FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee March 22, 2023, Minutes
Memorandum from Blanks (E) Working Group Regarding Items Impacting Current Accreditation Standard (Attachment Two)
Memorandum from Capital Adequacy (E) Task Force Regrading Accreditation Standards – Changes to the RBC Formulas and Instructions for Health, Life, and P/C (Attachment Three)
Memorandum from Valuation of Securities (E) Task Force Regarding Report of the Task Force (Attachment Five)
Memorandum from Life Actuarial (A) Task Force Regarding Financial Regulation Standards – As of March 2023 Valuation Manual (Attachment Six)
Draft Pending Adoption

Date: 3/28/2023

Financial Regulation Standards and Accreditation (F) Committee
Louisville, Kentucky
March 22, 2023

The Financial Regulation Standards and Accreditation (F) Committee met in Louisville, KY, March 22, 2023. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Vicki Schmidt, Co-Vice Chair (KS); Sharon P. Clark, Co-Vice Chair (KY); Alan McClain (AR); Andrew N. Mais (CT); Gary D. Anderson (MA); Mike Causey (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning (NE); Andrew R. Stolfi (OR); Elizabeth Kelleher Dwyer represented by Ted Hurley (RI); Larry D. Deiter (SD); Scott A. White (VA); and Jeff Rude (WY).

1. Adopted its 2022 Fall National Meeting Minutes

Commissioner Schmidt made a motion, seconded by Commissioner Mais, to adopt the Committee’s Dec. 13, 2022, minutes (see NAIC Proceedings – Fall 2022, Financial Regulation Standards and Accreditation (F) Committee). The motion passed unanimously.

Director Wing-Heier said the Committee met March 21 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, to vote to award continued accreditation to Nebraska, Virginia, and West Virginia.

2. Adopted Revisions Made During 2022 to NAIC Publications Referenced in the Accreditation Standards

Director Wing-Heier said there are several NAIC publications currently included in the accreditation standards by reference. At each Spring National Meeting, 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 2022 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: the Accounting Practices and Procedures Manual (AP&P Manual) (Attachment One); the 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); the Financial Condition Examiners Handbook (Handbook) (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 2022 changes as insignificant to the accreditation process.

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

3. Discussed Comments Received on Exposure of 2020 Revisions to Model #440 and Model #450

At the 2021 Summer National Meeting, the Committee exposed proposed changes to the Accreditation Program to incorporate the 2020 revisions to the Insurance Holding Company System Regulatory Act (#440) and Insurance Holding Company Model Regulation with Reporting Forms and Instructions (#450) for a one-year public comment period ending Dec. 31, 2022.
Draft Pending Adoption

The changes include the incorporation of the group capital calculation (GCC) and liquidity stress test (LST) requirements as significant elements for the Part A accreditation standards for insurance holding company systems. It is important to note that the proposed elements would allow commissioners to grant exemptions to the GCC to groups meeting the standards set out in Section 21A and Section 21B of Model #450, without the requirement to file at least once. During the 12-month exposure period, two comment letters were received. The first is from the National Risk Retention Association (NRRA), and the second is from the NAIC’s Risk Retention Group (E) Task Force. Both comment letters discuss the applicability of the GCC requirements to risk retention groups (RRGs), noting that few groups are likely to be impacted. However, both letters stress the importance of allowing the commissioner to exempt an RRG from the GCC reporting requirements, when appropriate, to avoid placing an unnecessary burden on groups where such a filing would not provide added benefit. A final vote on the proposed additions to the Part A accreditation standards is scheduled for the 2023 Summer National Meeting.

4. Voted to Remove Model #822 as an Accreditation Standard

At the 2022 Fall National Meeting, the Committee discussed a question that came up about significant elements in the Part A Liabilities and Reserves accreditation standard that require sections of the Actuarial Opinion and Memorandum Regulation (#822) to be adopted. The question raised was whether the requirements in Model #822 are duplicative of requirements in the Valuation Manual, which became an accreditation requirement when principle-based reserves was implemented in 2020. As a result of those discussions, the Committee sent a referral to the Life Actuarial (A) Task Force asking whether Model #822 was redundant with the requirements outlined in the Valuation Manual. The Task Force’s analysis showed that Model #822 is now redundant with the requirements outlined in the Valuation Manual. As such, the Task Force recommends that Model #822 be removed as an accreditation standard. Please note that this should not be construed as a requirement that states rescind their versions of Model #822, only that adoption of the Valuation Manual is the new accreditation standard for life insurance and annuity actuarial opinion and memorandum requirements.

