

*Financial Condition (E) Committee Technical Changes*

**Background Information.** At the 2009 Fall National Meeting, the National Association of Insurance Commissioners (NAIC) membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted to provide these technical changes to the industry and affected parties as quickly as possible, in an effort to allow them more time to modify their systems and processes for such changes.

**Details of Process Adopted**

1. A list of technical items (shown on the page(s) that follow) will be provided from the Financial Condition (E) Committee to the Executive (EX) Committee and Plenary within one week of the completion of the national meeting.
2. The list contains only what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g., it would not include proposed model laws, model regulations or guidelines) or items considered controversial.
3. Members of the Executive (EX) Committee and Plenary have 10 days to review the attached list and voice any objection with respect to a specific item.
4. If no objections are raised on a particular item, or any of the items, each and all items will be considered adopted by the Executive (EX) Committee and Plenary, similar to the consent agenda process.
5. If there is an objection on any one or multiple items, a joint conference call of the Executive (EX) Committee and Plenary will be scheduled to address the particular item(s).
6. Items receiving no objection will be considered adopted and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation.

**Request for Approval.** Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by Dec. 28, 2016. Any item(s) receiving an objection will be pulled from this automatic consideration, and a conference call will be scheduled to address the issue.

## Action Taken During 2016 Fall National Meeting

Date Released to Executive (EX) Committee and Plenary Members:

December 16, 2016

Objections Due from Executive (EX) Committee and Plenary Members:

December 28, 2016

The following technical items were adopted by the Financial Condition (E) Committee at the 2016 Fall National Meeting:

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### 1. Accounting Practices and Procedures Manual (AP&P Manual) Changes and Related Items

- Adopted the following substantive revisions to statutory accounting:
  - *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* and new *Issue Paper No. 155—Classification of Money Market Mutual Funds as Cash Equivalents*: Revisions, effective Dec. 31, 2017, reclassify money market mutual funds from short-term investments to cash equivalents and require that all money market mutual funds be reported at fair value, allowing net asset value (NAV) as a practical expedient. (Ref #2016-18 and Ref #2016-35)
  - *SSAP No. 54R—Individual and Group Accident and Health Contracts* and new *Issue Paper No. 154—Implementation of Principle-Based Reserving*: Revisions add references to the *Valuation Manual* for health reserving requirements and update the change in valuation basis guidance for health reserves to reflect the use of own company experience required in *Actuarial Guideline XLVII—The Application of Company Experience in the Calculation of Claim Reserves Under the 2012 Group Long-Term Disability Valuation Table (AG 47)* and *Actuarial Guideline L—2013 Individual Disability Income Valuation Table*. (Ref #2015-47 and Ref #2016-34)
  - *SSAP No. 35R—Guaranty Fund and Other Assessments*: Revisions, effective Jan. 1, 2017, allow expected renewals of short-term contracts to be considered in determining the assets recognized from accrued guaranty fund liability assessments. As these substantive revisions were exposed for only one comment period, a super-majority vote was required. The revisions were adopted without opposition. (Ref #2016-38)
- Adopted the following nonsubstantive revisions to statutory accounting:
  - *SSAP No. 2—Cash, Drafts and Short-Term Investments*, *SSAP No. 26—Bonds* and *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions clarify the scope of the annual audited disclosure requirements on bond categories, maturity distributions and proceeds from the sales of bonds. (Ref #2016-24)
  - *SSAP No. 3—Accounting Changes and Corrections of Errors*, *SSAP No. 68—Business Combinations and Goodwill* and *SSAP No. 86—Derivatives*: Revisions reject *ASU 2016-03 – Effective Date and Transition Guidance*. (Ref #2016-30)
  - *SSAP No. 3*: Revisions clarify guidance on the recognition of accounting errors. (Ref #2015-46)
  - *SSAP No. 16R—Electronic Data Processing Equipment and Software*: Revisions clarify that entities who license internal-use computer software shall follow the guidance in *SSAP No. 22—Leases*. (Ref #2015-15)
  - *SSAP No. 23—Foreign Currency Transactions and Translations*:
    - Revisions clarify requirements on the translation of Canadian insurance operations. (Ref #2016-25)
    - Revisions adopt with modification *Accounting Standards Update (ASU) 2013-05 – Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. (Ref #2016-26)
  - *SSAP No. 56—Separate Accounts*: Revisions remove the disclosure requirement pertaining to the total maximum guarantee for separate account products. (Ref #2016-27)
  - *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions update the variable annuities captive disclosure with an effective date of year-end 2016 and thereafter. (Ref #2016-28)

