

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 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 **Jan. 8, 2018**. 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 2017 Fall National Meeting

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

Dec. 18, 2017

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

Jan. 8, 2018

The following technical items were adopted by the Financial Condition (E) Committee at the 2017 Fall National Meeting:

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

- Adopted the following substantive revisions to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 100R—Fair Value and Issue Paper No. 157—Use of Net Asset Value*: Revisions allow the use of net asset value (NAV) per share as a practical expedient to fair value when specifically named in an SSAP or when specific conditions exist. These revisions adopt *Accounting Standards Update (ASU) 2009-12: Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)* and *ASU 2015-07: Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*. (Ref #2017-24)
- Adopted the following nonsubstantive revisions to statutory accounting guidance:
 - *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers and Appendix B—Interpretations of Statutory Accounting Principles*: Revisions allow an optional temporary 60-day extension of the existing 90-day rule for Hurricane Harvey, Hurricane Irma and Hurricane Maria. This interpretation will expire in February 2018. (Ref 2017-29)
 - *SSAP No. 12—Employee Stock Ownership Plans and SSAP No. 104R—Share-Based Payments*: Adopts, with modification, *ASU 2016-09, Improvements to Share-Based Payment Accounting*. (Ref #2017-05)
 - *SSAP No. 22—Leases*: Adopts, with modification, *ASU 2017-10, Determining the Customer of the Operation Services* to clarify the customer of service concession arrangements. (Ref #2017-17)
 - *SSAP No. 26R—Bonds*: Revisions capture directly issued bank loans in scope for 2017. A 2018 proposal will be presented to the Blanks (E) Working Group to include separately capture directly issued and acquired bank loans on *Schedule D, Part 1 – Long Term Bonds*. (Ref #2017-10)
 - *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions remove transition guidance related to the 2009 adoption of substantive revisions and update the Question and Answer Implementation Guidance to remove outdated guidance. (Ref #2017-22)
 - *SSAP No. 68—Business Combinations and Goodwill and SSAP No. 90—Impairment or Disposal of Real Estate Investments*: Revisions reject five ASUs and include guidance for triggering events from SSAP No. 90 into SSAP No. 68 to discuss the impairment process in its entirety. (Ref #2017-19)
 - *SSAP No. 86—Derivatives*:
 - Revisions require aggregate disclosures for derivatives with financing premiums for year-end 2017. The disclosures detail the use of financing premiums, premiums due, the reported derivative fair value and the derivative fair value excluding the impact of financing premiums. (Ref #2016-48)
 - Revisions clarify that variation margin changes shall not be considered “settlements” until the derivative contract has matured, been terminated and/or expired. This revision is effective Jan. 1, 2018, for reporting entities that have previously considered variation margin changes to reflect settlement. (Ref #2017-04)
 - *SSAP No. 92—Postretirement Benefits Other Than Pensions and SSAP No. 102—Pensions*: Revisions reject *ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, with a notation that the disclosures in the SSAPs shall be followed. (Ref #2017-14)
 - *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*:

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- Revisions adopt revised subsidiary, controlled and affiliated (SCA) filing deadlines for 2018. Sub 1 filings will be due within 90 days of the initial acquisition or formation of an SCA entity. Sub 2 filings will be due Aug. 31 of each year, with a provision to allow a one-month filing deadline after the audit date for an SCA entity that regularly receives its audit report after Aug. 31. (Ref #2017-08)
- Revisions clarify that limited statutory adjustments should apply to all foreign insurance SCA entities (8.b.iv. entities), regardless of whether they have audited U.S. generally accepted accounting principles (GAAP) or audited foreign GAAP financial statements. (Ref #2017-20)
- *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions exclude money market mutual funds (MMMFs) from the wash sale disclosure. (Ref #2017-23)
- *SSAP No. 104R—Share-Based Payments*: Adopts *ASU 2017-09, Stock Compensation – Scope of Modification Accounting* to provide guidance regarding which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. (Ref #2017-16)
- *SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act*: Revisions provide guidance on high-cost risk pools, requiring claim reimbursements as increases to premium and new disclosures. (Ref #2017-26)
- *Appendix D—GAAP Cross-Reference to SAP*: Revisions reject *ASU 2013-08, Financial Services – Investment Companies – Amendments to the Scope, Measurement and Disclosure Requirements* as not applicable to statutory accounting. (Ref #2017-15)
- *Appendix E—Statutory Issue Papers*: Revisions update the name of *Issue Paper No. 143—Prospective-Based Guaranty Fund Assessments* to *Issue Paper No. 143R—Guaranty Fund Assessments* and document the adopted substantive changes to *SSAP No. 35R—Guaranty Fund and Other Assessments*. (Ref #2017-27)
- *Appendix F—Policy Statements*: Incorporates the new *NAIC Policy Statement on Coordination of the Accounting Practices and Procedures Manual and the Purposes and Procedures Manual of the NAIC Investment Analysis Office*. (Ref #2016-13)
- *Editorial Revisions*: Revisions delete footnotes for the 2016 year-end and interim 2017 financial statements for MMMFs in *SSAP No. 26R* and *SSAP No. 30—Unaffiliated Common Stock*. In addition, *Actuarial Guideline XXXIV—Variable Annuity Minimum Guaranteed Death Benefit Reserves* (AG 34) and *Actuarial Guideline—XXXIX Reserves for Variable Annuities with Guaranteed Living Benefits* (AG 39) were deleted from *Appendix C—Actuarial Guidelines*, as both guidelines are no longer in effect. (Ref #2017-01EP)
- *Memo on High-Deductible Disclosures*: Adopted a memorandum to the Blanks (E) Working Group to provide additional instructions on the high-deductible disclosures in *SSAP No. 65—Property and Casualty Contracts*.

