

Financial Condition (E) Committee Technical Changes

Background Information. At the 2009 Fall National Meeting, the 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 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 September 23, 2016. Any item(s) receiving an objection will be pulled from this automatic consideration, and a call will be scheduled to address the issue.

Action Taken During 2016 Summer National Meeting

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

September 13, 2016

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

September 23, 2016

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

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

- Adopted the following substantive revisions to statutory accounting:
 - *SSAP No. 51R—Life Contracts:*
 - Revisions provide guidance on determining the change in valuation basis for principle-based reserving (PBR). (Ref #2014-25)
 - Revisions incorporate references to the *Valuation Manual* and facilitate the implementation of PBR, with an effective date of Jan. 1, 2017. (Ref #2015-47)
 - *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities:* Revisions provide guidance for short sales, as well as guidance for secured borrowing transactions when the insurer is the transferee, with an effective date of Jan. 1, 2017. (Ref #2015-02)
- Adopted the following nonsubstantive revisions to statutory accounting:
 - *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures:*
 - Revisions clarify that disclosure of permitted or prescribed practices shall include practices that result in different statutory accounting reporting, such as gross or net presentation or different financial statement reporting lines, along with an example for completing the permitted practice disclosure. (Ref #2015-52)
 - Revisions add a disclosure to capture information on 5* securities, including comparable information from the prior reporting period. (Ref #2015-41)
 - Revisions add a disclosure to capture the aggregate total of collateral assets reported as assets on the reporting entity's financial statement and the reported corresponding liability. (Ref #2016-09)
 - *SSAP No. 2—Cash, Drafts and Short-Term Investments; SSAP No. 26—Bonds; SSAP No. 30—Unaffiliated Common Stock; and SSAP No. 32—Preferred Stock:* Revisions clarify that all money market mutual funds shall be accounted for and reported as short-term investments on Schedule DA. (Ref #2016-05)
 - *SSAP No. 26 and SSAP No. 43R—Loan-backed and Structured Securities:* Revisions clarify the amount of investment income and/or realized capital gains/losses to be reported upon disposal of an investment and a new disclosure to identify the amount of investment income generated as a result of a prepayment penalty and/or acceleration fee, with an effective date of Jan. 1, 2017. (Ref #2015-23)
 - *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses:* Revisions clarify the reporting of anticipated and received amounts for salvage and subrogation. (Ref #2015-21)
 - *SSAP No. 86—Derivatives:*
 - Revisions incorporate information on swaptions. (Ref # 2016-14)
 - Revisions incorporate the definition of “weather derivative,” as well as adopt, with modification, *EITF 99-02 – Accounting for Weather Derivatives* requiring weather derivatives to be reported and valued consistently with other derivatives. (Ref #2015-43)

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- *SSAP No. 92—Postretirement Benefits Other than Pensions and SSAP No. 102—Pensions*: Revisions allow an alternative method for the service cost and interest cost components of net periodic benefit cost. (Ref #2016-08)
- *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:
 - Revisions incorporate a new appendix to detail the filing guidance on subsidiary, controlled and affiliated (SCA) entities. Filing guidance was previously included in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual). (Ref #2015-25)
 - Revisions data-capture the disclosure providing detail on the filing results for SCA entities. (Ref #2016-04)
- *SSAP No. 100—Fair Value*: Revisions exclude deposit liabilities with no defined or contractual maturities from the fair value financial instruments disclosure. Also, *ASU 2016-01: Financial Instruments* was rejected in SSAP No. 26, SSAP No. 30, SSAP No. 32, SSAP No. 43R and SSAP No. 100. (Ref #2016-06)
- *SSAP No. 101—Income Taxes*: Revisions reject *ASU 2015-17 – Balance Sheet Classification of Deferred Taxes*. (Ref #2016-07)
- *Appendix A-820—Minimum Life and Annuity Reserve Standards*: Revisions update the *Standard Valuation Law* (#820), which will be effective Jan. 1, 2017, to facilitate implementation of PBR. (Ref #2016-10)
- *Appendix F—Policy Statements*: Revisions update and modify the Working Group’s policy statements, including the incorporation of a new editorial and maintenance process. (Ref #2016-12)

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

- Adopted revisions to Exhibit T—Sample Letter of Representation Letter to align with the risk-focused examination approach.
- Adopted minor revisions to the Section 1 repositories (for title insurers, risk retention groups and separate accounts) in response to moving those repositories online.
- Adopted minor revisions to the Capital and Surplus Repository to highlight the importance of the Own Risk and Solvency Assessment (ORSA) and to introduce additional procedures appropriate for midsize companies not subject to the ORSA reporting requirement.
- Adopted minor revisions to clarify existing cybersecurity concepts and enhance the communication of findings at the conclusion of the IT review process.

