

## **FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE**

Financial Regulation Standards and Accreditation (F) Committee March 16, 2024, Minutes

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Statutory Accounting Principles (E) Working Group (Attachment One)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Blanks (E) Working Group (Attachment Two)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Financial Examiners Handbook (E) Technical Group (Attachment Three)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Capital Adequacy (E) Task Force (Attachment Four)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Valuation of Securities (E) Task Force (Attachment Five)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Life Actuarial (A) Task Force (Attachment Six)

Memorandum Discussing Publication Revisions Significant or Insignificant for Accreditation Purposes from the Receivership and Insolvency (E) Task Force (Attachment Seven)

## Draft Pending Adoption

Date: 3/20/24

Financial Regulation Standards and Accreditation (F) Committee  
Phoenix, Arizona  
March 16, 2024

The Financial Regulation Standards and Accreditation (F) Committee met in Phoenix, AZ, March 16, 2024. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair represented by Vicki Lloyd (KY); Andrew R. Stolfi, Co-Vice Chair (OR); Alan McClain (AR); Andrew N. Mais represented by Jack Broccoli (CT); Robert L. Carey represented by Vanessa Sullivan (ME); Gary D. Anderson represented by Rachel M. Davison (MA); Eric Dunning (NE); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Matt Fischer (ND); Elizabeth Kelleher Dwyer represented by Ted Hurley and John Tudino (RI); Michael Wise (SC); Larry D. Deiter (SD); and Scott A. White represented by David Smith and Doug Stolte (VA). Also participating was Donna Wilson (OK).

### 1. Adopted its 2023 Summer National Meeting Minutes

Director Deiter made a motion, seconded by Commissioner Stolfi, to adopt the Committee's Aug. 13 minutes (see *NAIC Proceedings – Summer 2023, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Director Wing-Heier said the Committee met March 15 in regulator-to-regulator session, pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee voted to award continued accreditation to Arizona and California

### 2. Adopted 2023 NAIC Publications

Director Wing-Heier said there are several NAIC publications currently included in the accreditation standards by reference. At each Spring National Meeting, the Committee reviews revisions made to these publications in the prior year. Each of the applicable groups that developed revisions to the publications in 2023 has provided the Committee with a memorandum discussing the revisions, and they indicated whether the revisions should be considered significant or insignificant for accreditation purposes. The publications include the *Accounting Practices and Procedures Manual (AP&P Manual)* (Attachment One); the *Annual Statement Blanks and Instructions* (Attachment Two); the *Financial Condition Examiners Handbook (Handbook)* (Attachment Three); the *RBC Formulas and Instructions for Life and P&C Insurers* (Attachment Four); the *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual)* (Attachment Five); and the *Valuation Manual* (Attachment Six). The working group or task force responsible for each of these publications has deemed their 2023 changes insignificant to the accreditation process.

Commissioner Stolfi made a motion, seconded by Broccoli, to adopt the revisions deemed insignificant to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

### 3. Exposed a Referral from the Receivership and Insolvency (E) Task Force Recommending That 2023 Revisions to Model #540 Be Acceptable for Accreditation but Not Required

Director Wing-Heier stated that a memorandum was received regarding recently adopted revisions to the *Property and Casualty Insurance Guaranty Association Model Act (#540)* from the Receivership and Insolvency (E) Task Force. Because the model is part of the accreditation standards, the Committee needs to consider the impact

## **Draft Pending Adoption**

of any changes. Wilson, vice chair of the Receivership and Insolvency (E) Task Force, presented the memorandum and the Task Force's recommendation.

Commissioner McClain made a motion, seconded by Broccoli, to expose the referral from the Receivership and Insolvency (E) Task Force (Attachment Seven) recommending that the 2023 revisions to Model #540 be acceptable for accreditation but not required for a 30-day public comment period ending April 19. The motion passed unanimously.

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

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



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**MEMORANDUM**

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

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

DATE: February 20, 2024

RE: Financial Regulation Standards – As of March 2023 *Accounting Practices and Procedures Manual*

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In 2001, the Financial Regulation Standards and Accreditation (F) Committee adopted the *Accounting Practices and Procedures Manual – Effective January 1, 2001, Version 1999* (AP&P Manual) as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Statutory Accounting Principles (E) Working Group has made to the AP&P Manual in 2023 up to the 2024 date of submission for publication. This memo is to provide the customary annual update regarding changes to the AP&P Manual.

Attachment A to this memo includes a detailed listing of the changes made to the AP&P Manual in 2023. On behalf of the Working Group, it is our opinion that none of these items, either individually or collectively, should be considered “significant” as defined by the financial solvency accreditation standards.

As outlined in the *NAIC Policy Statement on Maintenance of Statutory Accounting Principles* (SAP Policy Statement), modifications will be made to the *AP&P Manual* each year. As such, it will be reprinted with an “as of” date associated with it. For example, the next printing of the AP&P Manual, which encompasses the attached modifications, will be titled *Accounting Practices and Procedures Manual – as of March 2024*. This process allows for an efficient way to update the AP&P Manual and virtually guarantees that users have the latest version. Reprints and updates are necessary because of the evolutionary nature of accounting—in both the statutory accounting principles and the generally accepted accounting principles arenas—and are positive for users of the AP&P Manual.

