FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee Aug. 12, 2020, Minutes
Memorandum Regarding Items Impacting Current Accreditation Standard (Attachment Two)
Memorandum Regarding Accreditation Standards – Changes to the RBC Formulas and Instructions for Life and P/C (Attachment Three)
Memorandum Regarding Consideration for Financial Accreditation Standards 2020 Financial Condition Examiners Handbook (Attachment Four)
Memorandum Regarding the Report of the Valuation of Securities (E) Task Force (Attachment Five)
Memorandum Regarding 2011 & 2019 Revisions to Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786)—Applicability to Risk Retention Groups (RRGs) (Attachment Six)
Memorandum Regarding Technical Revisions to the Term and Universal Life insurance Reserve Financing Model Regulation (#787) as an Accreditation Standard (Attachment Seven)
Memorandum Regarding Proposed Revisions to Accreditation Program Manual to Reference Salary Ranges (Attachment Eight)
Memorandum Regarding Part B1: Analysis Guidelines for Risk Retention Groups (Attachment Nine)
The Financial Regulation Standards and Accreditation (F) Committee met via conference call Aug. 12, 2020. The following Committee members participated: Todd E. Kiser, Chair (UT); Elizabeth Kelleher Dwyer, Vice Chair, (RI); Lori K. Wing-Heier represented by David Phifer (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); Jillian Froment (OH); Larry D. Deiter (SD); Scott A. White (VA); Michael S. Pieciak represented by Kevin Gaffney (VT); and Jeff Rude (WY). Also participating were: Justin Schrader (NE); and Sandra Bigglestone (VT).

1. **Adopted its 2019 Fall National Meeting Minutes**

Commissioner White made a motion, seconded by Superintendent Dwyer, to adopt the Committee’s Dec. 7, 2019, minutes (see NAIC Proceedings – Fall 2019, Financial Regulation Standards and Accreditation (F) Committee). The motion passed unanimously.

Commissioner Kiser said the Committee also met Aug. 10, July 21 and June 23 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 June 23 meeting, the Committee voted to award continued accreditation to Delaware, Louisiana and Rhode Island. During its Aug. 10 meeting, the Committee voted to award continued accreditation to Maryland, Oregon and Washington.

2. **Adopted Revisions to the 2019 NAIC Publications Referenced in the Accreditation Standards**

Commissioner Kiser said there are several NAIC publications currently included in the accreditation standards by reference. Each year, the Committee is to review revisions made to these publications in the prior year. Each of the applicable groups that developed revisions to the publications in 2019 have provided the Committee with a memorandum discussing the revisions, and they indicated whether the revisions should be considered significant or insignificant for accreditation purposes. This included the following publications: Accounting Practices and Procedures Manual (AP&P Manual) (Attachment One); Annual and Quarterly Statement Blanks and Instructions (Attachment Two); Risk-Based Capital (RBC) Formulas and Instructions for Life and Property/Casualty (P/C) Insurers (Attachment Three); Financial Condition Examiners Handbook (Attachment Four); and Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) (Attachment Five). The working group or task force responsible for each of these publications has deemed their 2019 changes as insignificant to the accreditation process.

Commissioner Clark made a motion, seconded by Superintendent Cioppa, to adopt the revisions to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

3. **Adopted 2019 Revisions to Model #785 and Model #786 as an Accreditation Standard Applicable to RRGs**

Commissioner Kiser stated that on June 25, 2019, the Executive (EX) Committee and Plenary unanimously adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786), which incorporate relevant provisions of the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement). Subsequently, at the 2019 Fall National Meeting, the Financial Regulation Standards and Accreditation (F) Committee adopted the revisions as an update to the Credit for Reinsurance accreditation standard effective Sept. 1, 2022, with enforcement to begin Jan 1, 2023. Due to the relationship of these new provisions to the EU Covered Agreement, this was done on an expedited basis through the waiver process for adoption of accreditation standards. However, applicability of the standards to risk retention groups (RRGs) licensed as captives was not specifically addressed.

Dan Schelp (NAIC) summarized the memorandum (Attachment Six), recommending that both the 2011 and 2019 revisions to Model #785 and Model #786 apply to RRGs.
Commissioner Mais made a motion, seconded by Commissioner Ridling, to adopt the March 3 referral to update the Credit for Reinsurance accreditation standard for RRGs to include the 2011 and 2019 revisions to Model #785 and Model #786, effective Sept. 1, 2022, with enforcement to begin Jan. 1, 2023. The motion passed unanimously.

4. **Adopted Technical Changes to Model #787 as an Update to the Accreditation Standards**

Commissioner Kiser stated that at the 2019 Fall National Meeting, the Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787), more commonly referred to as the XXX/AXXX Model Regulation, as a new accreditation standard. This model establishes uniform, national standards governing reserve financing arrangements pertaining to term life and universal life insurance policies with secondary guarantees. Model #787 also includes provisions to ensure that funds backing these captive reinsurance transactions, which consist of primary security and other security, are held in the forms and amounts that are appropriate. Following adoption of the new standard, technical changes were adopted to the model itself. The changes directly affect the significant elements adopted as part of the accreditation standard.

Becky Meyer (NAIC) summarized the memorandum (Attachment Seven), recommending that the new accreditation standard for Model #787 be updated to include technical revisions adopted earlier in 2020. These changes are not considered substantive, but they will ensure accuracy of the accreditation standard.

Commissioner White made a motion, seconded by Commissioner Clark, to adopt the technical change to the accreditation standard for Model #787 as described in the referral dated March 3. The motion passed unanimously.


Mr. Schrader stated that in 2017 the Risk-Focused Surveillance (E) Working Group formed a Compensation Drafting Group to study state insurance regulator resources and review existing salary recommendations. After reviewing job requirements for state insurance regulators conducting risk-focused surveillance, completing a detailed salary survey of over 40 states, and comparing the results against other similar regulatory and industry positions, the Drafting Group presented its recommendations to the Working Group at the 2018 Fall National Meeting. These recommendations included new salary ranges, as well as supporting guidance for inclusion in the *Financial Analysis Handbook* and the *Financial Condition Examination Handbook*. In addition, they outlined a process for the Working Group to maintain and update this guidance on an ongoing basis. Both groups adopted the proposed changes, and they were published in the 2020 editions of the handbooks.

One final task for this project was to consider how the new salary range recommendations and supporting guidance should affect accreditation standards and guidelines. Therefore, the Working Group adopted a referral (Attachment Eight) to recommend proposed revisions to the accreditation guidelines in Part C: Organizational and Personnel Practices. The Working Group recommends that the new salary ranges and supporting guidance be referenced in this section of the *Accreditation Program Manual* since it already addresses issues related to resources and compensation. In addition, this section of the accreditation standards is not taken into consideration by the review team in making a recommendation regarding the department’s overall accreditation standing. Therefore, placing references to the new handbook guidance and salary ranges in this section allows for a review of department practices in this area, without directly affecting a state’s accreditation standing if they cannot compensate state insurance regulators within the established ranges. It should also be noted 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 department’s overall accreditation standing.

Director Ramge made a motion, seconded by Superintendent Dwyer, to expose the referral for a 30-day public comment period ending Sept. 11. The motion passed unanimously.

6. **Exposed a Referral from the Risk Retention Group (E) Task Force Regarding the RRG Analysis Guideline**

Ms. Bigglestone summarized the referral from the Risk Retention Group (E) Task Force (Attachment Nine), and she stated that the accreditation Review Team Guidelines include a guideline specifically related to RRGs within the financial analysis section (Part B1). This guideline was originally drafted by the Task Force and adopted by the Committee. It is the intention of the Task Force that this guideline is applied to all RRGs regardless of accounting treatment—U.S. generally accepted accounting principles (GAAP)/statutory accounting principles (SAP)—or organizational structure—captive/traditional laws. In 2017, several revisions were made to the accreditation guidelines to incorporate risk-focused analysis. In conjunction with
those revisions, a reference to the “Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet” in the *Financial Analysis Handbook* was added to the analysis guideline specific to RRGs. This worksheet can be a helpful tool; however, it applies only to U.S. GAAP filers with an emphasis on a review of accounting differences. Adding this reference implies that the accreditation guideline is only applicable to GAAP filers, which is inconsistent with the Task Force’s position that the guideline applies to all RRGs. Therefore, the Task Force asks the Committee to consider deleting the reference to the “U.S. GAAP Basis Worksheet.” In addition, the referral recommends changing “business plan” to “plan of operations” for consistency with terminology used in the federal Liability Risk Retention Act (LRRA).

Commissioner Mais made a motion, seconded by Commissioner Rude, to expose the referral for a 30-day public comment period ending Sept. 11. The motion passed unanimously.

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

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MEMORANDUM

TO: Commissioner Todd E. Kiser (UT), Chair, Financial Regulations Standards and Accreditation (F) Committee
   Elizabeth Kelleher Dwyer (RI), Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

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

DATE: February 12, 2020


In 2001, the Financial Regulation Standards and Accreditation (F) Committee adopted 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 2019. 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 2019. 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 2020. 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, Fatima Sediqzad and Jake Stultz
Summary of Changes to the
As of March 2019 Accounting Practices and Procedures Manual
included in the As of March 2020 Manual

The following summarizes changes made to the As of March 2019 Accounting Practices and Procedures Manual (Manual) to create the As of March 2020 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

<table>
<thead>
<tr>
<th>Section</th>
<th>Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSAP No. 22R</td>
<td>2016-02</td>
<td>Revisions incorporate guidance from ASU 2016-02, Leases, but rejects the ASU 2016-02 with retention of the operating lease concept.</td>
</tr>
</tbody>
</table>