Commissioner Mais made a motion, seconded by Commissioner Anderson, to remove Model #822 as an accreditation standard. The motion passed unanimously.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.
TO: Commissioner Lori K. Wing-Heier, (AK), Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Vicki Schmidt, (KS), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee
Commissioner Sharon P. Clark, (KY), Co-Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

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

DATE: February 27, 2023


In 2001, the Financial Regulation Standards and Accreditation (F) Committee approved a motion to adopt the Accounting Practices and Procedures Manual – Effective January 1, 2001, Version 1999 (AP&P Manual) as an accreditation standard. The intention of this memorandum is to update the Committee on changes the Statutory Accounting Principles (E) Working Group has made to the AP&P Manual in 2022 up to the 2023 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 2022. 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 2023. 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
Summary of Changes to the
As of March 2022 Accounting Practices and Procedures Manual
included in the As of March 2023 Manual

The following summarizes changes made to the As of March 2022 Accounting Practices and Procedures Manual (Manual) and shown in the As of March 2023 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 SSAP 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.

| 1. Revisions that Resulted in a New SSAP or New SAP Concept – Statutory Accounting Principles |
|---|---|---|
| **Section** | **Reference** | **Description** |
| There were no revisions that resulted in a new SSAP or new SAP concept. |

<p>| 2. Revisions that Resulted in a SAP Clarification – Statutory Accounting Principles |
|---|---|---|
| <strong>Section</strong> | <strong>Reference</strong> | <strong>Description</strong> |
| Preamble | 2022-01 | Revisions incorporate updates from FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements, which updates the definition of an asset. |
| How to Use This Manual; Summary of Changes; Preamble | 2021-26EP 2021-14 | Revisions to replace the term “substantive” with “new SSAP” or “new SAP concept” and to replace the term “nonsubstantive” with “SAP clarification” on a primarily prospective basis. |
| SSAP No. 4 | 2022-01 | Revisions update the definition of an asset based on updates from FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements. |
| SSAP No. 19 | 2021-25 | Revisions clarify that leasehold improvements shall be immediately expensed upon lease termination unless limited exceptions are met. |</p>
<table>
<thead>
<tr>
<th>SSAP No.</th>
<th>Revisions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>22R</td>
<td>2021-29</td>
<td>Revisions reject ASU 2021-05, Leases (Topic 842), Lessors—Certain Leases with Variable Lease Payments for statutory accounting.</td>
</tr>
<tr>
<td></td>
<td>2022-05</td>
<td>Revisions reject ASU 2021-09, Leases Discount Rate for Lessees That Are Not Public Business Entities for statutory accounting.</td>
</tr>
<tr>
<td>24</td>
<td>2022-04</td>
<td>Revisions incorporate disclosures from ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance regarding terms and provisions of assistance received.</td>
</tr>
<tr>
<td>25</td>
<td>2021-21</td>
<td>Revisions clarify reporting of related party transactions and incorporate new investment schedule reporting requirements to identify investments that involve related parties.</td>
</tr>
<tr>
<td></td>
<td>2022-13</td>
<td>Revisions identify foreign open-end investment funds as a fund in which ownership percentage is not deemed to reflect control unless the entity has the power to direct the underlying company.</td>
</tr>
<tr>
<td>36</td>
<td>2022-10</td>
<td>Revisions reject ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures and identify that retained guidance reflects superseded U.S. GAAP.</td>
</tr>
<tr>
<td>43R</td>
<td>2021-21</td>
<td>Revisions clarify reporting of related party transactions and incorporate new investment schedule reporting requirements to identify investments that involve related parties.</td>
</tr>
<tr>
<td></td>
<td>2021-23</td>
<td>Revisions update the summarized financial modeling guidance and refers users to the Purposes and Procedures Manual of the NAIC Investment Analysis Office for the detailed financial modeling guidance.</td>
</tr>
<tr>
<td>48</td>
<td>2022-02</td>
<td>Revisions clarify that the audit of an entity utilizing the U.S. tax basis equity valuation exception shall occur at the investee level.</td>
</tr>
<tr>
<td>61R</td>
<td>2021-31</td>
<td>Revisions clarify and, in some cases, remove certain disclosures for life and health reinsurance contracts. Clarifications also address the information in the audited report.</td>
</tr>
<tr>
<td></td>
<td>2022-07</td>
<td>Revisions reject ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers for statutory accounting and note that rejection does not impact the determination of U.S. GAAP book value of an acquired entity.</td>
</tr>
<tr>
<td>72</td>
<td>2021-27</td>
<td>Revisions incorporate guidance related to the accounting for the changes in fair value when exchanging equity-classified written call options, while rejecting ASU 2021-04 for statutory accounting.</td>
</tr>
<tr>
<td>73</td>
<td>2021-25</td>
<td>Revisions clarify that leasehold improvements shall be immediately expensed upon lease termination unless limited exceptions are met.</td>
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### 3. Revisions to the Appendices