3. Financial Analysis Handbook Changes and Related Items

- None.

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

- None.

5. Annual Statement Instructions Changes and Related Items

- Adopted the following changes to the financial annual statement blanks and/or instructions:
 - 2016-01BWG – Added a column to Schedule Y, Part 1A to identify SCA entities where a SUB 1 (initial) or SUB 2 (annual) NAIC filing is required and add an electronic-only column for LEI (legal entity identifier). Added a column to Schedule D, Part 6, Section 1 to identify the amount nonadmitted and separate column 4 into two columns (NAIC Company Code and ID Number).
 - 2016-02BWG – Incorporated the Schedule D, Part 1 guidance adopted in December 2015 for annual statement 2015 reporting into the 2016 instructions. Combined the code for senior subordinated debt and junior subordinated debt into one code (Subordinated Debt) for the Capital Structure column. Modified the instructions for Schedule D, Part 2 through Part 6 to reflect the changes adopted for Schedule D, Part 1 for the CUSIP column and Description column and added the electronic columns for Issuer, Issue and ISIN (international security identification number) to these schedules for consistency across Schedule D.

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- 2016-03BWG – For the title annual statement Actuarial Opinion instructions, item 6.d. Reserve Development, added guidance on the ratio of one-year or two-year known claims reserve development.
- 2016-04BWG – Added an “exclude” statement to the Operations and Investment Exhibit, Part 1A instructions for the direct premiums written line and added an “include” statement to the instructions for details of write-ins aggregated line for service charges regarding the handling of fees or charges for closing protection letters (CPLs) or insured closing letters (ICLs).
- 2016-05BWG – Modified the definition of XXX Life on Schedule S, Part 3, Section 1 for consistency with the Supplemental XXX/AXXX Reinsurance Exhibit, Part 1 instructions. Added a code (XXXLO – XXX Life Other) to identify the remaining XXX business that is not included on Supplemental XXX/AXXX Reinsurance Exhibit.
- 2016-06BWG – Reduced the number of codes from 12 to four for the Foreign Code column on Schedule D and removed the foreign code matrix.
- 2016-07BWG – Modified the Schedule D, Part 1 annual statement instructions to provide clarification on the Bond Characteristic column.
- 2016-08BWG – Added an electronic-only column to capture the secure code for reinsurers on Schedule F, Part 3, Part 5 and Part 6, Section 1.
- 2016-09BWG – Clarified P/C instructions for the Actuarial Opinion and Actuarial Opinion Summary.
- 2016-10BWG – Added a line of business labeled “Line 2.5 – Private Flood” in the Property/Casualty Exhibit of Premiums and Losses (Statutory Page 14) and Insurance Expense Exhibit, Part II and Part III of the NAIC annual statement blank and the corresponding instructions for writers of the private market coverage.
- 2016-11BWG – Added electronic table illustrations for Note 4A, Discontinued Operation Disposed of or Classified as Held for Sale, to reflect the disclosure changes to *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* adopted by the Statutory Accounting Principles (E) Working Group on its June 17, 2015, conference call.
- 2016-12BWG – Modified the instructions for Note 5H, Restricted Assets, and added a column for “total nonadmitted restricted” to the disclosure illustration.
- 2016-13BWG – Modified the instructions and illustration for Note 1A, Accounting Practices, to include SSAP reference numbers, as well as financial statement line references and column numbers.
- 2016-14BWG – Added disclosure to Note 5, Investments, for 5* securities and illustration for data-capture.
- 2016-15BWG – Added disclosure to Note 5, Investments, for short sales and an illustration for data-capture. Added a new code (SS) to the code list in the Investment Schedules General Instructions for short sales. Added the additional short sales instructions to the appropriate Schedule D and Schedule E instructions (Part 1; Part 2, Section 1; Part 2, Section 2 Schedule DA, Part 1; and Schedule E, Part 2).
- 2016-16BWG – Added an illustration for Note 10M and Note 10N for balance sheet value information for SCA entities and the related NAIC filing response information.
- 2016-17BWG – Added an illustration and instruction clarifications to Note 21, Other Items, for the number of outstanding insurance-linked contracts and aggregate maximum proceeds.
- 2016-18BWG – Addressed the elimination of the Class One Money Market Mutual Funds list and the related investment schedules reporting.
- 2016-19BWG – Added illustrations for life and fraternal Note 23G, Reinsurance, to capture RBC shortfall data related to captive reinsurers XXX/AXXX business.
- 2016-20BWG – Added two new disclosures to the instructions with illustrations for Note 24, Retrospectively Rated Contracts and Contracts Subject to Redetermination, related to the federal Affordable Care Act (ACA) risk corridor receivables and the roll-forward.
- 2016-21BWG – Modified the instructions for Note 5H, Restricted Assets, disclosure for collateral received and reflected as assets within the reporting entity’s financial statements.