### 2. Nonsubstantive Revisions – Statutory Accounting Principles

<table>
<thead>
<tr>
<th>Section</th>
<th>Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preamble</td>
<td>2019-06</td>
<td>Revisions update references to U.S. GAAP guidance.</td>
</tr>
<tr>
<td>SSAP No. 2R</td>
<td>2018-18</td>
<td>Revisions clarify that derivative instruments shall not be reported as cash equivalents or short-term investments.</td>
</tr>
<tr>
<td>SSAP No. 16R</td>
<td>2018-40</td>
<td>Revisions adopt with modification ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, allowing capitalization of implementation costs from a cloud hosting service contract as nonoperating system software with amortization not to exceed five years. Revisions provide guidance for cloud hosting arrangements that are not service contracts.</td>
</tr>
<tr>
<td>SSAP No. 21R</td>
<td>2018-04</td>
<td>Revisions clarify that an investment captured in scope of a different SSAP does not become a collateral loan because it is also secured with collateral.</td>
</tr>
<tr>
<td>SSAP No. 25</td>
<td>2019-03</td>
<td>Revisions clarify the application of this Statement and related party classification when a transaction is in substance a related party transaction.</td>
</tr>
<tr>
<td>SSAP No.</td>
<td>Revision Number</td>
<td>Description</td>
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</tr>
<tr>
<td>26R</td>
<td>2018-18</td>
<td>Revisions clarify that structured notes are excluded from this Statement and shall be reported as derivatives.</td>
</tr>
<tr>
<td></td>
<td>2018-32</td>
<td>Revisions provide guidance for when bonds are called for consideration less than par, and also clarifies that in instances where consideration received is less than BACV, the entire difference shall be reported through investment income.</td>
</tr>
<tr>
<td></td>
<td>2019-03</td>
<td>Revisions clarify the application of SSAP No. 25—Affiliates and Other Related Parties, when a transaction is with a related party.</td>
</tr>
<tr>
<td></td>
<td>2019-07</td>
<td>Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution.</td>
</tr>
<tr>
<td>30R</td>
<td>2018-33</td>
<td>Revisions clarify that assets pledged to a Federal Home Loan Bank (FHLB) on behalf of an affiliate shall be nonadmitted.</td>
</tr>
<tr>
<td></td>
<td>2018-34</td>
<td>Revisions explicitly capture foreign open-end fund investments in scope.</td>
</tr>
<tr>
<td>32</td>
<td>2019-03</td>
<td>Revisions clarify the application of SSAP No. 25—Affiliates and Other Related Parties, when a transaction is with a related party.</td>
</tr>
<tr>
<td>37</td>
<td>2018-22</td>
<td>Revisions exclude “bundled” mortgage loans from the scope of this Statement and clarify requirements for participation agreements.</td>
</tr>
<tr>
<td>43R</td>
<td>2018-03</td>
<td>Revisions require securities with differing NAIC designations by lot to be reported in aggregate at the worst NAIC designation or separately by lot.</td>
</tr>
<tr>
<td></td>
<td>2018-18</td>
<td>Revisions clarify that mortgage-referenced securities issued from a government sponsored enterprise are captured in scope of this Statement.</td>
</tr>
<tr>
<td></td>
<td>2019-03</td>
<td>Revisions clarify the application of SSAP No. 25—Affiliates and Other Related Parties, when a transaction is with a related party and adds concepts to determine whether a structure is a related party investment.</td>
</tr>
<tr>
<td>48</td>
<td>2019-03</td>
<td>Revisions clarify the application of SSAP No. 25—Affiliates and Other Related Parties, when a transaction is with a related party.</td>
</tr>
<tr>
<td>50</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>51R</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>52</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>54R</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>55</td>
<td>2018-39</td>
<td>Revisions clarify the reporting of interest on accident and health claims.</td>
</tr>
<tr>
<td></td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>56</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>62R</td>
<td>2019-11</td>
<td>Revisions clarify the effective date of reinsurance credit guidance adopted in agenda item 2017-28, noting application to the contracts in effect as of January 1, 2019.</td>
</tr>
<tr>
<td></td>
<td>2019-15EP</td>
<td>Revisions reflect editorial changes to incorporate formatting updates from Schedule F.</td>
</tr>
<tr>
<td></td>
<td>2019-44EP</td>
<td>Revisions reflect editorial changes to update references in an illustration and updates to Schedule F reference in a disclosure.</td>
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</tr>
<tr>
<td>SSAP No. 68</td>
<td>2019-12</td>
<td>Revisions clarify that goodwill resulting from the acquisition of a subsidiary, controlled or affiliated (SCA) entity by an insurance reporting entity that is reported on the SCA’s financial statements (resulting from the application of pushdown) is subject to the 10% admittance limit based on the acquiring entity’s capital and surplus.</td>
</tr>
<tr>
<td>SSAP No. 71</td>
<td>2019-29</td>
<td>Revisions reject ASU 2019-06, Extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.</td>
</tr>
<tr>
<td>SSAP No. 84</td>
<td>2019-15EP</td>
<td>Revisions reflect editorial changes to delete the paragraph duplicated from SSAP No. 4—Assets and Nonadmitted Assets.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2018-18</td>
<td>Revisions clarify that structured notes are derivatives in scope of this Statement.</td>
</tr>
<tr>
<td>SSAP No. 92</td>
<td>2018-37</td>
<td>Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.</td>
</tr>
<tr>
<td>SSAP No. 100R</td>
<td>2018-36</td>
<td>Revisions adopt with modification disclosure amendments in ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement.</td>
</tr>
<tr>
<td>SSAP No. 102</td>
<td>2018-37</td>
<td>Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.</td>
</tr>
<tr>
<td>SSAP No. 72</td>
<td>2019-07</td>
<td>Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution.</td>
</tr>
<tr>
<td>SSAP No. 71</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>SSAP No. 72</td>
<td>2019-07</td>
<td>Revisions direct the initial reported value for a bond received as a property dividend or as a capital contribution.</td>
</tr>
<tr>
<td>SSAP No. 84</td>
<td>2019-15EP</td>
<td>Revisions reflect editorial changes to delete the paragraph duplicated from SSAP No. 4—Assets and Nonadmitted Assets.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2018-06</td>
<td>Revisions reflect updated benchmark interest rates for hedge accounting permitted under U.S. GAAP.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2019-06</td>
<td>Revisions reject ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2019-15EP</td>
<td>Revisions reflect editorial changes to eliminate the word “proposed” in adopted guidance.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2019-18</td>
<td>Revisions clarify the guidance for derivatives that do not qualify as hedging, income generation or replication transactions.</td>
</tr>
<tr>
<td>SSAP No. 86</td>
<td>2019-27EP</td>
<td>Revisions reflect editorial changes to refer to SSAP No. 26R—Bonds for the structured note definition.</td>
</tr>
<tr>
<td>SSAP No. 92</td>
<td>2018-37</td>
<td>Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.</td>
</tr>
<tr>
<td>SSAP No. 92</td>
<td>2018-37</td>
<td>Revisions adopt with modification disclosure amendments in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans.</td>
</tr>
<tr>
<td>SSAP No. 95</td>
<td>2018-35</td>
<td>Revisions adopt with modification ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, and update previously adopted U.S. GAAP guidance.</td>
</tr>
<tr>
<td>SSAP No. 97</td>
<td>2019-23</td>
<td>Revisions clarify that if an unalleviated going concern is noted in the audited financial statements or audit opinion, the SCA shall be nonadmitted.</td>
</tr>
<tr>
<td>SSAP No. 97</td>
<td>2019-29</td>
<td>Revisions reject ASU 2019-06, Extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.</td>
</tr>
<tr>
<td>SSAP No. 101</td>
<td>2019-09</td>
<td>Revisions to the Implementation Q&amp;A clarify the admittance of deferred tax assets that can be offset by deferred tax liabilities, with clarification that scheduling is only required to the extent the reversal patterns of deferred tax items were used in determining the valuation allowance.</td>
</tr>
<tr>
<td>Reference</td>
<td>Description</td>
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<tr>
<td><strong>2019-05</strong></td>
<td>Revisions reduce the disclosure requirements for repurchase and reverse repurchase transactions.</td>
<td></td>
</tr>
<tr>
<td><strong>2019-15EP</strong></td>
<td>Revisions reflect editorial changes to update the footnote regarding items excluded from the wash sale disclosure.</td>
<td></td>
</tr>
<tr>
<td><strong>2019-22</strong></td>
<td>Revisions clarify that only investments that meet the definition of a wash sale that cross reporting periods are subject to the wash sale disclosure.</td>
<td></td>
</tr>
<tr>
<td><strong>2019-35</strong></td>
<td>Revisions adopt with modification ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, eliminating the section for nonemployee awards and including guidance for nonemployees with the guidance for employees.</td>
<td></td>
</tr>
<tr>
<td><strong>2019-44EP</strong></td>
<td>Editorial revisions bring consistency to references to the annual statement instructions, and references to life and fraternal were combined due to the life/fraternal merger. Only the revisions to the life and fraternal name change are tracked in the Manual.</td>
<td></td>
</tr>
</tbody>
</table>

### 3. Revisions to the Appendices

<table>
<thead>
<tr>
<th>Section</th>
<th>Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix A</td>
<td>A-785</td>
<td>Revisions incorporate updates from the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) that address relevant provisions from the Covered Agreement.</td>
</tr>
<tr>
<td></td>
<td>A-791</td>
<td>Adds Q&amp;As regarding contracts with medical loss ratios and group yearly renewable term (YRT). The YRT guidance is effective Jan. 31, 2021.</td>
</tr>
<tr>
<td>Appendix B</td>
<td>2019-02</td>
<td>INT 19-02: Freddie Mac Single Security Initiative incorporates a limited-scope exception to SSAP No. 26R—Bonds and prescribes guidance for SSAP No. 43R specific to securities exchanged as part of the Freddie Mac Single Security Initiative.</td>
</tr>
<tr>
<td>Appendix C</td>
<td>AG43a</td>
<td>Interprets the standards for the valuation of reserves for variable annuity and other contracts for valuations prior to Jan. 1, 2020.</td>
</tr>
<tr>
<td></td>
<td>AG43b</td>
<td>Interprets the standards for the valuation of reserves for variable annuity and other contracts for valuations on or after Jan. 1, 2020, with early adoption permitted in 2019 pursuant to Actuarial Guideline LII—Variable Annuity Early Adoption.</td>
</tr>
</tbody>
</table>
### Appendix D

**Rejected as Not Applicable to Statutory Accounting:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-41</td>
<td>ASU 2017-13, Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017, EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments</td>
</tr>
<tr>
<td>2018-42</td>
<td>ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</td>
</tr>
<tr>
<td>2018-43</td>
<td>ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs</td>
</tr>
<tr>
<td>2018-44</td>
<td>ASU 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118</td>
</tr>
<tr>
<td>2018-45</td>
<td>ASU 2018-06, Codification Improvements to Topic 942, Financial Services— Depository and Lending</td>
</tr>
<tr>
<td>2019-16</td>
<td>ASU 2015-08, Pushdown Accounting, Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115</td>
</tr>
<tr>
<td>2019-17</td>
<td>ASU 2019-02, Entertainment, Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the FASB Emerging Issues Task Force)</td>
</tr>
<tr>
<td>2019-30</td>
<td>ASU 2019-03, Updating the Definition of Collections</td>
</tr>
<tr>
<td>2019-31</td>
<td>ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made</td>
</tr>
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### Appendix E

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-17</td>
<td>IP No. 160—Structured Settlements Acquired as Investments</td>
</tr>
<tr>
<td>2016-02</td>
<td>IP No. 161—Leases</td>
</tr>
<tr>
<td>2017-28</td>
<td>IP No. 162—Property and Casualty Reinsurance Credit</td>
</tr>
</tbody>
</table>

### Appendix F

No revisions impacting this appendix were adopted in 2019.