<table>
<thead>
<tr>
<th>Section</th>
<th>Reference</th>
<th>Description</th>
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<tbody>
<tr>
<td>Appendix A</td>
<td></td>
<td>No revisions impacting this appendix were adopted in 2022.</td>
</tr>
<tr>
<td>Appendix B</td>
<td>2022-08</td>
<td>New INT 22-01—Freddie Mac When-Issued K-Deal (WI Trust) Certificates clarifies that investments in the Freddie Mac “When Issued K-Deal” (WI) Program are in scope of SSAP No. 43R—Loan-Backed and Structured Securities from the date of initial acquisition.</td>
</tr>
<tr>
<td></td>
<td>INT 22-01</td>
<td></td>
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<tr>
<td></td>
<td>INT 22-02</td>
<td>INT 22-02: Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax provides an exception that does not require entities to assess the statutory valuation allowance and deferred tax asset impacts or tax estimates related to Inflation Reduction Act CAMT for third quarter 2022 through first quarter 2023. It also provides subsequent event exceptions and disclosures.</td>
</tr>
<tr>
<td>Appendix C</td>
<td>AG 44</td>
<td>Revised Actuarial Guideline XLIV—Group Term Life Waiver of Premium Disabled Life Reserves provides for the use of the 2023 GTLW Mortality and Recovery Valuation Tables for individuals disabled on or after January 1, 2023.</td>
</tr>
<tr>
<td></td>
<td>AG 53</td>
<td>New Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves provides uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis.</td>
</tr>
<tr>
<td>Appendix D</td>
<td>2021-30</td>
<td>ASU 2021-06, Amendments to SEC Paragraphs in Topic 205, Topic 942 and Topic 94</td>
</tr>
</tbody>
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### Appendix E

<table>
<thead>
<tr>
<th>2022-01</th>
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**Issue Paper No. 166—Updates to the Definition of an Asset**

Documents revisions to SSAP No. 4—Assets and Nonadmitted Assets to incorporate updates from *FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*, which updates the definition of an asset.

### Appendix F

| 2021-26EP 2021-14 |

Revisions to replace the term “substantive” with “new SSAP” or “new SAP concept” and to replace the term “nonsubstantive” with “SAP clarification” on a primarily prospective basis.

### Appendix G

No revisions impacting this appendix were adopted in 2022.

### Appendix H

No revisions impacting this appendix were adopted in 2022.
MEMORANDUM

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

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

DATE:  January 4, 2023

RE:     Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2022. 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 2022 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 2022

1. Add a footnote to Exhibit 7 in the Life/Fraternal statement and the Health Statement (Life Supplement) to capture amount of Federal Home Loan Bank (FHLB) Funding Agreements reported in columns 1 through 6 of the exhibit (2021-16 SAPWG). (2021-15BWG) Effective Dec. 31, 2022.

2. For Note 9 – Income Taxes, remove the 9C illustration instructions for the DTA and DTL components which states that “reporting entities should disclose those items included as “Other” (Lines 2a13, 2e4, 3a5 and 3b3) as additional lines for those items greater than 5% in the printed/PDF filing document”, as the illustration is not set up to accommodate variable lines. Add formulas for calculation of total and subtotal on the illustration for 9C. For Note 15 – Leases, modify the illustrations to add a “Thereafter” line and add a formula for “Total” line. (2021-16BWG) Effective Dec. 31, 2022.