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

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

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg\\_Statutory\\_Referrals/2024/2023 SAPWG to Accreditation Memo.doc](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg_Statutory_Referrals/2024/2023 SAPWG to Accreditation Memo.doc)

## **Summary of Changes to the *As of March 2023 Accounting Practices and Procedures Manual* included in the *As of March 2024 Manual***

The following summarizes changes made to the *As of March 2023 Accounting Practices and Procedures Manual* (Manual) and shown in the *As of March 2024* version.

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

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

**Section 3** summarizes revisions to the Manual appendices.

### ***PENDING CONTENT ALERT – BOND PROJECT - Effective January 1, 2025***

Adopted revisions in 2023 which are effective January 1, 2025, as a result of the ongoing Principles-Based Bond Project are available on the Statutory Accounting Principles (E) Working Group web page at [https://content.naic.org/cmte\\_e\\_app\\_sapwg.htm](https://content.naic.org/cmte_e_app_sapwg.htm). Revisions specifically impacting *SSAP No. 26R—Bonds*, *SSAP No. 43R—Loan-Backed and Structured Securities*, various other SSAPS, and the annual statement instructions will be documented in the *As of March 2025 Accounting Practices and Procedures Manual*.

<b>1. Revisions that Resulted in a New SSAP or New SAP Concept – Statutory Accounting Principles</b>		
<b>Section</b>	<b>Reference</b>	<b>Description</b>
<i>No revisions that resulted in a new SSAP or new SAP concept were adopted in 2023.</i>		
<b>2. Revisions that Resulted in a SAP Clarification – Statutory Accounting Principles</b>		
<b>Section</b>	<b>Reference</b>	<b>Description</b>
SSAP No. 2R	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 5R	2022-01	Revisions clarify the definition of a liability under statutory accounting to be more consistent with recent FASB revisions and are historically documented in <i>Issue Paper No. 168—Updates to the Definition of a Liability</i> .
	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-18	Revisions adopt with modification <i>ASU 2016-19, Technical</i>

		<i>Corrections and Improvements</i> and standardize the terminology used for insurance contracts regarding pension and other post-retirement benefits.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 16R	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 20 SSAP No. 21R	2022-11	Revisions include consistency revisions to SSAP No. 20. Revisions to SSAP No. 21R provide more detail on qualifying collateral for collateral loans, require information to support fair value of collateral to be available on request, and provide audit transition guidance for equity collateral.
SSAP No. 22R	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 24	2023-06	Revisions reject <i>ASU 2021-10, Government Assistance</i> while incorporating certain disclosures regarding government assistance.
SSAP No. 25	2022-15	Revisions clarify that any invested asset held by a reporting entity which is issued by an affiliated entity, or which includes the obligations of an affiliated entity, is an affiliated investment.
	2023-11EP	Revisions streamline citations to <i>the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> so they do not reflect a specific location in the P&P Manual or a webpage.
SSAP No. 26R	2023-11EP	Revisions streamline citations to <i>the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> so they do not reflect a specific location in the P&P Manual or a webpage.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 30R	2023-11EP	Revisions streamline citations to <i>the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> so they do not reflect a specific location in the P&P Manual or a webpage.
	2023-23	Revisions clarify that investments that are in-substance residual interests shall be reported on Schedule BA on the dedicated reporting line for residuals.
SSAP No. 32R	2023-11EP	Revisions streamline citations to <i>the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> so they do not reflect a specific location in the P&P Manual or a webpage.
	2023-23	Revisions clarify that investments that are in-substance residual interests shall be reported on Schedule BA on the dedicated reporting line for residuals.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected

		credit losses (CECL) for statutory accounting.
SSAP No. 34	2022-17	Revisions add additional disclosures in SSAP No. 34 to data capture the gross, nonadmitted and admitted amounts of interest income due and accrued, and to reflect the cumulative amount of paid-in-kind (PIK) interest income included in the current principal balance.
	2023-13	Revisions clarify and incorporate a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure for <i>SSAP No. 34—Investment Income Due and Accrued</i> and proposed annual statement instructions.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 37 SSAP No. 39 SSAP No. 41R	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 43R	2023-02	Revisions incorporate changes to add collateralized loan obligations (CLOs) to the financial modeling guidance and to clarify that CLOs are not captured as legacy securities.
	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-12	Revisions for the reporting of residual interests, so that all residuals are captured on the dedicated Schedule BA – Other Long-Term Invested Assets reporting lines.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 47	2023-07	Revisions adopt with modification <i>ASU 2019-08, Stock Compensation and Revenue with Contracts from Customers</i> to provide guidance on share-based consideration payable to customers.
SSAP No. 48	2023-12	Revisions for the reporting of residual interests, so that all residuals are captured on the dedicated Schedule BA – Other Long-Term Invested Assets reporting lines.
SSAP No. 50 SSAP No. 51R SSAP No. 52	2023-10	Revisions reject <i>ASU 2022-05, Transition for Sold Contracts</i> as not applicable for statutory accounting.
SSAP No. 54R	2023-22	Revisions clarify that gross premium valuation (under <i>A-010, Minimum Reserve Standards for Individual and Group Health</i> ) and cash-flow testing (under <i>Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves</i> ) are both required if indicated.
SSAP No. 56	2023-10	Revisions reject <i>ASU 2022-05, Transition for Sold Contracts</i> as not applicable for statutory accounting.
SSAP No. 57 SSAP No. 60	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.