### Appendix G

No revisions impacting this appendix were adopted in 2019.

### Appendix H

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-01</td>
<td>INT 19-01: Extension of Ninety-Day Rule for the Impact of California Camp Fire, Hill Fire and Woolsey Fire provided a temporary extension to the 90-day rule under SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers for policies impacted by the named fires. This INT was automatically nullified on April 25, 2019</td>
</tr>
</tbody>
</table>
TO: Honorable Todd E. Kiser, Chair
   Financial Regulation Standards & Accreditation (F) Committee

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

DATE: January 24, 2020

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2019. 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 2019 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 Phoenix, AZ in the event any member of the committee wishes to discuss these issues.
Changes to blanks and instructions adopted during 2019

1. Add question 34.1 and question 34.2 to the General Interrogatories, Part 2 for fraternal benefit societies only, along with instructions regarding question 34.2 (2018-23BWG) Effective 12/31/2019.


4. Add reference to reporting separate account or protected cell to the instructions for Note 5L(4). Modify the illustrations to include additional lines for separate accounts or protected cells in addition to the general account, with a notation indicating which lines apply to the general account and which lines apply to separate accounts or protected cells (2018-27BWG) Effective 12/31/2019.

5. Add instructions to Note 9, Income Taxes for new disclosures; Note 9H, Repatriation Transition Tax (RTT); and Note 9I, Alternative Minimum Tax (AMT) Credit. An illustration will be added for Note 9I and will be data-captured (2018-28BWG) Effective 12/31/2019.

6. In the separate accounts blank, remove line 5, Contract Loans, from the separate accounts asset page and renumber the remaining lines (2018-29BWG) Effective 12/31/2019.

7. Modify instructions and illustration Note 100, Subsidiary, Controlled or Affiliated (SCA) Loss Tracking to include references to Statement of Statutory Accounting Principles (SSAP) No. 48—Joint Ventures, Partnerships and Limited Liability Companies and SSAP No. 48 entities (2018-30BWG) Effective 12/31/2019.

8. Add two new categories (unit investment trusts and closed-end funds) to the common stock categories on Schedule D. Add the new categories to the Summary Investment Schedule. Add definitions of “unit investment trusts” and “closed-end funds” to the Investment Schedules General Instructions and modify the definition of “mutual fund.” Add categories for “unit investment trusts” and “closed-end funds” to Schedule DL, Part 1 and Part 2 (2018-31BWG) Effective 12/31/2019.

9. For the VM-20 Reserves Supplement, Part 1, match the title under Part 1 to the title used in the blank. Add instructions to clarify the line reporting for the three product group types: term insurance; universal life with secondary guarantees; and all other. Add clarifying column instructions to indicate that the due and deferred premium asset should be reported in accordance with VM-20 (2019-02BWG) Effective 12/31/2019.

10. Add NAIC Designation column for use with mutual funds to the annual Schedule D, Part 2, Section 2 and modify the instructions to reflect the addition. Modify the instructions for the NAIC Designation and Administrative Symbol column for the quarterly Schedule D, Part 3 and Part 4 to reflect capturing designations for mutual funds (2019-03BWG) Effective 12/31/2019.

11. Remove the reference to “life and fraternal only” in the General Instructions for Schedule BA regarding investments that have the underlying characteristics of bonds or fixed instruments. Also remove the reference from the instructions for Schedule BA regarding the CUSIP Identification column and the NAIC Designation column. Add additional lines to the “Fixed or Variable Interest Rate Investments that Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument” and “Joint Ventures or Partnership Interests for Which the Primary Underlying Investments are Considered to Be Fixed Income Instruments” categories to distinguish between those that have been reviewed and approved by the Securities Valuation Office (SVO) and those that have not (2019-04BWG) Effective 12/31/2019.

12. Add new instructions and illustration (to be data-captured) to Note 21, Other Items for life policies where the reporting entity is owner and beneficiary or has otherwise obtained rights to control the policy. The new disclosure will be Note 21I for life/fraternal and health and Note 21H for property and title (2019-05BWG) Effective 12/31/2019.

13. Add a reference for structured settlements acquired by a reporting entity as an investment (where the company has acquired the legal right to receive payments) to the Schedule BA General Instructions in the “any other class of assets” definition (2019-06BWG) Effective 12/31/2019.

14. Modify the instructions for Note 20, Fair Value to reflect changes adopted for SSAP No. 100R—Fair Value. These changes reflect disclosure modifications adopted from U.S. generally accepted accounting principles (GAAP)

16. Add a reference to include mortgage-referenced securities in the “U.S. Special Revenue and Special Assessment Obligations and All Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions” category in the Investment Schedules General Instructions. Also delete Note 5O, Structured Notes and modify the bond characteristics definition for Schedule D, Part 1 (2019-09BWG) Effective 12/31/2019.

17. Add instructions for determining the gain (loss) reported in column 18 and the prepayment penalty and/or acceleration fee amount in column 20 on Schedule D, Parts 4 and 5 for called bonds where consideration received is less than par (2019-10BWG) Effective 12/31/2019.

18. Modify the instructions and table illustrations for Note 5F, Note 5G, Note 5H and Note 5I to reflect changes to SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In addition, the presentation of some tables in the illustrations were changed to ensure they would fit on the page (2019-11BWG) Effective 12/31/2019.

19. Add a code for foreign mutual funds to Schedule D, Part 2, Section 2, Column 3. Add instruction for foreign open-end investment funds to be included as mutual funds in the Investment Schedules General Instructions (2019-12BWG) Effective 12/31/2019.


22. Modify the instructions for the Actual Cost column for Schedule D (Part 1, Part 3, Part 4 and Part 5) and Schedule DA to provide guidance for the amount to enter when bonds are received as a property dividend or capital contribution (2019-15BWG) Effective 12/31/2019.

23. Add new column “YRT Mortality Risk Only” to the Analysis of Operations by Lines of Business (Summary, Individual Life and Group Life) and Analysis of Increase in Reserves During Year (Individual Life and Group Life) blank pages and instructions for yearly-renewable-term reinsurance business where the only risk included is mortality (2019-16BWG) Effective 12/31/2019.

24. Add two new lines for affiliated bank loans to the parent, subsidiaries and affiliates category and modify the existing lines for bank loans to reference unaffiliated for Schedule D, Part 1; Schedule DA; Schedule DL, Parts 1 and 2; and Schedule E, Part 2. The subtotal line for bank loans under the total bond category will be the sum of the affiliated and unaffiliated lines. Change line description for Schedule D, Parts 3, 4 and 5 for Line 8299999 to say Unaffiliated Bank Loans (2019-17BWG) Effective 12/31/2019.


26. The Casualty Actuarial and Statistical (C) Task Force proposes addition of “Qualification Documentation” so the Appointed Actuary would be required to maintain workpapers explaining how the actuary meets the definition of “Qualified Actuary.” These proposed changes were adopted by the Task Force on June 11, 2019. The Executive (EX) Committee proposes the remainder of the changes, including a new objective definition of “qualified actuary” and the results of an assessment of actuarial educational syllabi in a “Accepted Actuarial Designation” section. These proposed changes were adopted by the Committee on June 25, 2019 (2019-20BWG) Effective 12/31/2019.

27. For Note 33, modify the illustration to disclosure individually Separate Account with Guarantees products and Separate Account Nonguaranteed products (2019-21BWG) Effective 12/31/2019.

29. Modify the instructions and illustration for Note 8 – Derivatives for disclosures adopted by SSAP No. 108—
   Derivative Hedging Variable Annuity Guarantees. Add instruction and blank page for Schedule DB, Part E to the

30. Add a Life Experience Data Contact to the Electronic Jurat page for Life/Fraternal companies only. Health, Property
    and Title are included in the proposal due to the Jurat instructions being uniform for all statement types

    clarifying instruction to the Analysis of Operations by Lines of Business for Individual Life and Group Life
    regarding reporting consistent with policy type language in the contract and reporting of policies issued with
    secondary guarantees that have expired (2019-26BWG) Effective 12/31/2020.

32. Remove the alphabetic index from inclusion at the back of the annual statement blank, instructions and Blanks
MEMORANDUM

TO: Todd E. Kiser, Chair
    Financial Regulation Standards and Accreditation (F) Committee

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

DATE: March 3, 2020

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

Attached please find a brief description of changes to the 2019 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 2019. 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 The Operational Risk Informational Only Growth Risk page was removed from the health RBC formula.

Not Significant The label for the H0 component was modified to be more accurate and to prevent confusion and misunderstanding.

Not Significant The electronic-only stop-loss table 2 was split out between specific stop loss and aggregate stop loss.

Not Significant The instructions and labels for bonds and preferred stock of Asset Concentration (XR011) were updated.

Life RBC Formula
Not Significant Due to the elimination of the fraternal annual statement beginning with year-end 2019, the life RBC formula was modified to incorporate fraternals. This entailed minor changes to address items that are not applicable to fraternals and references to the fraternal annual statement blank.

Not Significant Changes developed by the Variable Annuities Capital and Reserve (E/A) Subgroup and recommended to the Life Risk-Based Capital (E) Working Group to implement the Variable Annuities Framework were incorporated into the life RBC instructions.

Not Significant The Operational Risk Informational Only Growth Risk page was removed from the life RBC formula.
Not Significant The label for the C-0 component was modified to be more accurate and to prevent confusion and misunderstanding.

Not Significant The electronic-only stop-loss table 2 was split out between specific stop loss and aggregate stop loss.

**P/C RBC Formula**

Not Significant The RBC Instructions and Footnotes in PR027A and PR027B were modified to allow accepted internal catastrophe models as the basis for the catastrophe risk charge.

Not Significant The label for the R0 component was modified to be more accurate and to prevent confusion and misunderstanding.

Not Significant The electronic-only stop loss tables were split out between specific stop loss and aggregate stop loss.

Not Significant The labels of preferred stock and hybrid of Asset Concentration (PR011) were updated in the blanks and instructions.

Not Significant The PR016 instructions were modified to address the inconsistencies between the instructions and the formula for the computation of the selected average growth rate.