4. Add columns and lines to U&I (Parts 1, 2, 2A, 2B, and 2D) and the Exhibit of Premiums, Enrollment and Utilization in the annual statement bring the lines of business reporting in line with Life/Fraternal and Property. Add columns and lines to the Exhibit of Premiums, Enrollment and Utilization and U&I Analysis of Claims Unpaid quarterly pages. The appropriate adjustments to the instructions are also being made. (2021-19BWG) Effective Dec. 31, 2022.

5. Starting at Line 72 of the Life/Fraternal Five-Year Historical add or delete lines that do not pull in the specific lines of business reported on the Life/Fraternal Analysis of Operations by Lines of Business detail pages for life (individual and group), annuities (individual and group), and A&H for Line 33 of those pages. (2021-20BWG) Effective Dec. 31, 2023.

6. Add instruction to the Investment Schedules General Instructions to exclude non-rated residual tranches or interests from being reported as bonds on Schedule D, Part 1 and add lines to Schedule BA for the reporting of those investments (2021-15 SAPWG). (2021-21BWG) Effective Dec. 31, 2022.

7. Add a new reporting requirement in the investment schedules for investment transactions with related parties. In addition to capturing direct loans in related parties, it will also capture information involving securitizations (or other similar investments) where the related party is a sponsor/originator, along with whether the underlying investment is in a related party. (2021-22BWG Modified) Effective Dec. 31, 2022.

8. Added a group of lines for Residual Tranches or Interests in the Asset Valuation Reserve Equity and Other Invested Asset Component blank and renumber lines below them. Modify instructions as appropriate for the added lines. (2021-23BWG) Effective Dec. 31, 2022.

9. Add new questions to General Interrogatories Part 1 asking if the reporting entity accepts cryptocurrency for payment of premiums, which cryptocurrencies are accepted, and whether they are held for investment or immediately converted to U.S. dollars (2021-24 SAPWG). (2022-01BWG) Effective Dec. 31, 2022.
10. Add four new electronic-only columns to Schedule D, Part 6, Section 1, for Prior Year Book/Adjusted Carrying Value (BACV) (Column 16), Prior Year Nonadmitted Amount (Column 17), Prior Year Sub-2 Verified Value (Column 18), and Prior Year VISION Filing Number (Column 19) (2021-22 SAPWG). (2022-02BWG) Effective Dec. 31, 2022.


15. Modify the Health Actuarial Opinion Instructions. Add definitions of “actuarial asset” and “actuarial liability.” Modify Section 4 – Identification, Section 5 – Scope, and Section 7 – Opinion to clarify that the actuary’s opinion covers actuarial assets as well as actuarial liabilities. Modify Section 9 to clarify that the guidance related to the type of opinion rendered by an appointed actuary covers both actuarial assets and actuarial liabilities. (2022-07BWG) Effective Dec. 31, 2022.

16. Modify the instructions in Section 1, Section 3, and Section 8 of the P/C Actuarial Opinion Instructions to reflect the changes adopted by the Actuarial Opinion (C) Working Group. (2022-08BWG) Effective Dec. 31, 2022.

17. Changes to the Life/Fraternal VM-20, Requirements for Principle Based Reserves for Life Products, Reserves Supplement blank Part 2, and adding a Question 3, a disclosure of the year that the Life Principle-Based Reserving (PBR) Exemption was actively filed, and a confirmation of the eligibility criteria in the case of ongoing exemptions. Also, correct references to a state “granting” an exemption, since this is often not the case (e.g., the exemption may be allowed). For the VM-20 Reserves Supplement Instructions, add instructions for the new disclosure item, Question 3. Correct the references to a state “granting” an exemption. For the Supplemental Exhibits and Schedules Interrogatories (Quarterly Statement), for Question 8, add instructions on how to respond if the company is utilizing the ongoing exemption. The same instructions can also be found in the Valuation Manual, Section II, Subsection 1G(1). (2022-09BWG) Effective Dec. 31, 2022.


21. Modify Five-Year Historical Data questions 68 and 69 to reference group comprehensive and modify questions 70 and 71 to reflect inclusion of all health lines of business other than group comprehensive. Crosschecks for these questions are being modified accordingly. (2022-13 BWG Modified) Effective Dec. 31, 2022.