SSAP No. 61R	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 62R	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 65	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 71	2023-10	Revisions reject <i>ASU 2022-05, Transition for Sold Contracts</i> as not applicable for statutory accounting.
SSAP No. 78	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 86	2023-11EP	Revisions change SSAP No. 86 references of “Intrinsic Value” to reflect “Volatility Value”. In addition, “percent” is changed to “%” to maintain consistency throughout the Manual.
	2023-10	Revisions reject <i>ASU 2022-05, Transition for Sold Contracts</i> as not applicable for statutory accounting.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 92	2023-18	Revisions adopt with modification <i>ASU 2016-19, Technical Corrections and Improvements</i> and standardize the terminology used for insurance contracts regarding pension and other post-retirement benefits.
	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-21	Revisions to remove the initial transition guidance as the 10-year effective period of the guidance has expired.
SSAP No. 93	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 95	2023-07	Revisions adopt with modification <i>ASU 2019-08, Stock Compensation and Revenue with Contracts from Customers</i> to provide guidance on share-based consideration payable to customers.
SSAP No. 97	2023-11EP	Revisions streamline citations to <i>the Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> so they do not reflect a specific location in the P&P Manual or a webpage.
SSAP No. 100R	2022-16	Revisions adopt with modification the fair value measurement guidance from <i>ASU 2022-03, Fair Value Measurement of Restricted Securities</i> to incorporate updated guidance for restricted securities for statutory accounting. The disclosures from ASU 2022-03 were not adopted.

	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 101	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
SSAP No. 102	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-18	Revisions adopt with modification <i>ASU 2016-19, Technical Corrections and Improvements</i> and standardize the terminology used for insurance contracts regarding pension and other post-retirement benefits.
	2023-21	Revisions to remove the initial transition guidance as the 10-year effective period of the guidance has expired.
SSAP No. 103R	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-18	Revisions adopt with modification <i>ASU 2016-19, Technical Corrections and Improvements</i> and standardize the terminology used for insurance contracts regarding pension and other post-retirement benefits.
SSAP No. 104R	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
	2023-07	Revisions adopt with modification <i>ASU 2019-08, Stock Compensation and Revenue with Contracts from Customers</i> to provide guidance on share-based consideration payable to customers.
SSAP No. 105R	2022-18	Revisions reject <i>ASU 2022-04, Disclosure of Supplier Finance Program Obligations</i> for statutory accounting.
	2023-24	Revisions reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
SSAP No. 108	2023-11EP	Revisions change “percent” to “%” to maintain consistency throughout the Manual.
<b>3. Revisions to the Appendices</b>		
<b>Section</b>	<b>Reference</b>	<b>Description</b>
Appendix A		<i>No revisions impacting this appendix were adopted in 2023.</i>
Appendix B	2023-24 INT 06-07	Revisions to <i>INT 06-07: Definition of Phrase “Other Than Temporary”</i> reject <i>ASU 2016-13, Financial Instruments—Credit Losses</i> and related subsequent ASUs. These revisions reject current expected credit losses (CECL) for statutory accounting.
	2023-05 INT 20-01	Revisions to <i>INT 20-01: ASUs 2020-04, 2021-01 &amp; 2022-06 – Reference Rate Reform</i> which provides a temporary (optional) expedient and exception interpretative guidance to revise the

		expiration date of the guidance in INT 20-01 to December 31, 2024.
	INT 22-02	Revisions to <i>INT 22-02: Third Quarter 2022 through Second Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax</i> extend this interpretation for the second quarter 2023 statutory financial statements.
	2022-19 INT 23-01	<i>INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve</i> provides an optional, limited-time guidance, which allows the admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus. INT 23-01 will be automatically nullified on January 1, 2026.
	2023-04 INT 23-03	<i>INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax</i> provides guidance for CAMT reporting on or after year-end 2023 and addresses accounting, the statutory valuation allowance, admissibility, disclosures, and year-end 2023 transition.
	INT 23-04	<i>INT 23-04: Scottish Re Life Reinsurance Liquidation Questions</i> provides accounting and reporting guidance for entities ceding to the life reinsurer in liquidation.
Appendix C	AG 49-A	Revisions to AG 49-A improve illustrations for indexed universal life (IUL) products with uncapped volatility-controlled funds and a fixed bonus. The guideline applies to policies sold on or after May 1, 2023.
	AG 54	This new guideline specifies the conditions under which an Index-Linked Variable Annuity (ILVA) is consistent with the definition of a variable annuity and exempt from <i>Standard Nonforfeiture Law for Individual Deferred Annuities</i> (#805) and specifies nonforfeiture requirements consistent with variable annuities. The guideline applies to all contracts (including associated riders, endorsements, or amendments) issued on or after July 1, 2024.
Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2023-08	<i>ASU 2019-07, Codification Updates to SEC Sections</i>
	2023-09	<i>ASU 2020-09, Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762, Debt (Topic 470)</i>
	2023-19	<i>ASU 2018-09, Codification Improvements</i>
	2023-20	<i>ASU 2020-10, Codification Improvements</i>
Appendix E	IP No. 167	<i>Issue Paper No. 167—Derivatives and Hedging</i> details the historical actions of the authoritative guidance resulting in new SAP concepts adopted in August 2022 within <i>SSAP No. 86—Derivatives</i> .
	IP No. 168	<i>Issue Paper No. 168—Updates to the Definition of a Liability</i> documents revisions to <i>SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets</i> to align the definition of a liability with the term utilized by the Financial Accounting Standards Board (FASB).