Not Significant The PR003 through PR005 instructions were modified to address the inconsistencies between the instructions and the formula for the computation of the affiliated stocks.

Not Significant The Schedule BA Annual Statement line references were updated in PR008 and PR009.

Not Significant The Line 4 Underwriting Risk Reserves and Premiums factors in PR017 and PR018 were updated based on the 2017 American Academy of Actuaries Report for Property and Casualty Risk-Based Capital Underwriting Line 4 Factors.

Not Significant The PR017 and PR018 Line 1 industry average development factors were updated.
To: The Financial Regulation Standards and Accreditation (F) Committee
From: Susan Bernard, Chair, Financial Examiners Handbook (E) Technical Group
Date: February 27, 2020
Subject: Consideration for Financial Accreditation Standards

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 2019.

Modifications are made to the Handbook each year, and a new edition is printed annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The FEHTG made several changes to the Handbook in 2019. 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 2019, the FEHTG made the following changes:

- Revised the format of Exhibit V – Overarching Prospective Risk Assessment to encourage a more in-depth review and assessment of prospective risks during an examination. Related changes were made to Exhibit AA – Summary Review Memorandum to incorporate definitions for Risk Assessment Level and Trend.

- Revised guidance related to C-Level interviews, including the following:
  - Narrative guidance to encourage meeting with the department analyst prior to conducting interviews to gain an understanding of analyst concerns as well as what information the department has already obtained
  - Narrative guidance recommending that exam teams interview the Chief Risk Officer as early in the interview process as possible due to the broad perspective this individual can have. Information gathered from an interview with the CRO can be used to inform subsequent interviews.
  - Creation of a new interview template for interviewing a Chief Marketing Officer.

- Revised guidance related to management letters. This guidance provides clarity regarding what information should be communicated via a management letter, as well as to whom within a holding company structure the letter should be provided. The guidance also clarifies that in some cases the significance and severity of issues to be communicated may necessitate preparation two different management letters; one to be
delivered to the management and/or board of directors at the legal entity level and one to a level of the organization above the legal entity.

- Added narrative guidance referencing the NAIC Troubled Insurance Company Handbook. The revisions provide expectations for various communication that should occur when a company is designated a priority one (troubled) or priority two (potentially troubled). Guidance revisions also include possible areas for review and testing during an examination of a troubled or potentially troubled insurance company.

- Revised guidance related to Information Technology (IT) in the following areas:
  - Revisions to clarify IT review conclusions
  - Revisions to clarify different types of third-party work that may be considered and how to use that work to supplement the IT review
  - Narrative guidance regarding how an IT examination may utilize the results of a company’s IT self-assessment.

- Added narrative guidance describing roles and responsibilities for commonly held regulatory positions as well as recommended salary ranges for those positions. Note, these changes are consistent with revisions adopted by the Financial Analysis Solvency Tools (E) Working Group for inclusion in the 2020 Financial Analysis Handbook. Additionally, the FEHTG is supportive of the proposed revisions referred to FRSAC by the Risk-Focused Surveillance (E) Working Group on this matter.

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.
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Kevin Fry (Ill), 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: March 3, 2020

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 2019 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 2020 Accreditation Program Manual consists of four parts: Part A identifies laws and regulations deemed necessary to financial solvency regulation; Part B identifies regulatory practices and procedures that supplement and support enforcement of the financial solvency laws and regulations discussed in Part A; 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 Manual⁵ 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

● **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 2019, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2019 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 2019 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 Five
Financial Regulation Standards and Accreditation (F) Committee
8/12/20

Attachment One

RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL
Published in the December 31, 2019 Publication

- Adopted a comprehensive framework for funds that hold a portfolio of bonds – The framework consolidates and modernizes long existing VOS/TF policies and practices applicable to investments in funds that hold bond portfolios and expands that policy to funds issued by closed end management companies and unit investments trusts registered and regulated by the U.S. Securities and Exchange Commission. The guidance encompasses the two verification procedures, exchange traded funds (ETFs), bond mutual funds and private funds reported on Schedule BA. The amendment adds definitions, documentation requirements and a transparent analytical framework. The Blanks Working Group will consider adding a column to Schedule D, Part 2, Section 2 so insurers can report an NAIC Designation for funds designated by the SVO and the Capital Adequacy (E) Task Force has been asked to consider how to include such NAIC Designations into the RBC calculation once NAIC Designations are added to Schedule D, Part 2, Section 2. The Valuation of Securities (E) Task Force adopted this amendment on April 7, 2019.

Improved Disclosure on Securities Not Eligible for Filing Exemption – The VOS/TF may exclude certain securities from filing exemption and this amendment modernized this by compiling these exclusions into a list of securities not eligible for Filing Exemption. Although this disclosure did not modify or delete the term Bond in the 2018 P&P Manual, the term was not included in the 2019 reformatted P&P Manual because the adoption of policy statements requiring coordination between the VOS/TF and the Statutory Accounting Principles (E) Working Group meant that the term “Bond” could only be defined by reference to statutory accounting guidance. The operative term for VOS/TF operations (i.e., the term Obligations, which is broader than the term Bonds) was retained. The Valuation of Securities (E) Task Force adopted this amendment on April 7, 2019.

Modified Guidance for Regulatory Transactions – This P&P Manual amendment clarified the status of an Investment Security that is used as a component in a Regulatory Transaction. Insurance companies shall not report a Regulatory Transaction as a Filing Exempt security, and the NAIC staff shall not assign an NAIC Designation to a Regulatory Transaction or add them to the Filing Exempt Securities Process of the SVO List of Investment Securities. This does not preclude the SVO from working directly with a state insurance department and issuing an opinion to the department consistent with the instructions outlined in this Manual. The Valuation of Securities (E) Task Force adopted this amendment on April 7, 2019.


**Deleted the Definition of “Structured Notes” and Made Related Modifications** – The Statutory Accounting Principles (E) Working Group advised the VOS/TF that it had adopted, with a Dec. 31, 2019, effective date, a definition for “structured notes” that brings that financial activity in scope of the *Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives*. The new guidance defines structured notes as “an investment that is structured to resemble a debt instrument, where the contractual amount of the instrument to be paid at maturity is at risk for other than the failure of the borrower to pay the contractual amount due.” That determination removes these instruments from being in scope of SSAP No. 26R—Bonds and (with the exception of mortgage-referenced securities) SSAP No. 43R—Loan-Backed and Structured Securities. This amendment deletes the definition and adds a reference to the description of a structured notes SSAP No. 26R and SSAP No. 86. A note on the guidance on mortgage-referenced securities was also added clarifying that it is subject to assessment by SSG. The Valuation of Securities (E) Task Force adopted this amendment on August 4, 2019.
• Added Instructions for Referencing Administrative Codes Used to Report Regulatory Transactions – The P&P Manual defines the term “regulatory transactions” and provides that such transactions: (a) are not eligible for credit assessment by the SVO; (b) are not eligible for filing exemption (FE); (c) cannot be self-assigned the administrative symbol Z under the 120 rule; (d) cannot be self-assigned as SGI securities; and (e) cannot be entered into NAIC systems maintained for the VOS/TF. The P&P Manual also provides that a domiciliary state insurance department may request SVO or SSG assistance in the assessment of a regulatory transaction, with the understanding that the state can adopt the SVO or SSG work product as its own, but the determination is a state determination and not an NAIC work product. Despite this specified treatment, there was no specific instruction for reporting regulatory transactions, and reporting entities did not have any available reporting options when investment schedules require an NAIC Designation. This amendment addressed the reporting for regulatory transactions. A reporting entity would use the code “RTS” when the domiciliary state has received assistance from the SVO (or SSG) in reviewing a regulatory transaction. In those cases, the code would be reported with the “analytical value” (a new term defined below) assigned by the SVO and given to the state. The code “RT” would be used for all other regulatory transactions; i.e., those in which the domiciliary state did not ask the SVO for assistance or those where the SVO was unable to determine an analytical value for the transaction for the state and the “RT” code would be reported with an NAIC Designation for measurement and risk-based capital (RBC) assessments. The Valuation of Securities (E) Task Force adopted this amendment on September 5, 2019.

• Updated the Interim Instructions for Mortgage Reference Securities – This amendment to the P&P Manual updated guidance for Mortgage Reference Securities. The Structured Securities Group (SSG) is responsible to financially model this group of securities; however, they only review them during their annual surveillance process. Insurers did not have instructions to assign an NAIC Designation to a newly issued or newly acquired mortgage reference security prior to the publication of the annual surveillance data. This amendment provides that interim guidance. The Valuation of Securities (E) Task Force adopted this amendment on October 31, 2019.

• Added Ground Lease Financing Transactions as New Asset Class – This amendment to the P&P Manual adds new instructions and guidance for Ground Lease Financing (GLF) Transactions. A GLF transaction typically has two components: (a) a ground lease for a long period (e.g., 99 years) between a ground lessor who owns the land and a ground lessee who attains a leasehold for the purpose of developing the land; and (b) the subleasing of space or operation of a business such as a hotel, warehouse, intermodal facility, etc., in an existing or to-be-constructed building to one or more tenants (space tenants) under shorter (e.g., 5–15 year) leases (space leases) or to the operator of a business such as a hotel, warehouse, intermodal facility, etc., under a franchise agreement or other arrangement. This amendment provides filing, structure and analysis guidance for GLFs. The Valuation of Securities (E) Task Force adopted this amendment on December 8, 2019.
• ** Deleted the Administrative Symbols RP or P and a related methodology** – The deletion of these symbols align the P&P Manual with changes to the Blanks introduced by a February 28, 2018, Blanks Proposal and Interrogatory. The Proposal replaced the use of the SVO assigned symbols with new lines and an instruction that the insurer aggregate the amount of such securities on the specified line. This amendment—effective December 31, 2019—deletes the SVO methodology and the Administrative Symbols from the P&P Manual. The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018, with an effective date of December 31, 2019.

• ** Deleted Valuation Procedures but retained Administrative Symbols** – The Administrative Symbols A, V, L, U and UP were used by the SVO in connection with the Valuation Procedures for common stock. The Valuation Procedures were deleted effective for year-end 2018 but the identified Administrative Symbols were retained until December 31, 2019, to align their deletion with the elimination of the same symbols from the Blanks process. The Valuation of Securities (E) Task Force adopted this amendment on September 4, 2018, with an effective date of December 31, 2019.

