	Adopted editorial revisions which updated paragraph references.
SSAP No. 52	2020-04	Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the <i>Valuation Manual</i> , shall be reported and disclosed as a change in valuation basis.
SSAP No. 53	2019-40	Revisions clarify that existing installment fee revenue guidance should be narrowly applied.
SSAP No. 54R	2020-04	Revisions specify that voluntary decisions to choose one allowable reserving methodology over another, which requires commissioner approval under the <i>Valuation Manual</i> , shall be reported and disclosed as a change in valuation basis.
SSAP No. 55	2018-38	Revisions clarify that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments).
SSAP No. 56	2019-35	Revisions add consistency edits to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosure, correct an identified inconsistency in a new disclosure, and adds a cross-reference to the existing disclosures.
SSAP No. 61R	2019-35	Revisions add consistency edits to ensure separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosure, correct an identified inconsistency in a new disclosure, and adds a cross-reference to the existing disclosures.
SSAP No. 62R	2019-48	Revisions incorporate disclosure updates for reinsurers from Reciprocal Jurisdictions.
	2020-25EP	Revisions add a table listing the questions addressed in SSAP No. 62R, Exhibit A - Implementation Questions and Answers.
SSAP No. 68	2020-03	Revisions add disclosure elements for reported goodwill.
SSAP No. 72	2019-43	Revisions reject <i>ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging</i> and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities.
SSAP No. 73	2020-23	Revisions update the amortization guidance for leasehold improvements. The updated language will allow leasehold improvements to have lives that match the associated “lease term” as reflected in SSAP No. 22R.
SSAP No. 86	2019-38	Revisions ensure reporting consistency in that derivatives are reported “gross;” i.e., without the inclusion of financing components. Additionally, amounts owed to/from the reporting entity from the acquisition or writing of derivatives shall be separately reflected.
	2019-39	This agenda item was disposed without statutory accounting revisions.
	2019-43	Revisions reject <i>ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives & Hedging</i> and incorporate guidance for when certain freestanding instruments shall be recognized as liabilities.

	2020-28	Revisions reject ASU 2020-01, <i>Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815</i> for statutory accounting.
SSAP No. 97	2018-26	Revisions state that the reported equity method losses of an SCA will not go negative (thus stop at zero unless there are other valuation adjustments). However, to the extent there is a financial guarantee or commitment, the guarantee or commitment would be captured in SSAP No 5R.
	2019-32	Revisions clarify that a more-than-one holding company structure is permitted as a look-through if each of the holding companies within the structure complies with the look-through requirements in SSAP No. 97.
	2020-17	Revisions update 1) the descriptive language regarding the SCA review and 2) the communication process of completed SCA reviews for both domestic regulators and financial statement filers. The change in delivery of SCA review documents will occur on January 1, 2021.
	2020-18	Revisions remove a superseded statement that guarantees or commitments from the insurance reporting entity to the SCA could result in a negative equity valuation of the SCA.
	2020-28	Revisions reject ASU 2020-01, <i>Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815</i> for statutory accounting.
SSAP No. 101	2019-45	Revisions reject ASU 2013-11, <i>Income Taxes – Presentation of Unrecognized Tax Benefit</i> for statutory accounting.
SSAP No. 103R	2019-20	Revisions incorporate additional concepts to restrict the classification of related party or affiliated investments as a cash equivalent or short-term investment. An additional disclosure identifies short-term investments (or substantially similar investments) which remain on the short-term schedule for more than one consecutive year.

3. Revisions to the Appendices

Section	Reference	Description
Appendix A	2020-07	Revisions add a line for Total Valuation Allowance to <i>Appendix A-001—Investments of Reporting Entities</i> , Section 3, Summary Investment Schedule.
Appendix B	2020-05	Revisions supersede <i>SSAP No. 106—Affordable Care Act 9010 Assessment</i> and nullify <i>Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums</i> . In 2021, annual statement revisions removed related disclosures.
	2020-12	New <i>INT 20-01: ASU 2020-04, Reference Rate Reform</i> provides optional expedient guidance, allowing for the continuation of certain contracts that are modified in response to reference rate reform. Additionally, it provides waivers from derecognizing hedging transactions, and exceptions for assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates.
	INT 20-03	Temporary <i>INT 20-03: Troubled Debt Restructuring Due to COVID-19</i> clarifies that a modification of mortgage loan or bank loan terms in response to COVID-19 shall follow the provisions detailed in the April 7, 2020, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” and the provisions of the CARES Act in determining whether the modification shall be reported as a troubled debt restructuring.

		Revisions to INT 20-03 in response to the December 27, 2020, extension of the federal CARES Act extended the INT until the earlier of January 1, 2022, or 60 days after the national emergency regarding COVID-19 terminates.
	INT 20-06	New <i>INT 20-06: Participation in the 2020 TALF Program</i> provides an exception to allow admitted asset reporting for pledged securities although the TALF program does not permit the pledged assets to be generally substitutable.
	INT 20-07	Temporary <i>INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19</i> provides practical expedients in assessing whether modifications in response to COVID-19 are insignificant under <i>SSAP No. 36—Troubled Debt Restructuring</i> and in assessing whether an exchange is substantive under <i>SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> . Revisions to INT 20-07 in response to the December 27, 2020, extension of the federal CARES Act extended the INT until the earlier of January 1, 2022, or 60 days after the national emergency regarding COVID-19 terminates.
	INT 20-09	New <i>INT 20-09: Basis Swaps as a Result of the LIBOR Transition</i> states that basis swaps, issued by central clearing parties in response to the market-wide transition away from the London Interbank Offered Rate (LIBOR), shall be reported as "hedging - other" and at fair value. To be considered or reported as an "effective" hedge, the instrument must qualify as a highly effective hedge per <i>SSAP No. 86</i> .
	INT 20-10	Temporary <i>INT 20-10: Reporting Nonconforming Credit Tenant Loans</i> provides a limited time exception allowing nonconforming CTLs to continue to be reported on Schedule D-1 for year-end 2020. This interpretation is currently effective until October 1, 2021.
Appendix C	AG 49	Revisions to AG 49 provide application guidance for the life illustrations model regulation to policies with index-based interest sold prior to December 14, 2020.
	AG 49-A	AG 49-A provides application guidance for the life illustrations model regulation to policies with index-based interest sold on or after December 14, 2020.
Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2019-46	<i>ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities</i>
	2020-10	<i>ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606</i>
	2020-11	<i>ASU 2020-02, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842)</i>
	2020-26	<i>ASU 2015-10, Technical Corrections & Improvements</i>
	2020-27	<i>ASU 2019-09, Financial Services – Insurance: Effective Date</i>
	2020-29	<i>ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities</i>
Appendix E	2019-25	<i>Issue Paper No. 163—Working Capital Finance Investment Updates</i> documents substantive updates to the requirements in <i>SSAP No. 105R—Working Capital Finance Investments</i> .