Appendix F		<i>No revisions impacting this appendix were adopted in 2023.</i>
Appendix G		<i>No revisions impacting this appendix were adopted in 2023.</i>
Appendix H	INT 23-02	<i>INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax; Adoption provided guidance for third quarter 2023 CAMT reporting and required disclosures, but not accrual of a liability; automatically nullified on November 16, 2023.</i>



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

FROM: Pat Gosselin, Chair  
Blanks (E) Working Group

DATE: January 4, 2024

RE: Items Impacting Current Accreditation Standard

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Please find attached a list of items adopted by the Blanks (E) Working Group during 2023. 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 2023 do not represent a substantive change to any reporting requirements.

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

### Changes to blanks and instructions adopted during 2023

1. Modify Exhibit 1, Parts 1 and 2, and Exhibit 8, Parts 1 and 2, in the life and accident and health/fraternal blank, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. (2022-14BWG Modified) Effective Dec. 31, 2023
2. In the life, accident and health/fraternal, and property/casualty (P/C) blanks, revise the language of Schedule H, Part 5 to remove the 5% of premiums filing exemption. (2022-15BWG) Effective Dec. 31, 2023
3. Remove Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit's Expense Allocation Report. (2022-16BWG) Effective Dec. 31, 2023
4. Add a new disclosure paragraph for Note 8 – Derivative Instruments and illustration. The new disclosure to be data captured. Add electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add new code column instructions for Schedule DB, Part A and B (SAPWG 2021-20). (2022-17BWG Modified) Effective Dec. 31, 2023
5. For the life and accident and health/fraternal blank, instructional corrections on the handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO) Identified Funds within the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR). (2022-18BWG) Effective Dec. 31, 2023
6. Modify the instructions and blanks for various health exhibits to change the order of the Vision and Dental lines of business to be consistent with all other statement types. (2022-20BWG) Effective Dec. 31, 2023
7. Remove Pet Insurance from the Inland Marine line of business and add a new line of business to the Appendix – P/C Lines of Business. Add a Pet Insurance line within the existing P/C Blank for the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses (State Page), and Insurance Expense Exhibit. Add new Schedule P Parts 1 through 4, specific to Pet Insurance. (2023-01BWG Modified) Effective Jan. 1, 2024
8. Add an exhibit to identify premiums that are reportable for Market Conduct Annual Statement (MCAS) purposes. (2023-02BWG Modified) Effective Dec. 31, 2023
9. Remove life crosschecks for columns 2, 6, and 10 on the Accident and Health Policy Experience Exhibit (AHPEE). (2023-03BWG) Effective Dec. 31, 2023
10. Add instructions for the appointed actuary and qualified actuary contacts to the Jurat electronic-only section. (2023-04BWG Modified) Effective Dec. 31, 2023
11. Split Schedule D, Part 1, into two sections: one for Issuer Credit Obligations and the other for Asset-Backed Securities (ABS). Update the other parts of the annual statement that reference the bond lines of business. (2023-06BWG Modified) Effective Jan. 1, 2025
12. Update the Code column and delete the Legal Entity Identifier (LEI) column for the following investment schedules: Schedules A, B, BA, D Part 2, D Part 6, and E Part 1. (2023-07BWG Modified) Effective Jan. 1, 2025
13. Add clarifying language for mutual insurance companies on Schedule Y, Part 3. (2023-08BWG) Effective Dec. 31, 2023
14. Update the three primary issue periods on Long-Term Care Experience Reporting Form 2. (2023-10BWG Modified) Effective Dec. 31, 2023
15. Add additional instructions and illustration to be data captured for Note 7 – Investment Income in the Notes to the Financial Statement to disclose more information on interest. (2023-11BWG Modified) Effective Dec. 31, 2023



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**MEMORANDUM**

TO: Financial Regulation Standards and Accreditation (F) Committee

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

DATE: Jan. 26, 2024

RE: Consideration for Financial Accreditation Standards  
*2024 Financial Condition Examiners Handbook*

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The *Accreditation Program Manual* (Manual) includes Review Team Guidelines to be used for financial examinations performed using the risk-focused surveillance approach that is found in the NAIC *Financial Condition Examiners Handbook* (Handbook). This memorandum is to update the Financial Regulation Standards and Accreditation (F) Committee (FRSAC) on changes the Financial Examiners Handbook (E) Technical Group has made to the Handbook in 2023.