• ** Modified the Administrative Symbol NR to ND** – The Administrative Symbol NR means Not Rated. It was changed to ND, which means Not Designated, to align it with NAIC terminology and to avoid the technical and legal meaning of “rating” under federal securities law. The need to modify NAIC electronic platforms that use the system means it will not be possible to implement this change until year-end 2019. The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018 and was implemented for December 31, 2019.

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**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

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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]…

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.

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.

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: Financial Regulation Standards and Accreditation (F) Committee

From: NAIC Staff

Date: March 3, 2020

Re: 2011 & 2019 Revisions to Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786)—Applicability to Risk Retention Groups (RRGs)

Executive Summary

On June 25, 2019, the NAIC Executive (EX) Committee and Plenary unanimously adopted revisions to the NAIC Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786). These revisions were intended to incorporate the relevant provisions of 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. At the 2019 Fall National Meeting, the Financial Regulation Standards and Accreditation (F) Committee adopted these revisions to the Reinsurance Ceded accreditation standard effective Sept. 1, 2022, for consideration by the Executive (EX) Committee and Plenary for final adoption at the Spring National Meeting.

The purpose of this memorandum is to clarify the applicability of these revisions to risk retention groups (RRGs) organized as captives. The recommendation to this Committee is that the 2019 revisions to Model #785 and Model #786, as well as the 2011 revisions establishing certified reinsurers and qualified jurisdictions (which became applicable as an accreditation standard Jan. 1, 2019), also should be made applicable to RRGs.

Risk Retention Groups Organized as Captives

Article 3 (Reinsurance) of the Covered Agreement is applicable to ceding insurers, which Article 2(j) defines as “an undertaking which is authorized or licensed to take up or engage in the business of direct or primary insurance.” This would arguably include RRGs that are organized or incorporated by states as captive insurers. Reinsurance Ceded is part of the Part A accreditation requirements for RRGs, and requires that state law should contain Model #785 and Model #786, or substantially similar laws. The primary difference between the current reinsurance accreditation standard for RRGs is that “a state’s laws and regulations may allow RRGs to take credit for reinsurance without posting collateral in circumstances not contemplated by the Credit for Reinsurance Model Law and Regulation. For such cases, the Accreditation Interlineations include ‘Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers’ and a state’s laws and regulations must comply with the guidelines in order to be considered substantially similar with this standard.”
NAIC staff has reviewed the laws and regulations with respect to the fifteen (15) NAIC jurisdictions which currently license multi-state RRGs as captive insurers (AL, AZ, CO, DE, DC, HI, KY, ME, MT, NV, NC, OK, SC, TN and VT), and each meets the current Reinsurance Ceded accreditation standard in a very similar manner. First, each states’ laws require that an RRG must be licensed as a captive insurer (and in some instances, a specific type of captive insurer) subject to its captive insurance laws. Second, the captive insurance laws generally exempt captive insurers from the general laws with respect to traditional insurers, except as is otherwise specified in statute. Finally, the statutes make RRGs that are licensed as captive insurers subject to the state’s credit for reinsurance laws, either generally (e.g., an RRG licensed as a captive insurer must comply with all of the laws, rules, regulations and requirements applicable to insurers chartered and licensed in the state) or specifically (e.g., an RRG licensed as a captive insurer must comply with the laws specified in this chapter, including specifically the credit for reinsurance laws). We also reviewed the proposed legislation of the five states currently considering adoption of the 2019 revisions to the models (ME, OK, SC, TN & VT), and the proposed legislation would not change this outcome.

**Recommendation**

NAIC staff recommends that the Committee consider making the 2019 revisions to Model #785 and Model #786 an accreditation standard for RRGs effective Sept. 1, 2022, with enforcement of the standard to commence Jan. 1, 2023. Staff further recommends that the 2011 revisions to the models relating to certified reinsurers and qualified jurisdictions also be made a part of the accreditation standard, because the 2019 revisions are in large part based on these earlier revisions. Finally, we recommend that the changes in the attached redlined accreditation standard be adopted as the new accreditation standard for reinsurance ceded to RRGs.

*Note: The Risk Retention Group (E) Task Force met on March 2, and approved these recommendations. The Reinsurance (E) Task Force will meet March 11 to consider approval of the recommendations.*
10. Reinsurance Ceded

State law should contain the NAIC Credit for Reinsurance Model Law (#785), the NAIC’s Credit for Reinsurance Model Regulation (#786) or substantially similar laws.

Complete the following question only if this is an interim annual review:

Have there been any changes to the department’s ceded reinsurance requirements since last year’s review?

If the response is NO, there is no further information needed regarding this standard, please proceed to the next standard.

If the response is YES, in the reference column please provide the applicable citation for each of the questions in this particular standard. Additionally, please attach a copy of the statutes or regulations that had a change and ensure that they are clearly marked for the changes that have been made (i.e., highlight the changes, redlined version, etc.) Please place an asterisk (*) in the reference column on the right-hand side of the page by each citation that has been changed. Also, please include below a brief description of the nature or reason for the change.

If the department is completing the self-evaluation guide due to an upcoming full review, please provide the applicable citation for each of the questions in this particular standard. Additionally, please attach a copy of the statutes or regulations that are listed in the reference column.

**Credit for Reinsurance Model Law (#785)**

a. Credit allowed for reinsurance ceded to a licensed insurer? If the reinsurer is licensed as a RRG, then the ceding RRG or its members must qualify for membership with the reinsurer.

b. Credit allowed for reinsurance ceded to an accredited insurer who meets requirements similar to those in Section 2B of the model law?

c. Credit allowed for reinsurance ceded to an insurer domiciled and licensed in a state which employs substantially similar standards regarding credit for reinsurance and who maintains capital and surplus of at least $20,000,000 and submits to this state’s authority to examine its books and records?

d. Credit allowed for reinsurance ceded to an insurer who maintains a trust fund, established in a form approved by the Commissioner, in a qualified U.S. financial institution for the payment of the valid claims of its U.S. policyholders and ceding insurers, their assigns and successors in interest and who reports financial information annually to the Commissioner to determine the sufficiency of the trust fund?

e. In instances where reinsurance is ceded to insurers maintaining a trust fund, trustees of the trust required to report to the department annually, on or before February 28, the balance of the trust and a listing of the trust’s assets as of the end of the year and a certification of the date of termination of the trust, if so planned, or certify that the trust shall not expire prior to the next following December 31?
f. Credit for reinsurance allowed under c. or d. above only permitted where assuming insurer agrees in the reinsurance agreements: 1) that in the event of a failure of the assuming insurer to perform its obligations, the assuming insurer shall submit to the jurisdiction of any court of competent jurisdiction in any state of the U.S.; and 2) to designate the Commissioner or a designated attorney as its true and lawful attorney upon whom may be served any lawful process instituted by or on behalf of the ceding company?

g. Credit allowed for reinsurance ceded to an insurer meeting requirements similar to those in Section 2E (Certified Reinsurers) of the model law?

h. Credit allowed for reinsurance ceded to an insurer meeting requirements similar to those in Section 2F (Reciprocal Jurisdictions) of the model law?

i. Although not required for accreditation, a state’s laws and regulations may allow RRGs to take credit for reinsurance without posting collateral in circumstances not contemplated by the Credit for Reinsurance Model Law and Regulation. For such cases, the Accreditation Interlineations include “Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers” and a state’s laws and regulations must comply with the guidelines in order to be considered substantially similar with this standard. If your state’s laws and regulations do allow credit for reinsurance without collateral as discussed in the Accreditation Interlineations, please include the citation.

Note: An RRG’s reinsurers as of Jan. 1, 2011, are grandfathered in as acceptable without meeting the requirements in the Reinsurance Guidelines. The requirements in the Reinsurance Guidelines should be used for new reinsurers with which business is placed after Jan. 1, 2011.

j. Credit allowed for reinsurance ceded to an insurer not meeting the requirements of a., b., c., d., g., h. or i. above in an amount not exceeding the liabilities carried by the ceding insurer and only in the amount of funds held by or on behalf of the ceding insurer in the form of cash, securities listed by the Securities Valuation Office of the NAIC and qualifying as admitted assets, clean, irrevocable, unconditional letters of credit, and other forms of security acceptable to the Commissioner?

k. Credit for reinsurance allowed for reinsurance ceded by domestic reinsurers to assuming insurers that were licensed in the state as of the last date of the ceding insurers’ statutory financial statement? If the reinsurer is licensed as a RRG, then the ceding RRG or its members must qualify for membership with the reinsurer.

l. Credit for reinsurance provisions for accredited reinsurer similar to Section 5?

m. Credit for reinsurance provisions for reinsurers licensed and domiciled in other states similar to Section 6?
n. Credit for reinsurance provisions for reinsurers maintaining trust funds similar to Section 7?

o. Credit for reinsurance required by law similar to Section 9, to the extent permitted by 15 USC 3902(a)?

p. Reduction from liability for reinsurance ceded to an unauthorized assuming insurer similar to Section 10? Note: See significant element g. above regarding allowance of credit for reinsurance in certain situations not contemplated by the Model Law.

q. Provisions for trust agreements similar to Section 11?

r. Provisions for letters of credit similar to Section 12?

s. Provisions for unencumbered funds similar to Section 13?

t. Provisions for reinsurance contracts similar to Section 14? Note: For those reinsurance contracts for which credit is allowed under significant element g. above, the reinsurance contract should contain language similar to Section II of the “Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers.”

u. The adoption of Form AR-1—Certificate of Assuming Insurer. Note: For situations in which credit for reinsurance is taken under significant element g. above, the reinsurance contract should contain language similar to Section II of the “Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers.”

v. Credit for reinsurance provisions for certified reinsurers similar to Section 8?

w. Credit for reinsurance provisions for reciprocal jurisdictions similar to Section 9?
TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: NAIC Staff

DATE: March 3, 2020

RE: Technical Revisions to the *Term and Universal Life insurance Reserve Financing Model Regulation (#787)* as an Accreditation Standard

At the 2019 Fall National Meeting, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)*, commonly known as the XXX/AXXX model, as a new accreditation standard. The decision is pending approval by Plenary.

Following adoption by the Committee, the Reinsurance (E) Task Force adopted technical changes to Model #787, which included Section 4E as follows:

E. Reinsurance ceded to an assuming insurer that meets the requirements of [insert provision of state law equivalent to Section 5B(4) of the Credit for Reinsurance Model Law]; or

The technical changes were due to revisions to the *Credit for Reinsurance Model Law (#785)* adopted by the NAIC in June 2019, which impacted sections referenced in Model #787. The referenced Section 5B(4) provides an exemption to Model #787 for what is commonly referred to as “professional reinsurers.” As defined in the 2016 version of Model #785 Section 5B(4)(a) and (b), these professional reinsurers are reinsurers that meet certain minimum capital requirements and are certified reinsurers in a certain minimum number of states. The 2019 revisions to Model #785 add a new Section 5B(4)(a) to provide a similar exemption for reinsurers domiciled in reciprocal jurisdictions, as defined in Section 2F of Model #785. This shifted the original (a) and (b) to (b) and (c).