	2019-04	<i>Issue Paper No. 164—Preferred Stock</i> documents substantive revisions in SSAP No. 32R to update the definitions, measurement and impairment guidance for preferred stock pursuant to the investment classification project.
Appendix F		No revisions impacting this appendix were adopted in 2020.
Appendix G		No revisions impacting this appendix were adopted in 2020.
Appendix H	2020-05	Revisions supersede <i>SSAP No. 106—Affordable Care Act 9010 Assessment</i> and nullify <i>Interpretation (INT) 18-02: ACA Section 9010 Assessment Moratoriums</i> as of year-end 2020. In 2021, annual statement revisions removed related disclosures.
	INT 20-02	Temporary <i>INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19</i> provides an optional extension of the ninety-day rule before nonadmitting premium receivables and receivables from non-government uninsured plans in response to COVID-19. This Interpretation expired at the end of the third quarter 2020.
	INT 20-04	Temporary <i>INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19</i> provides limited-time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. This Interpretation expired at the end of the third quarter 2020.
	INT 20-05	Temporary <i>INT 20-05: Investment Income Due and Accrued</i> provides limited-time collectibility assessments and admittance exceptions for <i>SSAP No. 34—Investment Income Due and Accrued</i> . This interpretation allows an exception to the collectibility assessment for investments that have had a forbearance or modifications in response to COVID-19 that were both current as of December 31, 2019, and were not experiencing financial difficulties at the time of the modification. For these items, further evaluation of collectibility would not be required unless other indicators that interest would not be collected were known. This Interpretation expired at the end of the third quarter 2020.
	INT 20-08	Temporary <i>INT 20-08: COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends</i> addresses the accounting and disclosures of the various forms of policyholder payments made due to decreased activity from COVID-19. This Interpretation was in effect through year-end 2020 and nullified automatically on January 1, 2021
	INT 20-11	Temporary <i>INT 20-11: Extension of Ninety-Day Rule for the Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms</i> provides a 60-day extension from the ninety-day rule for uncollected premium balances, bills receivable and amounts due from agents and for policies directly impacted by the noted 2020 hurricanes, California wildfires and Iowa windstorms. This interpretation was in effect through year-end 2020 and nullified automatically on February 28, 2021.

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TO: Honorable Elizabeth Kelleher Dwyer, Chair
Financial Regulation Standards & Accreditation (F) Committee

FROM: Jake Garn, Utah Chief Financial Examiner, Chair
Blanks (E) Working Group

DATE: March 23, 2021

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2020. 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 2020 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 2020

1. Modify the instructions for column 10, Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-Out Supplement, removing instruction to exclude adjusting other reserves from the column. Add instructions to include those with the defense and cost containment reserves. Add a new instruction for column 12 for the same schedules. Add crosschecks to Schedule P, Part 1 (2019-25BWG) Effective Dec. 31, 2020.
2. Modify the instruction for Supplemental Investment Risk Interrogatories lines 13.02 through 13.11 clarifying when to identify the actual equity interests within a fund and aggregate those equity interests for determination of the ten largest equity interests (2019-28BWG) Effective Dec. 31, 2020.
3. Modify the instruction and blank for Supplemental Investment Risk Interrogatories question 14.01 to clarify that interrogatories 14.06 through 14.15 are to be completed regardless of the answer to Supplemental Investment Risk Interrogatories question 14.01 (2019-29BWG) Effective Dec. 31, 2020.
4. Add a category and instructions for reciprocal jurisdiction companies in Schedule S for the life/fraternal and health blanks and to Schedule F for the property and title blanks. Add a list of identification numbers is instruction to Schedule Y, Part 1A, Schedule Y, Part 2 and Schedule D, Part 6, Section 1 for reciprocal jurisdiction companies. Add a reference to reciprocal jurisdiction companies in the Trusteed Surplus Statement instructions for life/fraternal, health and property statements (2019-30BWG) Effective Dec. 31, 2020.
5. Add crosschecks to lines 13 and 14 of the Exhibit of Premiums Enrollment and Utilization (State Page) to lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Add crosschecks to lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, line 61 (2020-01BWG) Effective Dec. 31, 2020.
6. Modify the instructions and illustration for 13(11) to the Notes to the Financial Statement. Change the numbering from 1 through 13 to A through M to reflect the disclosure addition for *SSAP No. 41R—Surplus Notes* adopted by the Statutory Accounting Principles (E) Working Group (2020-03BWG) Effective Dec. 31, 2020.
7. Modify the instructions and illustration for Note 23A – Unsecured Reinsurance Recoverables to reflect the disclosure addition for *SSAP No. 62R—Property and Casualty Reinsurance* adopted by the Statutory Accounting Principles (E) Working Group (2020-04BWG) Effective Dec. 31, 2020.
8. Modify the instructions and illustration for Note 2 – Accounting Changes and Correction of Errors to reflect the disclosure additions for *SSAP No. 3—Accounting Changes and Corrections of Errors* and *SSAP No. 51R—Life Contracts* adopted by the Statutory Accounting Principles (E) Working Group (2020-05BWG) Effective Dec. 31, 2020.
9. Add new disclosure Note 23 – Reinsurance for reinsurance credit (23H – life/fraternal, 23E – health and 23K – property) to reflect the disclosure additions for *SSAP No. 61R—Life, Deposit-Type Contracts and Accident and Health Contracts Reinsurance* adopted by the Statutory Accounting Principles (E) Working Group (2020-07BWG) Effective Dec. 31, 2020.
10. Add a disclosure instruction for 10C to the Notes to the Financial Statement for related party transactions not captured on Schedule Y to reflect the disclosure addition for *SSAP No. 25—Affiliates and Other Related Parties* adopted by the Statutory Accounting Principles (E) Working Group. Combine existing 10C into 1B instructions and illustration narrative (2020-08BWG) Effective Dec. 31, 2020.
11. Modify the Annual Statement Instructions for Schedule F, Part 3 to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance (2020-09BWG) Effective Dec. 31, 2020.
12. Revise the column 10 header in the Variables Annuities Supplement blank to be contract level reserves less cash surrender value. Revise the line descriptions in lines 1 through 3 in the footer and add a Line for the reserve credit from other reinsurance and for post-reinsurance ceded aggregate reserve. Adjust the instructions to correspond with changes made to the blanks as well as changes in the 2020 *Valuation Manual* for the new variable annuities framework (2020-10BWG) Effective Dec. 31, 2020.

13. For the VM-20 Reserves Supplement Blank, split Part 1 into Part 1A and Part 1B. For Part 1A: change the description header for column 3 to be “Due and Deferred Premium Asset” to match the instructions. Add “XXX” in the two places needed to indicate that a due and deferred premium asset does not need to be reported in the lines shown for Total Reserves. Change the reporting units for all columns to be in dollars rather than in thousands. Expand all columns to allow room for a number as large as 999,999,999,999. Change the product labels for clarity.