Modifications are made to the Handbook each year, and a new edition is available annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The Technical Group made several changes to the Handbook in 2023, all of which it considers non-significant; i.e., having no impact on accreditation guidance.

During 2023, the Technical Group made the following changes:

**Non-Significant Changes to the Handbook:**

- Revisions to Exhibit G – Consideration of Fraud clarify which portions of the exhibit are expected to be completed under different circumstances. Section 1-4, Exhibit A – Examination Planning Procedures Checklist, and Exhibit E – Audit Review Procedures were also updated to incorporate this guidance consistently throughout the Handbook.
- Revisions to Section 1-3 reference the Memorandum of Understanding (MOU) template as an optional tool within the existing guidance that can help promote early communication in property and casualty insurer pre-liquidation situations.
- Revisions to the Capital & Surplus Repository, Underwriting Repository, and Exhibit V – Overarching Prospective Risk Assessment to add guidance regarding strategic and operational risks faced by health insurers and encourage review of these risks during an examination.
- Revisions to various sections of the Handbook to incorporate consideration of climate-related risks.

- Revisions to Section 1-10 and Exhibit D – Planning Meeting with the Financial Analyst in response to the May Examination Peer Review session to clarify the role and expectations of the department analyst throughout the examination and to include any significant deviations or additions from the initial planning approach as a required element in status updates.
- Revisions to integrate the consideration of additional procedures to help regulators in their review of affiliated service agreements during a financial examination. Additional considerations for affiliated service agreements were included throughout the following:
  - Narrative guidance in Sections 1-3 and Section 2 Phase 1
  - Related Party Repository
  - Exhibits: Exhibit A – Examination Planning Procedures Checklist, Exhibit H – Insurer Profile Summary Template, and Exhibit CC – Issue/Risk Tracking Template.

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



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**MEMORANDUM**

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

FROM: Tom Botsko, Chair, Capital Adequacy (E) Task Force and Property and Casualty Risk-Based Capital (E) Working Group

DATE: February 1, 2024

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

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Attached please find a brief description of changes to the 2023 risk-based capital (RBC) reports, including an overview and instructions, for health, life, and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and the Executive (EX) Committee and Plenary in 2023. The significance of these changes was viewed as it relates to the overall RBC standard.

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

Any questions can be directed to NAIC staff:  
P/C – Eva Yeung  
Life – Dave Fleming  
Health — Crystal Brown

**Health RBC Formula**

- |                 |  |
|-----------------|--|
| Not Significant | Modify the Affiliated Investment instructions and structure of the Affiliated Investment pages (XR002-XR004) to provide a relatively more consistent treatment of affiliated investment between the Health, Life and P/C RBC formulas. |
| Not Significant | Modified the preferred stock instructions to delete the reference to the bond factors and revised for consistency with the P/C RBC preferred stock instructions.   |
| Not Significant | Modified the lines of business references on pages (XR013 & XR014) to align with the Annual Statement Analysis of Operations page that were revised because of Blanks proposal (2021-17BWGMOD).  |
| Not Significant | Removed the informational only Trend Test instructions.  |
| Not Significant | Renumbered the lines on page XR008.  |

Not Significant Clarify the stop loss instructions to provide clarity on reporting stop loss premiums in the RBC formula.

Not Significant Update the comprehensive medical, Medicare supplement, and dental and vision factors in XR013 instructions and RBC formulas to include a 5% investment yield adjustment.

**Life RBC Formula**

Not Significant Removal of dual trend test by eliminating the presentation of the test at the former 2.5 threshold while member jurisdictions transitioned to the current 3.0 threshold.

Not Significant Align the CM6 and CM7 factors for non-performing commercial and farm mortgages with the factors for Schedule A and Schedule BA investments in real estate, as those factors were adjusted in 2021. It also adopts the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages.

Not Significant Make structural changes and instructional changes for LR025, Life Insurance and assign the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility.

Not Significant Add a line to isolate residual tranches reported on Schedule BA and the asset valuation reserve for a specific base factor and add lines for residual tranches to the sensitivity testing exhibits. For 2023, a base factor of .3 and a .15 factor for sensitivity testing were adopted.

Not Significant Modify the Affiliated Investment instructions and structure of the Affiliated Investment pages (LR042-LR044) to provide a relatively more consistent treatment of affiliated investment between the Health, Life and P/C RBC formulas.

Not Significant Update the comprehensive medical, Medicare supplement, and dental and vision factors in LR020 instructions and RBC formulas to include a 5% investment yield adjustment.

Not Significant Update the Health Premiums (LR019) and the Health Underwriting Risk (LR020) references in the instructions and structure to provide consistent categories used in the Annual Statement, Schedule H, Part 1.