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- *SSAP No. 84—Health Care and Government Insured Plan Receivables*: Revisions clarify that receivables must originate from the government in order to be admitted when more than 90 days past due. (Ref #2016-23)
- *SSAP No. 86*:
  - Revisions incorporate a definition for notional, with a Jan. 1, 2017, effective date. Reporting entities already determining notional in accordance with the adopted definition shall continue to follow that approach for year-end 2016. (Ref #2015-51)
  - Revisions adopt with modification *ASU 2016-05 – Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* to clarify that a change in the counterparty to a derivative instrument does not, by itself, result in a termination of the derivative instrument. (Ref #2016-29)
  - Revisions reject *ASU 2016-06 – Contingent Put and Call Options in Debt Instruments*. (Ref #2016-32)
- *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:
  - Revisions provide filing exceptions for nonadmitted, zero-value and immaterial subsidiary, controlled and affiliated (SCA) entities and clarify the filing process. (Ref #2016-37)
  - Revisions update the stock exchanges allowed under the market valuation method. (Ref #2016-21)
  - Revisions clarify that SCA filings must be completed in English. (Ref #2016-22)
- *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*: Revisions incorporate enhanced disclosures for repurchase and reverse-repurchase transactions, with an effective date of Dec. 31, 2017. (Ref #2016-16)
- *Appendix A-010, Minimum Reserve Standards for Individual and Group Health Insurance Contracts*: Revisions incorporate the 2013 Individual Disability Income Valuation Table. The revisions have an effective date of Jan. 1, 2020, with early adoption allowed beginning Jan. 1, 2017. (Ref #2016-17)
- *Appendix A-200—Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts*: Revisions update the interest rate definitions and other items to be consistent with the *Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts Model Regulation* (#200). (Ref #2016-36)
- *Appendix D—GAAP Cross-Reference to Statutory Accounting Principles*: Revisions reject the following generally accepted accounting principles (GAAP) guidance as nonapplicable to statutory accounting:
  - *ASU 2016-04 – Recognition of Breakage for Certain Prepaid Stored-Value Products*. (Ref #2016-31)
  - *ASU 2016-11 – Rescission of SEC Guidance*. (Ref #2016-33)
- Various: Revisions incorporate editorial and maintenance revisions to the AP&P Manual. (Ref #2016-01EP and Ref #2016-02EP)

## **2. Financial Condition Examiners Handbook Changes, Other Examination Tools and Related Items**

- Adopted the 2017 examiners' suggested salary expressed as a daily rate.
- Adopted revisions to the examination sampling guidance to remove statistical sampling guidance, update and simplify the control and substantive testing guidance, provide additional guidance for attribute sampling, and clarify the examiner's response to deviations identified.
- Adopted minor revisions to ensure consistency throughout the Handbook. These revisions were made to ensure that the Exhibit A language is consistent with applicable narrative guidance, update risk examples included in Exhibit CC and remove outdated guidance.
- Adopted minor revisions to Exhibit M and Exhibit Y to clarify existing expectations to document the results of the work performed during the exams regarding the suitability of individual members of management.

**3. *Financial Analysis Handbook Changes and Related Items***

- Adopted revisions to the 2016 Annual *Financial Analysis Handbook*, including:
  - Guidance titled “Understanding the Insurer in Risk Focused Financial Analysis” for information requests.
  - Guidance and procedures for hedge fund and private equity investments, human capital and succession planning, property/casualty (P/C) reinsurance commutations, and notification of appointment of a life actuary.
  - Updates and clarifications to guidance for holding company analysis and the Group Profile Summary (GPS).

**4. *Implementation Guide for the Annual Financial Reporting Model Regulation (#205) Changes and Related Items***

- None.

**5. *Annual Statement Instructions Changes and Related Items***

- None.

**6. *Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) and Related Items***

- Adopted amendments delete reporting instructions for money market mutual funds.
- Adopted amendments add Belgium GAAP as a national financial presentation standard.

**7. *NAIC Risk-Based Capital (RBC) Formula Changes and Related Items***

- Adopted P/C RBC proposals to: a) add clarifying verbiage to the catastrophe risk interrogatory; b) catastrophe event list process; c) the 2016 Catastrophe Event list and d) simplify the RBC charge for type 7 affiliated investments.
- Adopted health RBC excessive growth charge proposal which adds clarifying language for start-up companies.

**8. *Uniform Certificate of Authority Application (UCAA) and Company Licensing Best Practices Handbook and Related Items***

- Adopted revisions to Form 2C for mergers to include a data entry for the non-surviving company on the application.
- Adopted an update to the electronic process to validate relevant information pertaining to the change type selected.
- Adopted revisions to the *Company Licensing Best Practices Handbook* regarding Corporate Amendment-Redomestications to clarify that lines-of-business should be compared to the domiciliary lines of authority.
- Adopted instructions for the Uniform Consent to Service of Process stand-alone electronic filing submission.

**9. *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual and Related Items***

- Adopted “Best Practices in ORSA Information Sharing” to provide non-authoritative guidance to assist states in sharing ORSA-related info in accordance with the lead state concept.

**10. *Receivers Handbook for Insurance Company Insolvencies and Related Items***

- None.

**11. *Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions and Related Items***

- None.

**12. *Process for Developing and Maintaining the NAIC List of Certified Reinsurers and Related Items***

- None