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, 2023

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

Attached please find a brief description of changes to the 2022 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 2022. 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 Added benchmarking guidelines to the underwriting risk instructions for investment income.

Life RBC Formula

Not Significant Added an instruction to address changes made to Schedule BA and the asset valuation reserve (AVR) to isolate the reporting of residual tranches.

Not Significant Made structural changes to LR025, Life Insurance, to expand the categorization of policies with instructional and factor changes.
P/C RBC Formula

Not Significant  Included the Karen Clark & Company (KCC) catastrophe model as one of the approved third-party commercial vendor catastrophe models.

Not Significant  Incorporated wildfire peril as one of the catastrophe risk perils for informational-purposes only in the Rcat component.

Not Significant  For companies qualifying for exemption under PR027INT C(10), did not require to report PR027C Lines 1 through 10.

Not Significant  Removed the embedded 2% operational risk contained in the R3 credit risk component.

Not Significant  Removed the trend test for the information-only footnote in PR033.

Not Significant  Updated the Line 1 industry average development factors in PR017 and PR018.
MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

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

DATE: Feb. 3, 2023

RE: Consideration for Financial Accreditation Standards  
2023 Financial Condition Examiners Handbook

The Accreditation Program Manual (Manual) includes Review Team Guidelines to be used for financial examinations performed using the risk-focused surveillance approach that is found in the NAIC Financial Condition Examiners Handbook (Handbook). This memorandum is to update the Financial Regulation Standards and Accreditation (F) Committee (FRSAC) on changes the Financial Examiners Handbook (E) Technical Group has made to the Handbook in 2022.

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 2022, all of which it considers non-significant; i.e., having no impact on accreditation guidance.

During 2022, the Technical Group made the following changes:

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

- Revisions to incorporate elements and topics of the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs) throughout the Handbook. Additional considerations for IAIGs were included throughout the following:
  - Narrative guidance in Sections 1-1, 1-3, 1-11 and 2-1.
  - Repositories: Capital and Surplus, Investments, Reinsurance Assuming, Reinsurance Ceding, Reserves/Claims Handling (Health), Reserves/Claims Handling (Life), Reserves/Claims Handling (P/C), and Underwriting.

- Revisions to enhance regulatory guidance in the following areas:
  - Terrorism Reinsurance: Additional guidance was added regarding Terrorism Reinsurance that was previously included in the Solvency Monitoring Risk Alert, which includes the background of the
Terrorism Risk Insurance Act (TRIA) and possible procedures for regulators to consider when assessing an insurer’s solvency.

- Affiliated Relationships: Guidance was added to emphasize the importance of understanding and evaluating affiliated relationships in monitoring the services provided by and receivable balances due from key agents and producers. Potential procedures were added to the Underwriting Repository for examiners to consider regarding risks surrounding affiliated relationships.

- Start-Up Insurers: Guidance was added to help evaluate the reasonableness of a start-up insurer’s business plan, projections and strategy, and level of funding needed to meet targets. Possible procedures were added to the Capital and Surplus Repository to help the exam team address the reasonableness of the aforementioned areas.

- Revisions to Exhibit E helped to clarify that Audit Awareness Letters should be received when there has been a change in auditor.

- Revisions to the Capital and Surplus Repository to align the recently added ORSA procedures to the work conducted in evaluating risks related to an insurer’s capital and surplus.

- Revisions to the Investments Repository and the Reserves/Claims Handling (Life) Repository help to provide additional guidance and potential procedures to assist examiners in evaluating related party investment holdings and asset adequacy of complex investments.

- Revised guidance related to information technology (IT) in the following areas:
  - Additional guidance was added in Section 1-3 to describe a new process for communicating and addressing prospective IT risks. Exhibit C, Part Three (IT Review Summary Memo) was also updated to include a new subsection that details this process and includes an additional column in the IT findings chart where examiners can recommend ongoing monitoring.
  - Guidance was added for monitoring companies that heavily outsource IT functions and cross references to applicable procedures within Exhibit C Part Two (IT Work Program).