Not Significant Clarify the stop loss instructions to provide clarity on reporting stop loss premiums in the RBC formula.

**P/C RBC Formula**

Not Significant Modify the PR027 Catastrophe Risk instructions to: 1) capture the spirit of the own model permission review; and 2) clarify the requirements expected from the company who submits its own model for permission.

- Not Significant      Modify the lines of business categories in PR035 to provide consistency in the granularity of the Property and Casualty Annual Statement, Underwriting and Investment Exhibit pages.
- Not Significant      Updated the Line 1 industry average development factors and industry average loss & loss adjustment expense ratio in PR017 and PR018 respectively.
- Not Significant      Modify the Affiliated Investment instructions and structure of the Affiliated Investment pages (PR003-PR005) to provide a relatively more consistent treatment of affiliated investment between the Health, Life and P/C RBC formulas.
- Not Significant      Update the Health Premiums (PR019) and the Health Underwriting Risk (PR020) references in the instructions and structure to provide consistent categories used in the Annual Statement, Schedule H, Part 1.
- Not Significant      Clarify the stop loss instructions to provide clarity on reporting stop loss premiums in the RBC formula.
- Not Significant      Update the comprehensive medical, Medicare supplement, and dental and vision factors in PR020 instructions and RBC formulas to include a 5% investment yield adjustment.



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**MEMORANDUM**

**TO:** Financial Regulation Standards and Accreditation (F) Committee

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

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

**DATE:** February 15, 2024

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

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**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 2023 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 (SFERS) in the *2024 Accreditation Program Manual* consists of four parts: Part A identifies laws and regulations deemed necessary to financial solvency regulation;<sup>1</sup> Part B identifies regulatory practices and procedures that supplement and support enforcement of the financial solvency laws and regulations discussed in Part A;<sup>2</sup> 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;<sup>3</sup>
- Standard 2, the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)<sup>4</sup> assigns RBC factors for securities based on their credit risk as measured by NAIC Designations;

- Standard 3, the *Accounting Practices and Procedures Manual*<sup>5</sup> uses NAIC Designations produced by the SVO or SSG, or by insurers through the filing exempt process and or Price Grids produced by the SSG to identify valuation rules applicable to an investment and the reserved capital amount the insurer must report;
- Standard 8, pertaining to state investment regulations often incorporate NAIC mechanisms that relate asset allocations to credit risk expressed in the form of NAIC Designations;<sup>6</sup> and
- Standard 10, the *Credit for Reinsurance Model Act* (#785)<sup>7</sup> identifies insurer owned securities compiled by the SVO into a List of Investment Securities published quarterly in the NAIC AVS+ product, and letters of credits issued by the institutions on the NAIC Qualified U.S. Financial Institutions List administered by the SVO, as eligible for use as collateral in reinsurance transactions.

**C. Investment Analysis Office Standards Identified in the *Purposes and Procedures Manual*** – All SVO and SSG standards related to the assessment of credit risk in insurer owned securities, identification of additional non-payment risk in securities, classification of certain assets as bonds or as bond-like for reporting purposes, the valuation of insurer owned securities, and other activities conducted by the SVO or the SSG in support of state insurance regulatory objectives, are determined and promulgated by the Valuation of Securities (E) Task Force and published in the *Purposes and Procedures Manual*. In 2023, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2023 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 2023 can be characterized as maintenance items consistent with the existing regulatory framework and automatically incorporated into the Part A Standards identified above. The amendments identified in Attachments One did not create processes or practices external to the *Purposes and Procedures Manual* or other NAIC model legislation, guidance or analysis of NAIC staff that would suggest the need to consider an amendment to NAIC model legislation or guidance or legislative action on the part of an accredited state.

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

**Attachment One**

**RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL**  
*Published in the December 31, 2023 Publication*

- **Adopted updates to clarify the meaning of Repurchase Agreement in the Derivatives Transaction definition for Funds in Part Three** – According to the SEC definition in the Rule 18f-4 adopting release, “In a reverse repurchase agreement, a fund transfers a security to another party in return for a percentage of the value of the security. At an agreed-upon future date, the fund repurchases the transferred security by paying an amount equal to the proceeds of the initial sale transaction plus interest.” However, according to SSAP No. 103R - Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, “Reverse repurchase agreements are defined as agreements under which a reporting entity purchases securities and simultaneously agrees to resell the same or substantially the same securities at a stated price on a specified date.” The SSAP No. 103R reverse repurchase agreement definition is the opposite of the SEC definition in the Rule 18f-4 adopting release. According to SSAP No. 103, “Repurchase agreements are defined as agreements under which a reporting entity sells securities and simultaneously agrees to repurchase the same or substantially the same securities at a stated price on a specified date.” The SAPP No. 103R definition of repurchase agreement matches the SEC definition of reverse repurchase agreement, in which the fund is obligated to make a repurchase payment at a later date. To maintain consistency between this Manual and SSAP No. 103R and eliminate any misconception that a fund cannot be the purchaser of securities/lender of cash, the SVO update the definition for a reverse repurchase agreement the NAIC Fund Lists section of the Manual.