For Part 1B: change the reporting units for the reserve columns to be in dollars rather than in thousands. Expand the reserve columns to allow room for a number as large as 999,999,999,999. Expand the face amount columns to allow room for a number as large as 9,999,999,999. Change the product labels for clarity. Remove Part 2 and renumbering the remaining parts. Adjust the instructions according to the changes made to the banks. Clarify instructions and add examples for Parts 1A and 1B (2020-11BWG) Effective Dec. 31, 2020.
14. Require Appointed Actuaries to attest to meeting continuing education (CE) requirements and participate in the CAS/SOA CE review procedures, if requested (2020-12BWG) Effective Dec. 31, 2020.
15. Remove line 24.04 from the General Interrogatories, Part 1 and renumber remaining lines for Interrogatory Question 24. Modify Lines 24.05 and 24.06 to require reporting amounts for conforming and nonconforming collateral programs (2020-13BWG) Effective Dec. 31, 2020.
16. Modify the columns and rows on the blank pages for the Long-Term Care Experience Reporting Forms 1 through 5 and make appropriate changes to the instructions for those forms (2020-14BWG) Effective Dec. 31, 2020.
17. Add a new private flood insurance supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages (2020-15BWG) Effective Dec. 31, 2020.
18. Modify questions 3.1 and 3.2 of General Interrogatories Part 2 and provide instructions for the questions (2020-16BWG) Effective Dec. 31, 2020.
19. Adjust the Asset Valuation Reserve (AVR) presentation to include separate lines for each of the expanded bond designation categories (2020-17BWG) Effective Dec. 31, 2020.
20. Clarify the instructions to indicate which funds reported on Schedule D, Part 2, Section 2 (Annual Filing) and Schedules D, Part 3 and 4 (Quarterly Filing) must have NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol. Modify the reference to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* found in the investment instructions (2020-18BWG) Effective Dec. 31, 2020.
21. Add a code of “%” to the Code Column for all investments which have been reported Schedule DA, Part 1 and Schedule E, Part 2 for more than one consecutive year. Add certification to the General Interrogatories, Part 1 inclusion of these investments on Schedule DA, Part 1 and Schedule E, Part 2 (2020-19BWG) Effective Dec. 31, 2020.
22. For Schedule D, Part 1, add code “10” to Column 26 – Collateral Type for ground lease financing. Renumber “Other” code to 11 (2020-20BWG) Effective Dec. 31, 2020.
23. Add new line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumber existing line 4.05 to 4.06. Modify the instructions to include a crosscheck for new line 4.05 back to Schedule B – Verification Between Years. Clarify the instructions for 4.01-4.04 to explicitly show crosschecking to column 8 of Schedule B, Part 1 (2020-21BWG) Effective Dec. 31, 2020.
24. Modify the instructions and illustration for Note 3A and a new Note 3E with instructions and illustrations to be data captured. Modify the blank and instructions for Schedule D, Part 6, Sections 1 and 2 (2020-22BWG) Effective Dec. 31, 2021.
25. Add a footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 (Separate Accounts) to disclose cases when a mortality risk is no longer present or a significant factor – i.e. due to a policyholder electing a payout benefit (2020-23BWG) Effective Dec. 31, 2020.
26. Remove questions 29, 30, 31 and 32 from the Supplemental Exhibits and Schedules Interrogatories. Renumber the remaining questions. Remove the instructions related to these actuarial filings (2020-24BWG) Effective 12/31/2021.
27. Add a new column 5 to the blank for Schedule T with instructions to specifically capture the Children’s Health Insurance Program (CHIP) premium. Existing columns after the new column 5 will be renumbered (2020-25BWG) Effective 1/1/2021.
28. Add a new column 5 to Schedule DB, Part D, Section 1 and renumber the remaining columns. Add instructions for the new column 5, add the column reference to column 7 and adjust other column references in crosschecks. Correct column references for this schedule on the Liability Page, Asset Page and Schedule DB Verification. Modify instruction language for the disclosure Note 8A(8) (2020-26BWG) Effective 1/1/2021.

29. Add new category line to Schedule E, Part 2 for qualified cash pools under *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments* (8799999) and renumber the remaining category lines. Add new disclosure 5R to the Notes to Financial Statements (2020-27BWG) (SAPWG 2019-42) Effective 1/1/2021.
30. Remove the disclosure for the Federal Affordable Care Act (ACA) Section 9010 Assessment from Note 22 – Events Subsequent (SAPWG Ref #2020-05) (2020-28BWG) Effective 12/31/2021.
31. Remove the line category and reference to the NAIC Bond Fund List (Bond List) from the investment schedule instructions and blank (SAPWG 2020-01) (2020-29BWG) Effective 12/31/2021.
32. Move the interrogatory question regarding Communication of Internal Control Related Matters Noted in Audit from the Annual Supplemental Exhibits and Schedules Interrogatories to the Quarterly Supplemental Exhibits and Schedules Interrogatories to be answered for the second quarter. For title, a new page in the quarterly statement will be added for the Supplemental Exhibits and Schedules Interrogatories (2020-30BWG) Effective 12/31/2021.
33. Replace the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation and the Adjustments to the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibits with modernized exhibits to promote consistent reporting of assessable premiums among industry members and to reflect changes in guaranty association laws adopted over the past two decades (2020-31BWG) Effective 12/31/2021.



MEMORANDUM

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

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

DATE: February 1, 2021

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 2020 *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 2020. 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 Capitation tables included in the forecasting spreadsheet will be captured electronically through the annual filing submission of the health RBC formula.

Not Significant The Risk-Based Capital Preamble was added to the Health RBC instructions to clarify the purpose and goals of RBC as the Task Force and Working Groups review referrals and proposals.

Not Significant The 20 designation bond categories were incorporated into the health RBC formula for year-end 2020 reporting. The information captured through the 2020 reporting will be used to conduct an impact analysis that will assist in determining the final bond factors. The 20 bond designation categories were incorporated on an informational only basis on the Off-Balance Sheet Security Lending Collateral and Schedule DL, Part 1 Assets Page (XR006), Fixed Income Assets page (XR007) and the Asset Concentration page (XR011).

Not Significant The instructions were modified on page iv to insert the word “Overview” in the page heading and the Table of Contents was modified to include only the page heading and delete references to the individual sections of the Overview page.

Life RBC Formula

Not Significant Capitation tables included in the forecasting spreadsheet will be captured electronically through the annual filing submission of the life RBC formula.

Not Significant The Risk-Based Capital Preamble was added to the life RBC instructions to clarify the purpose and goals of RBC as the Task Force and Working Groups review referrals and proposals.

Not Significant The 20 designation bond categories were incorporated into the life RBC formula for year-end 2020 reporting. The information captured through the 2020 reporting will be used to conduct an impact analysis that will assist in determining the final bond factors.

Not Significant The instructions were modified on page iv to insert the word “Overview” in the page heading and the Table of Contents was modified to include only the page heading and delete references to the individual sections of the Overview page.

Not Significant The structure for a longevity risk charge was incorporated into the life RBC formula along with the instructions which include factors of zero for 2020. The structure adopted will provide information to be used in the ultimate determination of factors for 2021.

P/C RBC Formula

Not Significant Capitation tables included in the forecasting spreadsheet will be captured electronically through the annual filing submission of the P/C RBC formula.

Not Significant Modify the instruction to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance.

Not Significant The Risk-Based Capital Preamble was added to the P/C RBC instructions to clarify the purpose and goals of RBC as the Task Force and Working Groups review referrals and proposals.

Not Significant Clarify the instructions for the reinsurance recoverable from individual syndicates of Lloyds’ of London that are covered under the Lloyd’s Central Fund may utilize the lowest financial strength group rating received from an approved rating agency.

Not Significant Eliminate PR038 Adjustment for Reinsurance Penalty for Affiliates Applicable to Schedule F section.