A copy of the revised Section 5 is attached. To accurately reflect the exemption intended by the reference in Model #787, the entire Section 5B(4) is now referenced in Model #787.

NAIC staff therefore recommend that an equivalent change also be made to the accreditation standard. The proposed change affects significant element “b” as follows:

b. Provides that Model #787 does not apply to reinsurance exempt by the provisions of Section 4 of Model #787, including reinsurance ceded to an assuming insurer that meets the requirements of Section 5B(4) of the *Credit for Reinsurance Model Law (#785)*?

The original referral from the Reinsurance (E) Task Force with the recommendation to the Committee regarding Model #787 as an accreditation standard, including the accreditation significant elements, is attached for reference.
CREDIT FOR REINSURANCE MODEL LAW

Section 5. Rules and Regulations

A. The commissioner may adopt rules and regulations implementing the provisions of this law.

Drafting Note: It is recognized that credit for reinsurance also can be affected by other sections of the enacting state’s code, e.g., a statutory insolvency clause or an intermediary clause. It is recommended that states that do not have a statutory insolvency clause or an intermediary clause consider incorporating such clauses in their legislation.

B. The commissioner is further authorized to adopt rules and regulations applicable to reinsurance arrangements described in Paragraph (1) of this Section 5B.

Drafting Note: This new regulatory authority is being added in response to reinsurance arrangements entered into, directly or indirectly, with life/health insurer-affiliated captives, special purpose vehicles or similar entities that may not have the same statutory accounting requirements or solvency requirements as US-based multi-state life/health insurers. To assist in achieving national uniformity, commissioners are asked to strongly consider adopting regulations that are substantially similar in all material respects to NAIC adopted model regulations in the handling and treatment of such policies and reinsurance arrangements.

(1) A regulation adopted pursuant to this Section 5B, may apply only to reinsurance relating to:

(a) Life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits;

(b) Universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period;

(c) Variable annuities with guaranteed death or living benefits;

(d) Long-term care insurance policies; or

(e) Such other life and health insurance and annuity products as to which the NAIC adopts model regulatory requirements with respect to credit for reinsurance.

(2) A regulation adopted pursuant to Paragraph 1(a) or 1(b) of this Section 5B, may apply to any treaty containing (i) policies issued on or after January 1, 2015, and/or (ii) policies issued prior to January 1, 2015, if risk pertaining to such pre-2015 policies is ceded in connection with the treaty, in whole or in part, on or after January 1, 2015.

Drafting Note: The NAIC’s Actuarial Guideline XLVIII (AG 48) became effective January 1, 2015, and covers policies ceded on or after this date unless they were ceded as part of a reserve financing arrangement as of December 31, 2014. One regulation contemplated by this revision to the NAIC Credit for Reinsurance Model Law (#785) is intended to substantially replicate the requirements for the amounts and forms of security held under the rules provided in AG 48. AG 48 was written to sunset upon a state’s adoption (pursuant to the enabling authority of the preceding paragraph) of a regulation with terms substantially similar to AG 48. The preceding paragraph is intended to provide continuity of rules applicable to those policies and reinsurance arrangements, including continuity as to the policies covered by such rules. The preceding paragraph is not intended to change the scope of, or collateral requirements for policies and treaties covered under AG 48.
(3) A regulation adopted pursuant to this Section 5B may require the ceding insurer, in calculating the amounts or forms of security required to be held under regulations promulgated under this authority, to use the Valuation Manual adopted by the NAIC under Section 11B(1) of the NAIC Standard Valuation Law, including all amendments adopted by the NAIC and in effect on the date as of which the calculation is made, to the extent applicable.

(4) A regulation adopted pursuant to this Section 5B shall not apply to cessions to an assuming insurer that:

(a) Meets the conditions set forth in Section 2F of the Credit for Reinsurance Model Law (#785) in this state or, if this state has not adopted provisions substantially equivalent to Section 2F of the Credit for Reinsurance Model Law (#785), the assuming insurer is operating in accordance with provisions substantially equivalent to Section 2F of the Credit for Reinsurance Model Law (#785) in a minimum of five (5) other states; or

(b) Is certified in this state or, if this state has not adopted provisions substantially equivalent to Section 2E of the Credit for Reinsurance Model Law (#785), certified in a minimum of five (5) other states; or

(c) Maintains at least $250 million in capital and surplus when determined in accordance with the NAIC Accounting Practices and Procedures Manual, including all amendments thereto adopted by the NAIC, excluding the impact of any permitted or prescribed practices; and is

(i) licensed in at least 26 states; or

(ii) licensed in at least 10 states, and licensed or accredited in a total of at least 35 states.

(5) The authority to adopt regulations pursuant to this Section 5B does not limit the commissioner’s general authority to adopt regulations pursuant to Section 5A of this law.
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Reinsurance (E) Task Force

DATE: August 24, 2017

RE: Term and Universal Life Insurance Reserve Financing Model Regulation (#787)

Executive Summary

The NAIC membership adopted the Term and Universal Life Insurance Reserve Financing Model Regulation (#787) at the 2016 Fall National Meeting on Dec. 13, 2016. At that same time, the NAIC membership also adopted revisions to 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 (AG 48) to conform with the provisions of Model #787, effective Jan. 1, 2017. Model #787 establishes uniform, national standards governing reserve financing arrangements pertaining to term life and universal life insurance policies with secondary guarantees, and ensures that funds consisting of primary security and other security are held in the forms and amounts required.

At its meeting on Aug. 7, 2017, the Reinsurance (E) Task Force agreed to submit the following recommendations to the Financial Regulation Standards and Accreditation (F) Committee:

1. Model #787 should be adopted as a new accreditation standard by the NAIC, with significant elements as outlined in Attachment A.

2. The Financial Regulation Standards and Accreditation (F) Committee should consider a waiver in its normal timeline for adoption of an accreditation standard, and expeditiously consider adoption of this standard. The Task Force recommends that the accreditation standard become effective Jan. 1, 2020. The Task Force further recommends that a state’s adoption of AG 48 will serve to satisfy this accreditation standard until such time that the state adopts the significant elements of Model #787.

3. The 2016 revisions to the Credit for Reinsurance Model Law (#785) should be considered acceptable but not required by the states.

In addition to the preceding recommendations, the Task Force is offering the following additional information in order to assist the Financial Regulation Standards and Accreditation (F) Committee in reviewing the proposed accreditation standard for Model #787.
Substantially Similar

The Task Force has recommended in the draft accreditation standard that the “substantially similar” standard be utilized to meet the minimum requirements of the standard. However, the Task Force did note that Drafting Notes to Section 2, Section 3 and Section 5 of Model #785 might suggest a stronger standard of review than “substantially similar.” The Drafting Notes provide, as follows: “To assist in achieving national uniformity, commissioners are asked to strongly consider adopting regulations that are substantially similar in all material respects to NAIC adopted model regulations in the handling and treatment of such reinsurance arrangements.” [Emphasis added]. In recognition of this, and to assist in review of the actuarial method used to determine the required level of primary security as described in Section 6 of Model #787, the Task Force recommends that the NAIC Legal Division specifically note any material changes in a state’s regulation during an accreditation review for consideration by the Financial Regulation Standards and Accreditation (F) Committee.

State Adoption of AG 48

The Task Force recommends that the accreditation standard become effective on an expedited basis beginning Jan. 1, 2020. However, the Task Force further recognizes that meeting the expedited date may not be feasible for some states in instances due, in whole or part, to other legislative priorities of the states. It is the recommendation of the Task Force that, in such cases, a state’s compliance with AG 48 should be considered as satisfactory to the Financial Regulation Standards and Accreditation (F) Committee as substantial compliance with Model #787. AG 48 became effective Jan. 1, 2015, and became part of the Accounting Practices and Procedures Manual through its inclusion in Appendix C, and has been amended to conform with Model #787 effective Jan. 1, 2017.

2016 Revisions to Model #785

The Task Force does not recommend that the 2016 revisions to Model #785 be included in the proposed accreditation standard. These revisions provide that the commissioner may adopt regulations with respect to: 1) life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits; 2) universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period; 3) variable annuities with guaranteed death or living benefits; 4) long-term care insurance policies; and 5) other life and health insurance and annuity products as to which the NAIC adopts model regulatory requirements with respect to credit for reinsurance. The revisions to Model #785 also contain a “professional reinsurer exemption” for reinsurers that maintain at least $250 million in capital and surplus when determined in accordance with the Accounting Practices and Procedures Manual, including all amendments thereto adopted by the NAIC, excluding the impact of any permitted or prescribed practices, and is: 1) licensed in at least 26 states; or 2) licensed in at least 10 states, and licensed or accredited in a total of at least 35 states.