*The Valuation of Securities (E) Task Force adopted this amendment on Jul. 13, 2023*

- **Adopted update Notice of Credit Deterioration for the List of Qualified U.S. Financial Institutions** – The SVO maintains the List of Qualified U.S. Financial Institutions (“QUSFI”) which indicates the financial institutions eligible to issue letters of credit (“LOCs”) which, pursuant to Section 3 of the Credit for Reinsurance Model Law (“Model #785”), can be used to reduce an insurers liability when ceding reinsurance to certain assuming insurers. To qualify as a QUSFI the LOC issuing financial institution needs to meet the criteria listed in Section 4 of Model #785, which includes a requirement that the financial institution “Has been determined by either the commissioner or the Securities Valuation Office of the National Association of Insurance Commissioners to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.” The SVO has encountered situations in which a financial institution on the QUSFI list was not downgraded below the minimum permitted ratings of BBB-/Baa3 in the QUSFI guidelines in Part Two of the Purposes and Procedures Manual prior to regulatory action being taken by their primary regulator(s), such as closure of the bank by the relevant state regulator and appointment of the Federal Deposit Insurance Corp. as receiver. The amendment authorizes the SVO to remove a financial institution from the List of Qualified U.S. Financial Institutions if actions are either announced or taken by their primary regulator(s).

*The Valuation of Securities (E) Task Force adopted this amendment via e-mail vote on Apr. 19, 2023*

- **Adopted a non-substantive technical amendment clarifying the corresponding NAIC Designation Category for NAIC 5GI** – At the 2021 Fall National Meeting the Task Force adopted a non-substantive technical amendment to the PL Securities section in Part Three of this Manual which clarified that an NAIC 5GI Designation is the equivalent of an NAIC 5.B Designation Category. The SVO identified other places in the Manual where the 5.B GI Designation Category is not currently specified that were corrected by this non-substantive technical amendment.

*The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023*

- **Adopted an amendment including Collateralized Loan Obligations (CLO) as a Financially Model Security in Part Four** – A collateralized loan obligation (CLO) is type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. An insurer that purchases every tranche of a CLO holds the exact same investment risk as if it had directly purchased the entire pool of loans backing the CLO. The aggregate risk-based capital (RBC) factor for owning all of the CLO tranches should be the same as that required for owning all of the underlying loan collateral. If it is less, it means there is risk-based capital (RBC) arbitrage. As noted in the Investment Analysis Office’s (IAO) memo of May 25, 2022, “Risk Assessment of Structured Securities – CLOs”, it is currently possible to materially (and artificially) reduce C1 capital requirements just by securitizing a pool of assets. The Task Force assigned the Structured Securities Group (SSG) the responsibility of financially modeling CLO investments and evaluating all tranche level losses across all debt and equity tranches under a series of calibrated and weighted collateral stress scenarios to assign NAIC Designations that create equivalency between securitization and direct holdings, thereby eliminating RBC arbitrage. This amendment is effective beginning with year-end 2024.

*The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023*

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**END NOTES**

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

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

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

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

<sup>4</sup> 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

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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](#)

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

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

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

<sup>7</sup> 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.



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**MEMORANDUM**

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

**FROM:** Rachel Hemphill (TX), Chair, Life Actuarial (A) Task Force, Craig Chupp (VA), Vice Chair, Life Actuarial (A) Task Force

**DATE:** March 16, 2024

**RE:** Financial Regulation Standards – As of March 2024 *Valuation Manual*

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In 2017, the Financial Regulation Standards and Accreditation (F) Committee approved a motion to adopt the *Valuation Manual – Effective January 1, 2020* as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Life Actuarial (A) Task Force made to the Valuation Manual in 2023. The changes were adopted by the Executive (EX) Committee and Plenary at the 2023 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the Valuation Manual in 2023. Of the 2023 Valuation Manual amendments, 2022-10 and 2023-07 warrant additional notice due to the potential for changes to reserve requirements for some companies. The other 2023 Valuation Manual amendments could be characterized as clarifications, additional guidance, changes to experience reporting requirements, or requests for additional documentation. In light of the considerations above and on behalf of the Task Force, it is our opinion that none of these items, either individually or collectively, should be considered “significant” as defined by the financial solvency accreditation standards.

As outlined in the Valuation Manual, amendments will be adopted annually by the Executive (EX) Committee and Plenary at each NAIC Summer Meeting. As such, the Valuation Manual will be reposted with an effective date of January 1 of the year following Executive Committee and Plenary adoption. For example, the current Valuation Manual, which encompasses the attached modifications, is titled the *2024 Edition - Valuation Manual*. This process allows for an efficient way to update the Valuation Manual and ensures that users have the latest version.