Not Significant The 20 designation bond categories were incorporated into the P/C RBC formula for year-end 2020 reporting. The information captured through the 2020 reporting will be used to conduct an impact analysis that will assist in determining the final bond factors. The 20 bond designation categories were incorporated on an informational only basis on the Bonds Page (PR006), the Asset Concentration page (PR011) and Off-Balance Sheet Collateral and Schedule DL, Part 1 Assets Page (PR015).

Not Significant The PR017 and PR018 Line 1 industry average development factors were updated.

Not Significant The instructions were modified on page iv to insert the word “Overview” in the page heading and the Table of Contents was modified to include only the page heading and delete references to the individual sections of the Overview page.

To: The Financial Regulation Standards and Accreditation (F) Committee

From: Susan Bernard, Chair, Financial Examiners Handbook (E) Technical Group

Date: February 26, 2021

Subject: Consideration for Financial Accreditation Standards
2021 Financial Condition Examiners Handbook

The Accreditation Program 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* (the Handbook). This memorandum is to update the FRSAC on changes that the Financial Examiners Handbook Technical Group (FEHTG) has made to the Handbook during 2020.

Modifications are made to the Handbook each year, and a new edition is published annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The FEHTG made several changes to the Handbook in 2020. It is the FEHTG's opinion that none of these changes should be considered "significant" for accreditation purposes. FEHTG defined "significant" 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 some changes may be categorized as "significant" by the FEHTG, this is not meant to suggest the modifications are synonymous with the term "significant" within the FRSAC context.

During 2020, the FEHTG made the following changes:

- Revised the reinsurance guidance to include a definition of a reciprocal jurisdiction reinsurer and describe the related requirements for obtaining credit for reinsurance. These revisions were made in accordance with the updates to the *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786), which extend the ability for U.S ceding insurers to obtain credit for reinsurance ceded to reinsurers from Reciprocal Jurisdictions with no collateral requirements.
- Revised guidance to incorporate the following Long-Term Care Insurance (LTCI) considerations:
 - Additional narrative background guidance to the life insurance reserves review chapter of the Handbook, covering actuarial asset adequacy and reserve increase factors, which includes morbidity assumptions and rate increases.
 - New risks and related procedures added into the Reserves/Claims Handling (Life) and Underwriting exam repositories for LTCI policies. These related to assumptions utilized when calculating the policy's reserves for and establishing appropriate policy rates
 - Additional possible questions added to Exhibit Y – Examination Interviews, which the examiner may consider asking when interviewing the Chief Actuary.
- Revised the definition of a qualified actuary per the P/C Statement of Actuarial Opinion. Additionally, the Reserves/Claims Handling (P/C) exam repository was updated to add clarity to certain risk statements and procedures and Exhibit M – Corporate Governance was updated to add considerations when assessing management oversight of the actuarial function.
- Revisions to the Own Risk and Solvency Assessment (ORSA) related guidance within the Handbook, which included the following:

- Possible procedures the exam team could perform to verify and validate the information in the ORSA.
 - Updates to Exhibit M – Corporate Governance to clarify the link between the ORSA information and Exhibit AA – Summary Review Memorandum (SRM).
 - Updates to the SRM to include details on how the exam team should conclude on the maturity of the insurer’s ORSA/ERM function.
 - Updates to the SRM to include new guidance describing the expectation that the exam team should include the results of the ORSA/ERM review in the branded risk assessments, where applicable.
- Revisions to the Reserves/Claims Handling Repositories (Life, Health and P/C) as part of the annual repository maintenance to ensure the repositories contain appropriate and relevant risks and procedures. As part of this project, some minor revisions were also added to the narrative guidance related to life insurance reserves reviews.
 - Revised guidance related to Information Technology (IT) with the addition of “cyber self-assessment tools” to the list of items requested at the beginning of an IT examination within the Information Technology Planning Questionnaire (ITPQ).

The FEHTG sincerely requests that the FRSAC consider the items listed above as insignificant changes to the Handbook. We will continue to notify the FRSAC of any changes to the Handbook and advise if, in our opinion, those changes are “significant” by accreditation expectations.

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MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Kevin Fry (III), 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 16, 2021

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 2020 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 *2021 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 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

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- 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 banks on the NAIC Bank 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 2020, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2020 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 2020 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, 2020 Publication*

- **Adopted updates following a new SEC rule affecting exchange-traded funds** – On Sep. 26, 2019, the SEC adopted rule 6c-11 (the “Rule”) under the Investment Company Act of 1940 (the “Act”) which will permit exchange-traded funds (“ETFs”) that satisfy certain conditions to operate without first obtaining an exemptive order from the SEC under the Act. The SEC has stated that the intent of the rule is to modernize the regulatory framework for ETFs by reducing expenses and delays in creating new ETFs, to promote greater consistency, transparency and efficiency for ETFs and to facilitate greater competition among ETFs. The Rule becomes effective Dec. 23, 2019, followed by a one year transition period for compliance. The amendment removed references to SEC exemptive orders from descriptions of ETFs and clarify that Regulatory Treatment Analysis Service application filers only need to provide SEC exemptive orders to the SVO when applicable.

The Valuation of Securities (E) Task Force adopted this amendment on Feb. 4, 2020

- **Updated instructions for financial modeled RMBS/CMBS securities to map NAIC Designations to NAIC Designation Categories** – Financial Modeled RMBS/CMBS securities use their book/adjusted carrying value price ranges to determine an NAIC Designation. The resulting NAIC Designation from financial modeling process will be now be mapped to an NAIC Designation Category; except that an RMBS or CMBS tranche that has no expected loss under any of the selected modeling scenarios and that would be equivalent to an NAIC 1 Designation and NAIC 1.A Designation Category if the filing exempt process were used, 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 May 14, 2020

- **Updated several technical corrections for policy-based assignments of NAIC Designation Categories** – With the introduction of NAIC Designation Categories, the 20 granular delineations of credit risks adopted by the Task Force on Jun. 11, 2018, several policy-based assignments of NAIC Designations did not receive a mapping to an NAIC Designation Category. This amendment identifies the appropriate NAIC Designation Category to be assigned for these policy-based assignments.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 1, 2020.

- **Rename the U.S. Direct Obligations/Full Faith and Credit Exempt List to the NAIC U.S. Government Money Market Fund List and Discontinue the NAIC Bond Fund List** – The SVO maintains the NAIC U.S. Direct Obligations/Full Faith and Credit Exempt Money Market Funds List. This list of Money Market Funds (MMF) gets special treatment because they can be reported as a cash equivalent on Schedule E, Part 2. The title of this list has been shortened to “NAIC U.S. Government Money Market Fund List.” This is only a title change to simplify it, no criteria was changed.

The SVO also maintains the NAIC Bond Fund List that contains funds that maintain the highest credit quality rating, maintains the highest market risk rating (this rating type that is no longer assigned), and invests 100% of its total assets in U.S. Government securities along with several other restrictive criteria. No funds qualify for this list and the list has been eliminated.

The Valuation of Securities (E) Task Force adopted this amendment on Jul. 1, 2020.