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.
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 13, 2023

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 2022 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 2023 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;
- **Standard 2**, the *Risk-Based Capital (RBC) for Insurers Model Act* (#312) assigns RBC factors for securities based on their credit risk as measured by NAIC Designations;

- **Standard 3**, the *Accounting Practices and Procedures Manual* 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;

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

C. **Investment Analysis Office Standards Identified in the Purposes and Procedures Manual** – All SVO and SSG standards related to the assessment of credit risk in insurer owned securities, identification of additional non-payment risk in securities, classification of certain assets as bonds or as bond-like for reporting purposes, the valuation of insurer owned securities, and other activities conducted by the SVO or the SSG in support of state insurance regulatory objectives, are determined and promulgated by the Valuation of Securities (E) Task Force and published in the *Purposes and Procedures Manual*. In 2022, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2022 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 2022 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, 2022 Publication

- **Adopted updates to permit un-guaranteed and unrated subsidiary obligors in WCFI transaction, with SVO discretion to notch** – the Task Force directs the SVO to rely upon the NAIC Designation or NAIC CRP Rating equivalent of the obligor, subsidiary or affiliate’s parent entity if the obligor, subsidiary or affiliate does not have an NAIC CRP Rating and the SVO cannot assign an NAIC Designation to it. The Task Force authorizes the SVO, based on its analytical judgement and in its sole discretion, to notch such NAIC Designation down or decline to assign an NAIC Designation.

*The Valuation of Securities (E) Task Force adopted this amendment on Apr. 5, 2022*

- **Adopted updates clarifying the SVO’s role regarding accounting and reporting determinations** – these changes clarify, in accordance with Part One, that the SVO can assign NAIC Designations to investments which it does not think are eligible for Schedule D or BA reporting so long as it has the methodology to do so. The SVO, however, would have the authority, at its discretion, to notify the appropriate regulators of any investments which, in its opinion, would not or might not be eligible for reporting on Schedules D or BA. The SVO would also maintain its authority to offer its accounting and reporting opinion, when requested to do so, as part of its Regulatory Treatment Analysis Service, it being understood that such opinions would not be authoritative and might not reflect the opinion of the relevant state regulator.

*The Valuation of Securities (E) Task Force adopted this amendment on Aug. 11, 2022*

- **Adopted updates to the definition of Principal Protected Securities (PPS)** – PPS typically have both a principal protected component and a performance component whose payments originate from, or are determined by, non-fixed income like sources and, therefore, pose the risk of non-fixed income like cashflows. Additional transaction examples were included for demonstrative purposes only, to highlight the intent behind the principle-based PPS definition and the core regulatory concern (that there are Other Non-payments Risks associated with PPSs beyond the contractually promised payments that may not be reflected in a CRP rating) but are not intended to encompass all possible PPS variants. Each of these examples meets the definition of a PPS. Any design that circumvents the definition, and related examples, through technical means but which in substance achieves the same ends or poses the same risk, shall be deemed a PPS.

*The Valuation of Securities (E) Task Force adopted this amendment on Aug. 11, 2022*

- **Adopted updates to Part Four to reflect a consistent reference to “NAIC Designation Category” and the additional price points needed to determine them.** – the changes reflect the adoption of new Risk Based Capital (RBC) factors for each NAIC Designation Category in 2021 by the Capital Adequacy (E) Task Force and its parent, the Financial Condition (E) Committee. These technical updates reflect a consistent reference to “NAIC designation Category” and the nineteen price points needed to determine them using the new RBC factors.
The Valuation of Securities (E) Task Force adopted this amendment on Aug. 11, 2022