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

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2022-06	VM-31 Section 3.D.5	This amendment adds in a VM-31 requirement to disclose the inflation assumption for Life PBR.	10/6/22
2022-07	VM-20 Section 3.C.1.g, VM-20 Section 6.B.5.d.	This amendment clarifies the intent and calculation of the mortality adjustments to the CSO table when anticipated mortality exceeds the prescribed CSO table. The current wording of Section 3.C.1.g has led to confusion by many and a lack of consistent interpretations.	1/26/23
2022-08	VM-21 Section 3.E, VM-31 Section 2.A, VM-G Section 1 and Section 4.A.3.	Clarify requirements on groups of contracts that use the Alternative Method/AG33 in VM-21 and are not subject to a principles-based valuation. Such contracts should not be subject to VM-G but still require a sub-report under VM-31.	1/26/23
2022-09	VM-21 and VM-31	This amendment includes a series of reporting requirement enhancements related to VM-21 and fixes some errors in the VM language.	3/2/23
2022-10	VM-20 Section 2.A.2, Section 3.B.5, and Section 3.B.6	The purpose of this amendment is to add language to address the possibility of policies in the ULSG Reserving Category having a non-material secondary guarantee, and thus becoming excluded from both DR and SR calculations if they pass both the DET and the SET.	2/23/23
2023-02	VM-31 3.C.11	This amendment adds disclosure requirements in VM-31 and clarifies language in the Annual Statement Instructions related to reporting in the VM-20 Reserves Supplement.	2/23/23
2023-03	VM-20 Section 7.E.2 and Guidance Note below, VM-21 Section 4.D.4.c, VM-20 Section 7.K.3, VM-31 Section 3.D.6.f, VM-20 Section 9.A.4	This amendment would do the following: <ul style="list-style-type: none"> <li>• Add a consideration on the assumed cost of borrowing in VM-20 and VM-21,</li> <li>• Clarification of VM-20 hedge modeling, and</li> <li>• Add additional considerations for risk factors other than interest and equities that are stochastically modeled.</li> </ul>	3/21/23
2023-01	VM-21 4.D.1.a	The purpose of this amendment is to make the explanation of the starting asset amount consistent in VM-21 section 4.D.1.a.	3/21/23
2023-04	VM-31 Section 3.D.3.l.iv	Clarifies requirements where regulators were seeing an issue with PBR Actuarial Reports and inadequate support showing compliance with the requirement that “the company experience mortality rates shall not be lower than the mortality rates the company expects to emerge”.	4/20/23
2021-08	VM-51 Section 2.D.	Revisions to VM-51 to allow for the data experience reporting observation calendar year to be one year prior to the reporting calendar year.	5/11/23
2023-05	VM-01, VM-21 Section 4.A.4, VM-21 Section 9, VM-21 Section 9.C.2, VM-31 Section 3.F.8.d	Since the reforms of VM-21 and C3P2, ILVA products have experienced major market growth. Several carriers, with the agreement of regulators and auditors, have interpreted the current VM-21 guidance as permitting the effects of index credit hedging to be reflected in product cash flows instead of within the “best efforts” and “adjusted” scenarios. This amendment clarifies those requirements.	6/1/23

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date
2023-07	VM-21 Section 6.A.1	The standard projection amount drafting group found that there is very little use of the Company-Specific Market Path (CSMP) method for the VM-21 standard projection amount. Therefore, we recommend removing this method from VM-21 starting in 2025, which gives time to transition for the few companies that currently employ the CSMP method.	6/1/23

The individual amendment proposals reside on the Industry tab on the NAIC website and are accessible by following the link below: [Plenary Adopted Amendments for the 2024 VM](#).



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

FROM: Director Dana Popish Severinghaus, Chair of Receivership and Insolvency (E) Task Force

DATE: February 29, 2024

RE: 2023 Amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540)

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In December 2023, the *Property and Casualty Insurance Guaranty Association Model Act* (#540) was amended to include the following updated provisions: 1) to preserve guaranty fund coverage for policyholders subject to insurance business transfers (IBT) and corporate divisions (CD) where the policyholder had guaranty fund coverage before the transaction; and 2) to clarify guaranty fund coverage of cyber security insurance.

The Receivership and Insolvency (E) Task Force recommends that the 2023 amendments to Model 540 be considered acceptable but not required, and therefore does not recommend any changes to the current Part A Accreditation standard #14—Guaranty Funds.

The current accreditation standards include Part A: Laws and Regulations standard #14 – Guaranty Funds.

- This standard requires a regulatory framework, such as that contained in the NAIC’s model acts on the subject, to ensure the payment of policyholder obligations subject to appropriate restrictions and limitations when a company is deemed insolvent. The applicable models include the *Life and Health Insurance Guaranty Association Model Act* (#520) for life companies and the *Property and Casualty Insurance Guaranty Association Model Act* (#540) for property/casualty companies.
- For this standard in which a “regulatory framework” is required rather than specific elements of the models, the revisions do not necessitate an exposure period by the Committee to include them as part of the acceptable framework for accreditation. The inclusion of the revisions as acceptable within the framework would allow a state to either adopt the revisions or not adopt the revisions and still remain in compliance with the regulatory framework required by accreditation. Following this process, the model will be considered acceptable but not required when determining if a regulatory framework is in place in accordance with the accreditation standard.

If you have any questions, please contact NAIC staff, Jane Koenigsman (jkoenigsman@naic.org).