- **Permit Supranational Entities Filed with the SVO to be Added to the Sovereign NAIC Designation Equivalent List** – The SVO maintains the Sovereign NAIC Designation Equivalent list and publishes it on its webpage (<https://www.naic.org/svo.htm>). Insurers must report supranational entities on the Supplemental Investment Risks Interrogatories (SIRI) with a Sovereign NAIC Designation Equivalent. This amendment permits the SVO to include supranational entities on the Sovereign NAIC Designation Equivalent list if an insurer files a request with the SVO and the SVO is able to determine an appropriate NAIC designation equivalent.

The Valuation of Securities (E) Task Force adopted this amendment on Aug. 7, 2020.

- **Update to the General Mapping of Credit Rating Provider Ratings, Long and Short-term, to NAIC Designations and NAIC Designation Categories** – The Task Force approved an update to the tables reflecting the general mapping of Credit Rating Provider (CRP) ratings to NAIC Designations and NAIC Designation Categories. Short-term investments were mapped to the mid-point of the range of long-term ratings covered by each short-term rating. The update included a note highlighting that the mappings for both long-term and short-term rating symbols are for “Generic Rating Symbols.” CRPs use a variety of symbols; including, combinations of prefixes and suffixes that provide additional information about the rating symbol which are described in the CRP's documentation. There are over 2,000+ unique rating symbols used by CRPs to describe long-term securities. The SVO webpage (<https://www.naic.org/svo.htm>) maintains a master list of Credit Ratings Eligible for Translation to NAIC Designations.

The Valuation of Securities (E) Task Force adopted this amendment on Aug. 7, 2020.

- **Add Instructions for ETFs that Contain a Combination of Preferred Stocks and Bonds** – The Task Force authorized the SVO to review and determine that a fund’s cash flow can be appropriately characterized as fixed income for regulatory purposes, and if so, assign an NAIC Designation to reflect the credit risk associated with the fund’s cash flow and include the name of the fund on the appropriate NAIC List. For inclusion on the SVO-Identified Bond or Preferred Stock ETF list, the ETF must predominantly hold either a portfolio of bonds or preferred stock. This amendment authorizes the SVO to review ETFs that hold both bonds and preferred stock for possible inclusion on the SVO-Identified Preferred Stock ETF list.

The Valuation of Securities (E) Task Force adopted this amendment on Sep. 29, 2020.

- **Update Guidance on Initial and Subsequent Annual Filings, Methodologies and Documentation** – The Task Force adopted updated guidance in the P&P Manual for initial and subsequent annual filings and affirmed the SVO’s authority to use reasonable analytical discretion in its assessments including methodologies to utilize and additional documentation or information it may deem necessary for its analysis. The amendment reinforces the Task Force’s expectation that insurance companies will provide the necessary documentation in a timely manner to the SVO and further outlines the types of information the SVO may require. The SVO webpage (<https://www.naic.org/svo.htm>) also maintains general Guidance on Documentation, Applications and Forms.

The Valuation of Securities (E) Task Force adopted this amendment on Nov. 18, 2020.

- **Revised the Previously Adopted (May 14, 2020) Instructions for Financial Modeled RMBS/CMBS Securities mapping to NAIC Designations to NAIC Designations Categories** – The Task Force adopted updated instructions for financially modeled zero-loss RMBS/CMBS securities. The revision eliminates the potential for regulatory capital to be impacted and calibrates the reported NAIC Designation Category for these securities to be consistent with their overall equivalent CRP rating risk level that would be applied under Filing Exemption (FE). Financially modeled zero-loss RMBS/CMBS securities that have the equivalent of an NAIC Designation 1 if the filing exempt process was used and will be mapped to an NAIC Designation NAIC 1 and NAIC Designation Category of NAIC 1.D.

The Valuation of Securities (E) Task Force adopted this amendment on Dec. 23, 2020.

- **Adopted an updated definition and instructions for Principal Protected Securities** – these securities mix a traditional bond or bonds with additional assets that may possess any characteristic. The additional assets are intended to generate an excess return, “performance assets,” and may be any asset, such as derivatives, common stock, commodities, equity indices, etc. The performance assets may include undisclosed assets and are typically not securities that would otherwise be permitted on Schedule D, Part 1 as a bond. The adopted amendment for principal protected securities (PPS) includes an updated description, definition and instructions; it removes these securities from Filing Exemption (FE) eligibility; and requires all PPS, including those currently designated under the FE process, to be submitted to the Securities Valuation Office (SVO) for review under their Subscript S authority beginning January 1, 2021, and filed with the SVO by July 1, 2021, if previously owned.

The Valuation of Securities (E) Task Force adopted this amendment on May 14, 2020

(NOTE: This change is effective as of Jan. 1, 2021. PPS acquired prior to Jan. 1, 2021 must be filed with the SVO by Jul. 1, 2021, all others follow existing filing guidance.)

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: Superintendent Elizabeth Kelleher Dwyer (RI), Chair, Financial Regulations Standards and Accreditation (F) Committee and Director Lori K. Wing-Heier, (AK), Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

FROM: Mike Boerner (TX), Chair, Life Actuarial (A) Task Force,
Pete Weber (OH), Vice Chair, Life Actuarial (A) Task Force

DATE: March 3, 2021

RE: Financial Regulation Standards – As of March 2021 *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 has made to the Valuation Manual in 2020. The changes were adopted by the Executive (EX) Committee and Plenary at the 2020 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the Valuation Manual in 2020. 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 *2021 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.

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LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2019-58	Section A.1	Clarify that prescribed templates are subject to the VM governance requirements for substantive changes	5/21/20
2019-60	VM-20 Section 9.C.5.a, 9.C.7.b.ii	VM-20 restriction on using different credibility methods for significantly different blocks of business	2/6/20
2019-61	Section II, Subsection 1.D.3	The Life PBR Exemption restriction is intended to apply to ULSG with material secondary guarantees regardless of whether the secondary guarantee is an embedded guarantee or is a separate rider.	2/6/20
2019-62	VM-20 Sec 9.C.4 and VM-31 Sec 3.B.3, Sec 3.D.1.d, Sec 3.D.3, Sec 3.D.4 and Sec 3.D.8.a	Reserving for additional risk arising from term conversions	2/27/20
2020-05	VM-20 3.C.4	Clarify that the NPR assumes continuous deaths and immediate payment of claims, and does not apply to surrenders	6/11/20
2020-06	VM-20 Section 9.F.8.d., VM-31 Section 3.D.6	Guidance for replacement of LIBOR in swap spread determination	6/25/20
2020-07	VM-02 Section 3.A	Remove 4% Floor from Life Standard Nonforfeiture Rate	6/25/20

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 2021 VM.](#)



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: NAIC Staff

DATE: March 15, 2021

RE: Part A Preamble Update for the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787)

In 2019, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) as a new Part A accreditation standard, effective Sept. 1, 2022, with enforcement to begin Jan. 1, 2023. Model #787 establishes uniform, national standards governing captive reinsurance agreements pertaining to term and universal life insurance policies with secondary guarantees. Prior to Model #787, *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model #830)* (AG48) was adopted as an interim step to address concerns regarding such reserve financing transactions. Model #787 completes the XXX/AXXX Reinsurance Framework by codifying the concepts in AG 48.