- Adopted updates to Part One and Part Three to reflect changes adopted by the Statutory Accounting Principles (E) Working Group to SSAP No. 25 – Affiliates and Other Related Parties and SSAP No. 43 – Loan-Backed and Structured Securities for Subsidiary, Controlled and Affiliated (SCA) and Related Party Investments. – the changes in section for Subsidiary, Controlled and Affiliated (SCA) and Related Party Debt or Preferred Stock Investments clarifies that it includes non-control relationships. Additionally, the amendment divides SCA and related party investments into two categories: (1) those with direct or indirect credit risk exposure to the SCA or related party, which are not filing exempt, and (2) those with no direct or indirect credit exposure to the SCA or related party, which are filing exempt. Transactions in category (1) could include structures in which the non-issuer underlying credit exposure would qualify as a related party pursuant to paragraph 4.a. in SSAP No. 43R – Loan-Backed and Structured Securities. Transactions in category (2) are captured by a new defined term called Related Party Filing Exempt Investments which would mean any investment (i) issued by an SCA or related party special purpose entity (SPE) which itself is not an obligor or ultimate source of the investment repayment, or (ii) issued as part of a structure in which the originator, sponsor, manager, servicer, other influential transaction party is an affiliate or related party of the reporting insurance company. SCA and Related Party Filing Exempt Investments would be eligible for filing exemption unless otherwise ineligible (for reasons other than their affiliate or related party status). The P&P Manual also clarifies that state insurance regulators are permitted, as specified in Part One of the P&P, to require an insurance company to file what would otherwise be an SCA and Related Party Filing Exempt Investment for analysis and/or assignment of an NAIC Designation only by the SVO, thereby making it ineligible for filing exemption in the future.

The Valuation of Securities (E) Task Force adopted this amendment on Dec. 14, 2022

END NOTES

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

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

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

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

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

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

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

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

DATE: March 1, 2023


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 2022. The changes were adopted by the Executive (EX) Committee and Plenary at the 2022 Summer Meeting.

Attachment A to this memo includes a detailed listing of the changes made to the Valuation Manual in 2022. Of the 2022 Valuation Manual amendments, 2020-12 warrants additional notice due to the potential for increases to reserve requirements for life insurance and annuity companies with certain hedging practices. The other 2022 Valuation Manual amendments could be characterized as clarifications, additional guidance, updates to the basis used in prescribed assumption tables, 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 2023 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.
<table>
<thead>
<tr>
<th>LATF VM Amendment</th>
<th>Valuation Manual Reference</th>
<th>Valuation Manual Amendment Proposal Descriptions</th>
<th>LATF Adoption Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-12</td>
<td>VM-01, VM-20, VM-21, VM-31</td>
<td>Create consistency between CDHS determination in VM-20 and VM-21. Revise hedge modeling to only require CDHS if modeling future hedging reduces the reserves under VM-20 or TAR under VM-21.</td>
<td>6/9/22</td>
</tr>
<tr>
<td>2021-11</td>
<td>VM-21, section 12 and various others</td>
<td>Add a section for other assumptions requirement in VM-21 which covers general guidance and requirements for assumptions, and expense assumptions.</td>
<td>2/3/22</td>
</tr>
<tr>
<td>2021-13</td>
<td>VM-20 Sect. 9.C.6.e, VM-20 Sect. 9.C.7, VM-31 Sect. 3.D.3.o.</td>
<td>It has been observed that adding the prescribed mortality margins for some Life/LTC combination products cause modeled reserves to decrease rather than increase.</td>
<td>11/4/21</td>
</tr>
<tr>
<td>2022-01</td>
<td>VM-20 Section 8.C.18</td>
<td>Clarifying the Valuation Manual treatment of the pre-reinsurance ceded reserve and the reserve credit for retrocessions</td>
<td>3/10/22</td>
</tr>
<tr>
<td>2022-02</td>
<td>VM-31</td>
<td>Revise language and add an explicit cross-reference to the VM-21 section since it has further details on how to demonstrate compliance</td>
<td>3/31/22</td>
</tr>
<tr>
<td>2022-03</td>
<td>VM-20, VM-21, VM-31</td>
<td>General cleanup, including updating cross-references, better consistency between VM-20 and VM-21, where reasonable, and making clarifying edits.</td>
<td>3/31/22</td>
</tr>
<tr>
<td>2022-04</td>
<td>VM-20 Section 9.F.8, App 2.F, App 2.G</td>
<td>LIBOR transition to the Secured Overnight Financing Rate (SOFR) - Updated VM-20 prescribed swap spreads guidance to facilitate the LIBOR transition to SOFR.</td>
<td>6/30/22</td>
</tr>
<tr>
<td>2022-05</td>
<td>VM-51 App 1, App 4</td>
<td>Add dividend plan code &amp; Covid-19 indicator; change field identifier; correct Appendix 1 reference.</td>
<td>5/12/22</td>
</tr>
</tbody>
</table>

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

LATF Adopted Amendments for the 2023 VM.