The reasoning of the Task Force is that Model #787 only applies to term life and universal life with secondary guarantees (XXX/AXXX) captive reinsurance transactions, and that variable annuities, long-term care insurance and other life and health insurance and annuity products are not currently addressed. Therefore, it would be considered to be premature to require the states to adopt these provisions. In addition, the professional reinsurer exemption of Section 5B(4) of Model #785 is specifically referenced in the draft accreditation standard. Therefore, it is the recommendation of the Task Force that the 2016 revisions to Model #785 are optional, and should be considered as acceptable but not required by the states.
Attachment A

Proposed Accreditation Standard

Term and Universal Life Insurance Reserve Financing Model Regulation (#787)

State statute and/or regulation should be substantially similar to uniform, national standards that govern reserve financing arrangements pertaining to life insurance policies containing guaranteed nonlevel gross premiums, guaranteed nonlevel benefits and universal life insurance policies with secondary guarantees, to ensure that both the total security and the primary security are provided in forms and amounts that are in compliance with the requirements set forth in the Term and Universal Life Insurance Reserve Financing Model Regulation (#787).

a. Provides that the Credit for Reinsurance Model Regulation (#786) and Model #787 shall both apply to reinsurance treaties that cede liabilities pertaining to Covered Policies; provided, that in the event of a direct conflict between the provisions of Model #787 and the provisions of Model #786, the provisions of Model #787 shall apply, but only to the extent of the conflict, substantially similar to Section 3 of Model #787?

b. Provides that Model #787 does not apply to reinsurance exempt by the provisions of Section 4 of Model #787, including reinsurance ceded to an assuming insurer that meets the requirements of either Section 5B(4)(a) of the Credit for Reinsurance Model Law (#785), which pertains to certain certified reinsurers, or Section 5B(4)(b) of Model #785, which pertains to reinsurers meeting certain threshold size and licensing requirements?

c. Provides definitions of “Covered Policies,” “Grandfathered Policies,” “Required Level of Primary Security,” “Actuarial Method,” “Primary Security,” “Other Security” and “Valuation Manual” that are substantially similar to such terms as defined in Section 5 of Model #787?

d. Provides for an Actuarial Method to establish the Required Level of Primary Security for each reinsurance treaty subject to this regulation that is substantially similar to the methodology as set forth in Section 6A of Model #787?

e. Provides for valuations to be used 1) in calculating the Required Level of Primary Security pursuant to the Actuarial Method; and 2) in determining the amount of Primary Security and Other Security, as applicable, held by or on behalf of the ceding insurer, that are substantially similar to the valuations set out in Section 6B of Model #787?

f. Provides for requirements to obtain credit for reinsurance with respect to ceded liabilities pertaining to Covered Policies that are substantially similar to the requirements set out in Section 7A of Model #787?

g. Provides for requirements at inception date and on an ongoing basis substantially similar to Section 7B(1) of Model #787?

h. Provides that if the requirements to hold Primary Security and total security are not both satisfied, the ceding insurer shall establish a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held, unless any deficiency has been eliminated pursuant to remediation provisions substantially similar to Section 7B(2) of Model #787?

i. Includes a prohibition against avoidance provision similar to Section 9 of Model #787?
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: John F. Finston (CA)
      Chair, Reinsurance (E) Task Force

DATE: March 20, 2017

RE: 2016 Revisions to Credit for Reinsurance Model Law (#785)
     Term and Universal Life Insurance Reserve Financing Model Regulation (#787)

Executive Summary

On June 30, 2014, the Principle-Based Reserving Implementation (EX) Task Force adopted the recommendations in the report of Rector & Associates, Inc. dated June 4, 2014, regarding a proposal for the XXX/AXXX Reinsurance Framework. The Framework sought to address concerns regarding reserve financing transactions and to do so without encouraging them to move offshore. The changes would be prospective and apply only to life insurance policies containing guaranteed nonlevel gross premiums, guaranteed nonlevel benefits and universal life with secondary guarantees business (XXX/AXXX). The NAIC Executive (EX) Committee adopted the Framework (in concept) on Aug. 17, 2014. As an interim step to implementing the Framework, the NAIC adopted 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) (AG 48) on Dec. 16, 2014. It was expected that AG 48 would eventually be replaced by effective codification through the Credit for Reinsurance Model Law (#785) and creation of a new model regulation to establish requirements regarding the reinsurance of XXX/AXXX policies.

The NAIC adopted revisions to Model #785 on Jan. 8, 2016, which give insurance commissioners authority to issue regulations codifying AG 48 and the XXX/AXXX Reinsurance Framework. The Reinsurance (E) Task Force adopted the Term and Universal Life Insurance Reserve Financing Model Regulation (#787) at the Summer National Meeting on Aug. 27, 2016, and it was adopted by the Financial Condition (E) Committee with slight revisions via conference call on Sept. 30, 2016. Model #787 was then adopted by the Executive (EX) Committee and Plenary on Dec. 13, 2016. At that same time, the NAIC also revised AG 48 to conform with the provisions of Model #787, effective Jan. 1, 2017.

The Reinsurance (E) Task Force hereby submits the following recommendations to the Financial Regulation Standards and Accreditation (F) Committee:

1. The 2016 revisions to Model #785 and new Model #787 should be adopted as a new accreditation standard by the NAIC.
2. The F-Committee should consider a waiver in its normal timeline for adoption of an accreditation standard, and expeditiously consider adoption of this standard. The Task Force would recommend that the accreditation standard become effective January 1, 2020.

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 2016 revisions to Model #785 provide that the commissioner may adopt regulations with respect to (1) life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits; (2) universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period; (3) variable annuities with guaranteed death or living benefits; (4) long-term care insurance policies; and (5) other life and health insurance and annuity products as to which the NAIC adopts model regulatory requirements with respect to credit for reinsurance. The revisions to Model #785 also contain a “professional reinsurer exemption” for reinsurers that maintain at least $250 million in capital and surplus when determined in accordance with the NAIC Accounting Practices and Procedures Manual, including all amendments thereto adopted by the NAIC, excluding the impact of any permitted or prescribed practices; and is (1) licensed in at least 26 states; or (2) licensed in at least 10 states, and licensed or accredited in a total of at least 35 states.

Model #787 does not materially change the ability of insurers to obtain credit for reinsurance ceded to “certified” reinsurers or to obtain credit for reinsurance ceded to “licensed” or “accredited” reinsurers that follow statutory accounting and risk-based capital (RBC) rules. As a practical matter, the Model #787 requirements apply to reinsurance ceded to captive insurers, SPVs, reinsurers that are not eligible to become “certified” reinsurers, or reinsurers that materially deviate from statutory accounting and/or RBC rules. In those situations, subject to certain exemptions and grandfathering provisions, the ceding insurer may receive credit for reinsurance if:

- The ceding insurer continues to establish gross reserves, in full, using applicable reserving guidance;
- Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by or on behalf of the ceding insurer, as security under the reinsurance contract, on a funds withheld, trust, or modified coinsurance basis;
- The Actuarial Method used to establish the Required Level of Primary Security for each reinsurance treaty subject to Model #787 is based on VM-20, applied on a treaty-by-treaty basis;
- Funds consisting of Other Security, in an amount at least equal to any portion of the statutory reserves as to which Primary Security is not held are held by or on behalf of the ceding insurer as security under the reinsurance contract; and
- The reinsurance arrangement is approved by the ceding insurer’s domestic regulator.

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

The NAIC Principle-Based Reserving Implementation (EX) Task Force serves as the coordinating body for all NAIC technical groups involved with projects related to the Principle-Based Reserves (PBR) initiative for life and health policies. This Task Force was also charged with further assessing, and making recommendations regarding the solvency implications of life insurance reserve financing mechanisms addressed in the June 6, 2013, NAIC White Paper Captives and Special Purpose Vehicles, which provides in relevant part:

The Captive and Special Purpose Vehicle (SPV) Use (E) Subgroup studied the use of captives and SPVs formed by commercial insurers. The Subgroup concluded that commercial insurers cede business to
Captives for a variety of business purposes. The Subgroup determined that the main use of captives and SPVs by commercial insurers was related to the financing of XXX and AXXX perceived reserve redundancies. The implementation of principle-based reserving (PBR) could reduce the need for commercial insurers to create new captives and SPVs to address perceived reserve redundancies; however, existing captives and SPVs are likely to remain in existence for several years or decades, until the existing blocks of business are run-off. **Regulators need to be able to assess and monitor the risks that captives and SPVs may pose to the holding company system, and the current regulatory process should be enhanced to provide standardized tools and processes to be used by all regulators when reviewing such transactions.** Commercial insurer-owned captives and SPVs should not be used to avoid statutory accounting. To the extent that insurer-affiliated captives and SPVs may be created in the future for unforeseen purposes, additional guidance should be developed by the NAIC to assist the states in a uniform review of transactions. [Emphasis added].

In addition, in coordination with the adoption in principle of the XXX/AXXX Reinsurance Framework, the Financial Regulation Standards and Accreditation (F) Committee was given the following charge: “As the various work products are adopted by the Principle-Based Reserving (EX) Task Force, Executive Committee, and Plenary, consider them for inclusion in the Part A and Part B Accreditation Standards.”

Finally, effective Jan. 1, 2016, the NAIC amended the *Preamble for Part A: Laws and Regulations of the NAIC Policy Statement on Financial Regulation Standards* to 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 with respect to XXX/AXXX business, which is deemed to satisfy the Part A accreditation requirements if the applicable reinsurance transaction satisfies the XXX/AXXX Reinsurance Framework requirements adopted by the NAIC. Further, the revised Preamble provided, as follows: “The revisions to the Credit for Reinsurance Model Act (#785) and the new XXX/AXXX Model Regulation will need to be specifically considered for accreditation purposes once adopted by the NAIC.”

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

AG 48 became effective Jan. 1, 2015, and became part of the NAIC *Accounting Practices and Procedures Manual* through its inclusion in Appendix C. As such, provisions similar to the proposal have been effective in all states since that date.

As of this date, three states (Louisiana, Oklahoma and Utah) have gone beyond AG 48 and have adopted the 2016 revisions to Model #785 giving commissioners authority to issue regulations codifying AG 48 and the XXX/AXXX Reinsurance Framework, with several other states currently considering such revisions.

The new Part A Preamble became effective Jan. 1, 2016, with regard to XXX/AXXX reinsurance captives. NAIC staff worked with necessary state insurance departments to assess compliance with the new Part A Preamble related to captives that assume XXX/AXXX business, and reported its findings at the 2016 Fall National Meeting to the Financial Regulation Standards and Accreditation (F) Committee. NAIC staff reviewed all of the Dec. 31, 2015, XXX/AXXX Reinsurance Supplements that were filed with the NAIC to first ascertain whether the appropriate level of primary and other securities was being held to back the non-exempt XXX/AXXX reinsurance transactions. NAIC staff reported that all of the transactions held the required amount of securities, and therefore, all of the transactions satisfied the new Part A requirements.

**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:

Regulators needed to be able to assess and monitor the risks posed with respect to XXX/AXXX captive reinsurance transactions, and the regulatory process was enhanced through the adoption of the XXX/AXXX Reinsurance Framework, AG 48 and Model #787 to provide standardized tools and processes to be used by all regulators when reviewing such transactions. However, these new tools are complex and technical in nature, requiring the use of a new actuarial methodology to achieve the desired financial solvency results. Therefore, the Reinsurance (E) Task Force recommends that any new accreditation standard developed for Model #787 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.

In addition, all of the elements of the XXX/AXXX Reinsurance Framework have been put into place, with the exception of the new accreditation standard. Therefore, F-Committee should consider a waiver in its normal timeline for adoption of an accreditation standard, and expeditiously consider adoption of this new standard effective as of January 1, 2020.