The NAIC Reinsurance Framework is discussed in the Part A Preamble under the section for captive reinsurers. The current iteration includes reference to the Reinsurance Framework and the impact on compliance with accreditation for captive reinsurers regarding specific lines of business. The lines of business include policies applicable under Section 3 of Model #787, commonly referred to as XXX/AXXX policies. The applicable excerpt of the Preamble is attached and includes recommended tracked changes to reference Model #787. The updates are not considered substantive, but rather are to ensure consistency with the adoption of Model #787 as the new standard for compliance.

Following adoption of AG 48 and prior to the effective date of Model #787, NAIC staff have performed an annual review of all insurers with applicable transactions. The review is designed to ensure all applicable transactions comply with the Reinsurance Framework and, as a result, comply with the Part A accreditation standards. NAIC staff will continue this review until the effective date of Model #787, at which time enactment of the model will be the measure of compliance.

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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 P~~olicies that are applicable under Section 3 of the Term and Universal Life Insurance Reserve Financing Model Regulation (#787)~~required to be valued under Sections 6 or 7 of the Valuation of Life Insurance Policies Model Regulation (Model #830)~~ (commonly referred to as XXX/XXX 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). [Drafting Note: This paragraph of the Preamble is not yet effective. Effective date for compliance to be determined.]
- 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.]

~~The NAIC Executive (EX) Committee adopted the XXX/XXX Reinsurance Framework, and the NAIC is currently in the process of adopting actions necessary for its full implementation.~~ With regard to a captive insurer, special purpose vehicle, or any other entity assuming XXX/XXX business, regulation of the entity is deemed to satisfy the Part A accreditation requirements if the applicable reinsurance transaction complies with Model #787. ~~satisfies the XXX/XXX Reinsurance Framework requirements adopted by the NAIC.~~

[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 not yet determined, and their application to in-force business need further discussion].



MEMORANDUM

To: Financial Regulation Standards and Accreditation (F) Committee

From: Financial Condition (E) Committee

Date: March 8, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)

On Dec. 9, 2020, 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). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance.

Please find attached, memorandums and proposed changes to the Accreditation (E) Committee as adopted by the Financial Condition (E) Committee related to these most recent changes to #440 and #450. Each of the memorandum's summarize the basis for recommending that certain provisions of these model changes become part of the Accreditation program as well as suggested timing. With respect to timing, consistent with action taken by the Financial Regulation Standards and Accreditation (F) Committee to use an expedited process in 2019 with respect to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) due to the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement), we recommend a similar expedited process with respect to states who are a Group Wide Supervisor of a group with operations in the EU or UK. The attached provide further details on the specifics of such recommendations.



MEMORANDUM

To: Financial Condition (E) Committee

From: Group Capital Calculation (E) Working Group

Date: February 25, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Model Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450)

Executive Summary

On Dec. 9, 2020, 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). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance. This memorandum makes recommendations with respect to the accreditation standards that this Working Group believes is appropriate with respect to only the GCC and expect the Financial Stability (EX) Task Force to make separate recommendations to the Committee with respect to the LST.

The GCC was developed as a result of discussions which began in 2015. The GCC is a natural extension of work state insurance regulators had begun, in part by lessons learned from the most recent financial crisis, to better understand an insurance group's financial risk profile for the purpose of enhancing policyholder protections. While state insurance regulators currently have the authority to obtain information regarding the capital positions of non-insurance affiliates, they do not have a consistent analytical framework for evaluating such information. The GCC is designed to address this shortcoming and will serve as an additional financial metric that will assist state insurance regulators in identifying risks that may emanate from a holding company system. The GCC, and related financial reporting, will provide comprehensive transparency to state insurance regulators, making risks more easily identifiable and quantifiable. For these reasons, the Working Group recommends adoption of #440 and #450 as accreditation standards for all states with the normal accreditation timeline, which would result in an effective date of January 1, 2026.

In addition, the GCC is intended to comply with the requirements under the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement), which was signed on Sept. 22, 2017. On Dec. 18, 2018, a similar Covered Agreement was signed with the United Kingdom (UK). The GCC is intended to meet the requirement that the states have a "worldwide group capital calculation" in place by Nov. 7, 2022 in order to avoid the EU from imposing a group capital assessment or requirement at the level of the worldwide parent undertaking. Failure of any state to do so for any U.S. group operating in such jurisdiction raises the potential for any supervisor in the EU or UK to impose its own group capital calculation (e.g., Solvency II capital requirements) on that group and therefore all of the U.S. insurers within that group. Due to this agreement, the Working Group recommends that the accreditation standard become effective Nov. 7, 2022 for those states who are the Group Wide Supervisor of a group with operations in the EU or UK.

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A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:

The current *Insurance Holding Company Systems* accreditation standard requires that state law shall contain the significant elements from Model #440 and Model #450. These models have provided state insurance departments the framework for insurance group supervision since the early 1970s. Following the 2008 financial crisis, state regulators identified group supervision as an area where improvements could be made to the U.S. system. In December 2010, the NAIC adopted changes to the models enhancing the domestic legal structure under which holding companies are supervised. In December 2014, the NAIC adopted revisions to clarify legal authority and powers to act as a group-wide supervisor for internationally active insurance groups. These changes are newly required elements of the NAIC Accreditation Program and have been satisfactorily adopted by nearly all accredited U.S. jurisdictions. As discussed in the preceding paragraphs, the GCC was designed to enhance these same standards that were previously included as accreditation standards.

A statement as to why ultimate adoption by every jurisdiction may be desirable:

The Group Capital Calculation (E) Working Group believes that all states that are the lead state for a group subject to the GCC should be required to adopt the model revisions. The GCC is a tool intended to help protect the policyholders in all states from the risk that can emanate from outside the domestic insurer and will be an input into the Group Profile Summary (GPS). After an initial filing by all insurance groups, the GCC is required for all U.S. insurance groups with greater than \$1 billion in premium. The groups subject to the GCC are expected to have domestic insurers in most U.S. states. Therefore, it is recommended that the new significant elements apply to all states.

A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:

We are not currently aware of any states that have adopted the 2020 revisions to Model #440 and Model #450, although we have been advised that many states have begun their legislative processes for adoption of these revisions.

A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements:

The current accreditation standard for Model #440 and Model #450 requires state adoption on a substantially similar basis. Therefore, the Group Capital Calculation (E) Working Group supports the attached proposed significant elements (Attachment A) be adopted by NAIC-accredited jurisdictions in a “substantially similar” manner, as that term is defined in the Accreditation Interlineations of the NAIC Financial Regulation Standards and Accreditation Program. The Financial Regulation Standards and Accreditation (F) Committee should consider a waiver of procedure as provided for in the Accreditation Program Manual and expeditiously consider adoption of this standard. The Group Capital Calculation (E) Working Group recommends that the accreditation standard become effective Nov. 7, 2022, the end of the 60-month period contemplated under the Covered Agreement, with enforcement of the standard to commence Jan. 1, 2023. However, the Working Group is also supportive of the effective date being bifurcated to allow those states that are not the Group Wide Supervisor of a group with operations in the EU or UK to be subject to a later effective date in line with the normal accreditation timeline, which would result in an effective date of January 1, 2026.