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- 2016-22BWG – Modified the General Interrogatory, Part 1 question regarding investment manager and broker-dealers. Modified the table for question 28.05 (annual) and question 17.5 (quarterly) and added a table for question 28.06 (annual) and question 17.6 (quarterly) to expand on data reported regarding investment management with the appropriate instruction modifications and additions.
- 2016-24BWG – Added an additional letter code (D) and a code description to the “explanation of basis of allocation of premiums by states, etc.” section for use on the annual and quarterly Schedule T, Exhibit of Premiums Written Allocated by States and Territories.
- 2016-25BWG – Added instructions to the Description column to indicate that “swaptions” should include the hedge ID number, the tenor (i.e., time from effective date to maturity date), as well as the start and end dates of the underlying swaption within Schedule DB, Part A, Section 1.
- 2016-26BWG – Added a disclosure to Note 5, Investments, for prepayment penalties and acceleration of fees for callable securities. Added instructions to column 18 and column 20 of Schedule D, Part 4 and Part 5 for reporting prepayment penalties and acceleration of fees for these securities.
- Adopted the editorial listing, which included nonsubstantive clarifications.

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

- Adopted amendments to delete the financial assessment instructions for surplus notes not rated by a credit rating provider (CRP) or rated at an NAIC 3 through NAIC 6 designation equivalent, as well as a list used to identify surplus notes rated at an NAIC 1 and NAIC 2 equivalent. Amendments correspond to *SSAP No. 41R—Surplus Notes*.
- Adopted amendments to include H.R. Ratings de Mexico, S.A. de C.V. (a nationally recognized statistical rating organization—NRSRO) on the NAIC CRP List. Credit ratings issued to government, municipal and foreign government securities or to denote the issuer’s counterparty risk by H.R. Ratings must be used by insurers in the administration of the filing exempt process.
- Adopted amendments to add Italian generally accepted accounting principles (GAAP) as a national financial presentation standard.
- Adopted amendments modernize the NAIC Bank List process.
- Adopted amendments to delete a public meeting requirement to set macroeconomic scenarios in the financial modeling process.

7. *NAIC RBC Formula Changes and Related Items*

- Adopted the factors for the Operational Risk and Receivable for Securities factors.
- Adopted the change of the line description in Miscellaneous Assets from the Exempt Money Market Mutual Funds to All Other Money Market Mutual Fund.
- Adopted P/C RBC proposals to: a) add a new catastrophe risk interrogatory; b) update Line 1 and Line 4 for premium and reserves factors; and c) modify the credit risk instructions.
- Adopted health RBC proposals to: a) add a footnote to page XR012-A to break out individual premiums and claims inside and out of the exchanges; b) add a definition for “health entity” to the instructions; and c) update the health care receivable factors.
- Adopted life RBC shortfall instructional changes to include affiliated captives in the stand-alone calculation.

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

- Adopted revisions to the *Company Licensing Best Practices Handbook* and UCAA instructions for a merger application in reviewing Form 3.
- Adopted the Primary Application Review Checklist for the *Company Licensing Best Practices Handbook*.
- Adopted revisions to Form 2C for change of address/contact notification and statutory home office address.

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

- None.

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*

- Adopted revisions to the Uniform Application Checklist for Certified Reinsurers, which included revisions to the parameters regarding the inclusion of a reconciliation of International Financial Reporting Standards (IFRS) to GAAP for audited financial reports, clarification regarding the acceptable age of financial strength ratings and clarification on the funding of multi-beneficiary trusts.