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 Model #787, 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, it should be noted that Model #787 does not require dramatic changes from how insurance companies have been financing XXX/AXXX captive reinsurance transactions since the NAIC’s adoption of AG 48. As with AG 48, Model #787 provides “standardized tools and processes to be used by all regulators when reviewing such transactions.” Prior to the adoption of AG 48, insurers would enter into various captive reinsurance transactions to “finance” different portions of the statutory reserve differently—i.e., to fund different portions of the reserve using different kinds of assets—based on what insurers believed to be a better correlation between the kind of asset used and the probability that it would be needed. Many state regulators were comfortable with these transactions in theory, but there was significant unease regarding how these transactions were being implemented, and especially as to the lack of consistency from insurer to insurer and regulator to regulator regarding key aspects as to how these transactions may have been approved. Such transactions are still permitted under Model #787, but now a clear and consistent process has been implemented to ensure that the proper amount and type of assets have been applied with respect to these transactions in order to ensure that they continue to meet strong financial solvency standards.
MEMORANDUM

TO: Commissioner Todd Kiser, Chair, Financial Regulation Standards and Accreditation (E) Committee

FROM: Justin Schrader, Chair, Risk-Focused Surveillance (E) Working Group

DATE: April 6, 2019

RE: Proposed Revisions to Accreditation Program Manual to Reference Salary Ranges

In 2017, the Risk-Focused Surveillance Working Group began work on a project to study regulator resources and review salary recommendations for financial regulators. After reviewing job requirements for financial regulators conducting risk-focused surveillance, completing a detailed salary survey of 40+ states and comparing the results against other similar regulatory and industry positions, the Working Group developed new salary range recommendations and supporting guidance for financial analyst and examiner compensation.

On Feb. 15, 2019, updated salary ranges and supporting guidance were referred to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group for consideration of adoption into the NAIC’s Financial Analysis Handbook and Financial Condition Examiners Handbook respectively. It is expected that the updated salary ranges and supporting guidance will be included in the 2020 publication of these handbooks.

In addition to developing salary range recommendations, the Working Group was asked to consider how its work should impact the NAIC accreditation standards and guidelines, as outlined in the following charge:

Consider recommendations to the Financial Regulation Standards and Accreditation (F) Committee for the purpose of evaluating the suitability of insurance department staffing in relation to the necessary skillsets.

In fulfillment of this charge, the Working Group is referring proposed revisions to Part C: Organizational and Personnel Practices, as well as the Self-Evaluation Guide/Interim Annual Review Form of the NAIC’s Accreditation Program Manual to the Committee for consideration of adoption. We recognize that Part C is reviewed by the accreditation team members but is not included in the Recommendation A or B and therefore does not impact a state’s accredited status. Because of this assessment structure and because Part C already includes questions related to competitive pay structures, we feel this is a logical place to reference the updated salary ranges being incorporated into NAIC handbooks. In addition, we believe the proposed questions in the Self-Evaluation Guide/Interim Annual Review Form related to whether the state is paying below the recommended salary ranges would provide beneficial information to the accreditation team and the Committee. Therefore, we request that you consider adoption of the proposed additions/revisions to the Accreditation Program Manual, as shown in tracked-change format in Attachment A.

If there are any questions regarding the proposed revisions, please contact me or NAIC staff (Bruce Jenson at bjenson@naic.org) for clarification. Thank you for your consideration of this referral.
Part C: Organizational and Personnel Practices

a. Professional Development

**Standard:** The department should recognize and provide necessary training needs for staff involved with financial surveillance and regulation. The department should also have a policy that encourages professional development through job-related college courses, professional programs and/or other training programs.

**Results-Oriented Guidelines:**

1. The department should have the ability to provide adequate training for staff involved in financial surveillance and regulation commensurate with the needs of the department. When assessing compliance with this guideline, consideration should be given to the following:
   - The department’s recognition of when financial surveillance personnel may require additional training.
   - Whether appropriate training is provided.
   - The effectiveness of training programs, including how the department assesses effectiveness.
   - The use of on-the-job training.
   - Sufficiency of budgeted hours and finances to support training needs of the department.

**Process-Oriented Guidelines:**

1. The department should have a policy that focuses on training and developing staff involved with financial surveillance and regulation—in particular, staff that is new to financial surveillance and regulation.

2. The department should have a continuing education policy that encourages professional development in place for staff involved with financial surveillance and regulation.

b. Minimum Educational and Experience Requirements

**Standard:** The department should establish minimum educational and experience requirements for all professional employees and contractual staff positions in the financial regulation and surveillance area, which are commensurate with the duties and responsibilities of the position.

**Results-Oriented Guidelines:**

1. Financial surveillance staff should have the ability to perform the necessary duties and responsibilities, as well as meet the minimum educational and experience requirements commensurate with each position’s role in financial surveillance.
Process-Oriented Guidelines:

1. The department should establish minimum educational and experience requirements for staff positions in the financial surveillance and regulation area.

2. The department should maintain current and relevant job descriptions for staff positions in the financial surveillance and regulation area.

c. Retention of Personnel

**Standard:** The department should have the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation.

Results-Oriented Guidelines:

1. The department should demonstrate the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation. When assessing compliance with this guideline, consideration should be given to the following:
   - The department’s hiring policy.
   - The overall retention of personnel in key financial surveillance regulation areas.
   - The performance appraisal, the review process and/or coaching programs.
   - The ability to provide promotional opportunities and/or career paths.
   - The ability to provide a competitive pay structure commensurate with the job duties and responsibilities, including whether average salaries fall below the ranges defined in the Examiners Handbook and Analysis Handbook.

Process-Oriented Guidelines:

1. The department should have a hiring policy that allows for personnel needs to be addressed.

2. The department should compare employee salaries to the suggested salary ranges defined in the Examiners Handbook and Analysis Handbook and identify how it determines that pay structures are or are not competitive for positions involved with financial surveillance and regulation.

3. The department should have a performance appraisal and/or coaching program for staff.

d. Use of Contract Personnel

**Standard:** A department that utilizes contract personnel to assist in financial surveillance and regulation should ensure that those hired in the capacity of a contractor are subject to standards that are comparable to or exceed those standards applicable to employees of the state.

Results-Oriented Guidelines:

1. The department should assess contractors used in performing financial surveillance and regulation activities to ensure the work being performed is commensurate with the department’s processes and procedures.
Process-Oriented Guidelines:

1. The department should have a process in place to consider qualifications, training and professional development of contractors performing financial surveillance and regulation activities.

2. The department should have the authority to terminate a contract for services related to financial surveillance and regulation on the basis of poor performance.
Related Self-Evaluation Guide/Interim Annual Review Form

c) Retention of Personnel

The department should have the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation.

YES  NO

1. Is the department’s pay structure for those positions involved with financial surveillance and regulation competitive to:

   ▪ Attract qualified personnel?

   YES  NO

   ▪ Retain qualified personnel?

   YES  NO

2. Do the salaries of applicable department personnel fall below the suggested salary ranges defined in the Examiners Handbook and Analysis Handbook, adjusted for market and cost of living variances?

   ▪ Financial Analyst?

   YES  NO

   ▪ Senior Financial Analyst?

   YES  NO

   ▪ Supervisor/Assistant Chief Analyst?

   YES  NO

   ▪ Chief Analyst?

   YES  NO

   ▪ Financial Examiner?

   YES  NO

   ▪ Senior Financial Examiner?

   YES  NO

   ▪ Examiner-In-Charge (EIC)/Supervisor/Assistant Chief Examiner?

   YES  NO

   ▪ Chief Examiner?

   YES  NO

3. In a separate attachment, identify how the department determines that pay structures are or are not competitive. Discuss the conclusion and any compensating factors or future plans in place if the salaries are deemed not competitive or fall below the range.

   *If this is an interim annual review, only identify how the department determines that pay structures are or are not competitive if there have been substantial changes from the previous submission of this information, otherwise note “no changes”.

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4. In a separate attachment, discuss the level of turnover that occurred during the past year and the reason for the turnover within the financial solvency monitoring staff, including the financial solvency senior management.

5. In a separate attachment, please discuss the department’s hiring policy that allows for addressing personnel needs.
   *If this is an interim annual review, only provide the department’s hiring policy that allows for addressing personnel needs if there have been substantial changes from the previous submission of this information, otherwise note “no changes”.

6. Does the department have a performance appraisal and/or coaching program for financial solvency monitoring staff?

7. If the answer to #5 above is yes, please briefly describe the department’s performance appraisal and/or coaching program for financial solvency monitoring staff.
   *If this is an interim annual review, only provide the department’s performance appraisal and/or coaching program for the financial solvency monitoring staff if there have been substantial changes from the previous submission of this information, otherwise note “no changes”.
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee
FROM: Risk Retention Group (E) Task Force
DATE: August 3, 2019
RE: Part B1: Analysis Guidelines for Risk Retention Groups

The accreditation Review Team Guidelines include a guideline specifically related to risk retention groups (RRGs) within the financial analysis section (Part B1). This guideline was originally drafted by the Risk Retention Group (E) Task Force and adopted by the Financial Regulation Standards and Accreditation (F) Committee. It is the intention of the Task Force that this guideline is applied to all RRGs regardless of accounting treatment (GAAP/SAP) or organizational structure (captive/traditional laws).

In 2017, a number of revisions were made to the accreditation guidelines to incorporate risk-focused analysis. In conjunction with those revisions, a reference to the “Captives and/or Insurers Filing on a U.S. GAAP Basis Worksheet” in the NAIC Financial Analysis Handbook was added to the analysis guideline specific to RRGs. This worksheet can be a helpful tool, however, it applies only to GAAP filers with an emphasis on a review of accounting differences. Adding this reference implies the accreditation guideline is only applicable to GAAP filers, which is inconsistent with the Task Force’s position that the guideline applies to all RRGs.

The Task Force therefore asks the Committee to consider the following revision to B1(e), process-oriented guideline #8 to return to the language used prior to 2017 and clarify the guideline applies to all RRGs.

If the company is a risk retention group (RRG), the following procedures should be performed and documented within the analysis file, as applicable:

- Annual review of the plan of operation to ensure that it is unchanged from the prior year.
- Ensure that all changes in the plan of operations have been approved.
- Review of the Note 1 reconciliation to ensure that it appears accurate and can be relied upon by others.
- Review of the General Interrogatory, Part 2 question 13.1 and ensure that the amount agrees with the approved plan of operations.
- Ensure that the financial projections on file accurately reflect the operations as presently conducted.
- Ensure that the “Notes” relating to the operation of the company agree with the approved plan of operation.

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