There were also revisions made to Section 8 of Model #440 regarding Confidential Treatment. The Group Capital Calculation (E) Working Group strongly supports the use of language similar to that contained in Section 8G of Model #440. This language was considered very critical to the GCC as its very important that members of the insurance industry (or regulators) not be allowed to make the results of the GCC public in any way as they are designed as regulatory-only tools. Unlike RBC that has regulatory trigger points, the GCC does not, and the regulators of these groups believed it would be detrimental if these tools were used by insurers as a means to advertise their relative solvency strength.

An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable:

The NAIC has not performed a cost/benefit analysis with respect to the 2020 revisions to Model #440 and Model #450, nor do we believe that the specific costs for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it are reasonably quantifiable. However, the possible exemptions allowed under Model #450 are specifically designed to consider the cost to complete the GCC by the insurance company and the benefits of the GCC to the lead-state commissioner. More specifically, all insurers are required to submit the GCC at least once, after which time the expectation is that the lead state commissioner will evaluate the added insight brought to the state from GCC; then, provided the group has premium less than \$1 billion, no international business, no risky non-regulated entities and no banks or similar capital regulated entities in the group, the lead state commissioner can exempt the group from filing in the future.

In addition, the construction of the GCC also considers cost of completion and specifically provides a principle-based approach where the insurance company can exclude non-risky affiliates from the calculation and also provides the insurance company to group the information of multiple non-insurance/non-regulated affiliates as a means to further reduce the burden of completion. In short, the GCC is only as complex as the insurance group has structured itself, and therefore the GCC already inherently considers the cost to comply.

6. Insurance Holding Company Systems

State law should contain the NAIC *Insurance Holding Company System Regulatory Act* (#440), or an act substantially similar, and the department should have adopted the NAIC *Insurance Holding Company System Model Regulation* (#450).

Insurance Holding Company Systems – continued

Changes to Existing

k. Filing requirements for the enterprise risk filing similar to those specified in Section 4L(1) of the Model #440?

New

- l. Filing requirements for the group capital calculation filing similar to those specified in Section 4L(2) of Model #440?
- i. The ultimate controlling person of every insurer subject to registration shall annually file a group capital calculation completed in accordance with the NAIC Group Capital Calculation Instructions as directed by the lead state commissioner similar to section 4L(2)?
 - ii. Provision for exempting an insurance holding company system that has only one insurer within its holding company structure, that only writes business [and is only licensed] in its domestic state and assumes no business from any other insurer, similar to 4L(2)(a)?
 - iii. Provision for exempting an insurance holding company system that is required to perform a group capital calculation specified by the U.S. Federal Reserve? If the Federal Reserve Board cannot share the calculation with the lead state commissioner, the insurance holding company system is not exempt from the GCC, similar to 4L(2)(b)?
 - iv. Provision for exempting an insurance holding company system whose non-U.S. group-wide supervisor is located within a Reciprocal Jurisdiction that recognizes the U.S. state regulatory approach to group supervision and group capital, similar to 4L(2)(c)?
 - v. Provision for exempting an insurance holding company system that provides information to the lead state that meets the requirements for accreditation under the NAIC financial standards and accreditation program and whose non-U.S. group-wide supervisor that is not in a Reciprocal Jurisdiction recognizes and accepts the GCC as the world-wide group capital assessment for U.S. insurance groups who operate in that jurisdiction, similar to 4L(2)(d)?
 - vi. Provision that gives the lead state the authority to require the GCC for U.S. operations of any non-U.S. based insurance holding company system where after any necessary consultation with other supervisors or officials, it is deemed appropriate by the lead state commissioner for prudential oversight and solvency monitoring purposes, similar to 4L(2)(e)?

Changes to Existing

cc. Provisions for protecting confidential information submitted to the commissioner, including provisions maintaining confidentiality for information shared with state, federal and international regulators similar to Section 8? If sharing confidential information with the NAIC and third-party consultants is permitted, appropriate confidentiality protections should be included.

New

- m. Provision prohibiting the making, publishing, disseminating, circulating or placing before the public in any way the group capital calculation and resulting group capital ratio under Section 4L(2) and/or the liquidity stress test along with its results and supporting disclosures required under Section 4L(3), by any insurer, broker, or other person engaged in any manner of the insurance business, except if the sole purpose of the announcement is to rebut a materially false statement, similar to Section 8G of Model #440?
- n. Filing requirements for the group capital calculation filing similar to those specified in Section 21 of Model #450?
- i. Provision that gives the lead state the authority to exempt the filing of the group capital calculation provided the criteria are similar to those allowed under Section 21A of Model #450?

- ii. Provision that gives the lead state the authority to accept a limited group capital filing provided the criteria are similar to those allowed under Section 21B of Model #450?
- iii. Provision that gives the lead state the authority to require the group capital calculation of any group that previously met an exemption or submitted a limited filing if any insurer in the holding company system either triggers an RBC action level event, is deemed in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, similar to those allowed under Section 21C of Model #450?
- iv. Provision that sets forth the criteria for a jurisdiction to be included on the NAIC listing that “recognize and accept the group capital calculation” similar to that required under Section 21D and Section 21E of Model #450?



MEMORANDUM

To: Financial Condition (E) Committee

From: Financial Stability (E) Task Force

Date: February 22, 2021

Re: 2020 Revisions to *Insurance Holding Company System Regulatory Act* (#440)

Executive Summary

On Dec. 9, 2020, 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). These revisions implemented a Group Capital Calculation (GCC) for the purpose of group solvency supervision and Liquidity Stress Test (LST) for macroprudential surveillance. This memorandum makes recommendations with respect to the accreditation standards that this Task Force believes is appropriate with respect to only the LST and expect the Group Capital Calculation (E) Working Group to make separate recommendations to the Committee with respect to the GCC.

Post-financial crisis, regulators from all financial sectors across the globe recognized the need for macroprudential surveillance and tools to address macroprudential risks. While the solvency framework established and managed by the Financial Condition (E) Committee thoroughly addresses legal entity insurers and insurance groups, there was no group with a macroprudential scope. This Task Force was created to fill this gap, and in 2017 was charged to “analyze existing post-financial crisis regulatory reforms for their application in identifying macroprudential trends, including identifying possible areas of improvement or gaps, and propose . . . enhancements and/or additions to further improve the ability of state insurance regulators and industry to address macroprudential impacts.” The Task Force created the NAIC Macroprudential Initiative (MPI) to focus its efforts in four key areas: liquidity risk, recovery and resolution, capital stress testing, and exposure concentrations. Liquidity risk was consistently recognized as a key macroprudential risk by federal and international regulatory agencies, and there were several attempts to assess potential market impacts emanating from a liquidity stress in the insurance sector. Many of these analyses relied heavily on anecdotal assumptions and observations from behaviors of other financial sectors.

In order to provide more evidence-based analyses, the Task Force decided to develop a LST for large life insurers that would aim to capture the impact on the broader financial markets of aggregate asset sales under a liquidity stress event. Unlike capital adequacy, which has risk-based capital as a standardized legal entity capital assessment tool and the newly created Group Capital Calculation to provide a capital analysis tool at the group level, there is no regulatory liquidity assessment or stress tool. The Task Force focused on large life insurers due to the long-term cash buildup involved in many life insurance contracts and the potential for large scale liquidation of assets, not because liquidity risk does not exist in other insurance segments. Thus, the primary goal of the LST is to provide quantitative as well as qualitative insights for macroprudential surveillance, such as identifying the amount of asset sales that could occur during a specific stress scenario; but it will also aid micro prudential regulation as well. Because this stress testing is complex and resource-intensive, a set of scope criteria were developed to identify life insurers with large balances of activities assumed to be highly correlated with liquidity risk; thus, many life insurers will not be subject to the LST.

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A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:

The current *Insurance Holding Company Systems* accreditation standard requires that state law shall contain the significant elements from Model #440 and Model #450. These models have provided state insurance departments the framework for insurance group supervision since the early 1970s. Following the 2008 financial crisis, state regulators identified group supervision as an area where improvements could be made to the U.S. system. In December 2010, the NAIC adopted changes to the models enhancing the domestic legal structure under which holding companies are supervised. In December 2014, the NAIC adopted revisions to clarify legal authority and powers to act as a group-wide supervisor for internationally active insurance groups. These changes are newly required elements of the NAIC Accreditation Program and have been satisfactorily adopted by nearly all accredited U.S. jurisdictions. As discussed in the preceding paragraphs, the LST was designed to enhance these same standards that were previously included as accreditation standards.

Macroprudential risks can directly impact regulated legal entity insurers and groups, and/or can emanate from or be amplified by these insurers and transmitted externally. The NAIC solvency surveillance framework must address macroprudential risks to ensure that the companies states regulate remain financially strong for the protection of policyholders, while serving as a stabilizing force to contribute to financial stability, including in stressed financial markets. The LST is the first new tool developed for the macroprudential program within the financial solvency framework.

A statement as to why ultimate adoption by every jurisdiction may be desirable:

The Financial Stability Task Force believes that all states that are the lead state for a group subject to the LST should be required to adopt the model revisions. The LST is a tool intended to help assess the impacts the life insurance industry can have on the broader financial markets in a time of stress. Ideally, the tool would have been required of all life insurance groups, but this was not possible due to the complexity and resources required to accomplish such liquidity stress testing. Thus, the LST uses a set of scope criteria to identify those life insurers with significant amounts in activities assumed to have high liquidity risk, thus representing the larger portion of the life insurance industry in terms of liquidity risk rather than representing the entire life insurance industry. If a scoped-in life insurance group was not subject to the LST because a state did not adopt the model revisions, this would significantly reduce the ability of the NAIC to represent the results as truly macroprudential and reflective of the majority of risks of the life insurance sector. Additionally, the LST results will be helpful to the lead states in their group supervision efforts as well.

Though not every state will be the lead state of a scoped-in group, the Task Force still believes the model revisions for the LST should be adopted in every state. It is fairly common for legal entity insurers to move from one group to another, impacting the group dynamics including the lead state determination, and each state should have the LST in their statutes to ensure they will be prepared for any future appointment as lead state. Also, even without legal entities changing groups, business acquisition and operational changes within existing groups might subject a previously excluded group to the LST. Therefore, it is recommended that the new significant elements apply to all states.

A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:

We are not currently aware of any states that have adopted the 2020 revisions to Model #440, although we have been advised that many states have begun their legislative processes for adoption of these revisions.

A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements:

The current accreditation standard for Model #440 and Model #450 requires state adoption on a substantially similar basis. Therefore, the Financial Stability (E) Task Force supports the attached proposed significant elements (Attached) be adopted by NAIC-accredited jurisdictions in a “substantially similar” manner, as that term is defined in the Accreditation Interlineations of the NAIC Financial Regulation Standards and Accreditation Program. The Financial Regulation Standards and Accreditation (F) Committee should consider a waiver of procedure as provided for in the Accreditation Program Manual and expeditiously consider adoption of this standard. The Financial Stability (E) Task Force recommends that the accreditation standard become effective Nov. 7, 2022, concurrent with the Group Capital Calculation revisions to the model, with enforcement of the standard to commence Jan. 1, 2023.

There were also revisions made to Section 8 of Model #440 regarding Confidential Treatment. The Financial Stability (E) Task Force strongly supports the use of language similar to that contained in Section 8G of Model #440. This language was considered very critical to the LST as its very important that members of the insurance industry (or regulators) not be allowed to make the results of the LST public in any way as they are designed as regulatory-only tools using complex assumptions for potential future stress events and the results could easily be misinterpreted and misrepresented by other users, causing true financial harm to the insurers.

An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable:

The NAIC has not performed a cost/benefit analysis with respect to the 2020 revisions to Model #440, nor do we believe that the specific costs for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it are reasonably quantifiable. However, the LST scope criteria selects the larger, more complex life insurers, and all of these already perform some form of internal liquidity stress tests. While there are regulatory requirements for inputs and outputs, truly significant costs are avoided by using their existing internal stress testing systems instead of specifying a regulatory model.

6. Insurance Holding Company Systems

State law should contain the NAIC *Insurance Holding Company System Regulatory Act* (#440), or an act substantially similar.

Insurance Holding Company Systems – continued

Changes to Existing

- k. Additions to the filing requirements for the enterprise risk filing specified in Section 4L(1) of the Model #440 (see next item).

New

- c. Define “NAIC Liquidity Stress Test Framework” similar to that in Section 1K?
- d. Define “Scope Criteria” similar to that in Section 1M?
- l. Filing requirements for the liquidity stress test filing similar to those specified in Section 4L(3) of Model #440:
- i. The ultimate controlling person of every insurer subject to registration and also scoped into the NAIC Liquidity Stress Test Framework shall file the results of a specific year’s Liquidity Stress Test to the lead state insurance commissioner of the insurance holding company system as determined by the procedures within the *Financial Analysis Handbook* similar to Section 4L(3)?
 - ii. Insurers meeting at least one threshold of the Scope Criteria for a specific data year are scoped into that year’s NAIC Liquidity Stress Test Framework unless the lead state, after consultation with the NAIC Financial Stability Task Force or its successor, determines the insurer should not be scoped into the Framework for that data year similar to Section 4L(3)(a)? Insurers that do not trigger at least one threshold of the Scope Criteria are considered scoped out of the NAIC Liquidity Stress Test Framework for the specified data year, unless the lead state insurance commissioner, in consultation with the NAIC Financial Stability Task Force or its successor, determines the insurer should be scoped into the Framework for that data year?
 - iii. Provision requiring compliance with the NAIC Liquidity Stress Test Framework’s instructions and reporting templates for the specific data year and any lead state insurance commissioner determinations in consultation with the Financial Stability Task Force or its successor, provided within the Framework similar to Section 4L(3)(b)?

Changes to Existing

- cc. Provisions for protecting confidential information submitted to the commissioner, including provisions maintaining confidentiality for information shared with state, federal and international regulators similar to Section 8? If sharing confidential information with the NAIC and third-party consultants is permitted, appropriate confidentiality protections should be included.
- m. Provision prohibiting the making, publishing, disseminating, circulating or placing before the public in any way the group capital calculation and resulting group capital ratio under Section 4L(2) and/or the liquidity stress test along with its results and supporting disclosures required under Section 4L(3), by any insurer, broker, or other person engaged in any manner of the insurance business, except if the sole purpose of the announcement is to rebut a materially false statement, similar to Section 8G of Model #440?