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

- Adopted the 2018 examiners' suggested salary expressed as a daily rate.
- Adopted revisions to clarify that a meeting between the examiner and analyst should take place by phone or in person and that an e-mail exchange alone is insufficient to meet the beginning of exam communication requirements.
- Adopted revisions to Exhibit B (examination planning questionnaire) to clarify that when an item requested has already been provided by the company, the item does not have to be re-provided.
- Adopted revisions to add guidance related to principle-based reserving (PBR).
- Adopted revisions to add guidance for the review of affiliated service agreements consistent with the provisions in the NAIC's *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450).
- Adopted revisions to the reinsurance, related party, capital and surplus, and investment repositories related to the ongoing repository maintenance project.

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- Adopted revisions to assist examiners in addressing insurers in runoff, as well as insurers that redomesticate.
- Adopted revisions to Exhibit Z (used to document exam coordination) to clarify the applicable guidance when a stand-alone examination is performed for a company that is a part of an insurance holding company group.
- Adopted revisions to Exhibit E (review of auditor's work) to clarify documents that should be reviewed as part of the examiners review of the auditors work.
- Adopted Handbook Amendment Procedures documenting the policies in which amendments will be adopted.
- Adopted revisions to the following sections of the Handbook: 1) information technology (IT) guidance in Section 1-3; 2) Exhibit C: Information Technology Planning Questionnaire (ITPQ); 3) Exhibit C: narrative guidance; and 4) Exhibit C: Information Technology Work Program (Work Program). These revisions enhance cybersecurity guidance primarily based on state insurance regulator and industry feedback in using existing Handbook guidance.

3. *Financial Analysis Handbook Changes and Related Items*

- Adopted revisions to finalize incorporation of the risk-focused framework into the *Financial Analysis Handbook*, including an updated risk assessment worksheet, certain edits to risk repositories and redrafted analyst reference guides for each of the nine-branded risk repositories.
- Adopted procedures that incorporate a new formal process for adopting future amendments to the *Financial Analysis Handbook*, as well as a revised submission form for requesting such amendments.
- Adopted additional *Financial Analysis Handbook* amendments to address: updated health care guidance; updated introductory chapters including new guidance for prioritization and preliminary analysis; updated guidance for review of notes to the financials; new guidance for analysis of run-off insurers; new procedure and guidance with regard to the XXX/AXXX captive reinsurance for life insurers; updated Form A procedures and guidance; updated non-lead state holding company analysis procedures and guidance; and updated Form D filing supplemental procedures and guidance.
- Adopted updates to other confidential state insurance regulator-only financial analysis solvency tools.
- Adopted procedures that incorporate a new formal process for adopting future amendments to the Insurance Regulatory Information System (IRIS), as well as a new submission form for requesting such amendments.

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:
 - 2017-20BWG – Adds a question to the General Interrogatories Part 1 to determine if the reporting entity is part of a publicly traded group. Adds clarifying instructions to Schedule Y, Part 1A as to when a Central Index Key (CIK) is provided. Adds a crosscheck between Column 6 and Column 7 of Schedule Y, Part 1A to ensure consistent reporting.
 - Editorial changes/nonsubstantive corrections to update the designation matrices in the investment schedule instructions and correct the filing date in the Supplemental Exhibits and Schedules Interrogatories for the confidential Regulatory Asset Adequacy Issues Summary (RAAIS) required by the *Valuation Manual* from March 15 to April 1.

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

- Adopted an amendment to the P&P Manual to transfer the production of NAIC designations from insurance companies back to the Securities Valuation Office (SVO) effective Jan. 1, 2018, and adopted a related P&P Manual amendment creating a new requirement that insurance companies verify to the SVO the credit rating assigned to securities subject to private letter (PL) ratings, effective July 1 for securities issued on or after January 1, 2018.

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- Adopted an amendment to the P&P Manual to delete SVO and Structured Securities Group (SSG) authority to ignore the credit rating of any specific NAIC credit rating providers (CRPs) when converting credit ratings in NAIC designations. The amendment seeks to avoid disruption in the filing exempt (FE) process.
- Adopted an amendment to the P&P Manual to delete SVO authority to require an insurer to file a security rated by an NAIC CRP for the purposes of evaluating the security and making recommendations to the Task Force.
- Adopted an amendment to the P&P Manual modifying the use of the Z symbol to identify securities in transition from one filing status to another. The amendment eliminates the use of the Z symbol rule by insurers to self-designate a security the SVO did not update by year-end. Instead, a related amendment creates a new administrative “Carryover Procedure” for the P&P Manual under which the SVO identifies all securities that cannot be designated by year-end, assigns one new symbol to annual updates, and extends the designation then assigned into the new year and another to initial filings signaling insurers to self-designate using the new symbol. The new symbols are removed as the SVO updates the designations.
- Adopted an amendment to the P&P Manual to clarify that Schedule BA private funds can be assigned NAIC designations by the SVO and to identify the methodology for doing so.

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

- Adopted the 2017 Catastrophe Event List.

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

- Adopted revisions to the UCAA definitions for “state charts,” state-specific requirements” and “key persons in control functions.”
- Adopted revisions to the biographical affidavit to provide additional instructions for individuals who have lived, worked or obtained their education internationally to note that additional information may be requested or to attach a diploma or certificate of attendance to aid in the background search.
- Adopted revisions to the primary and expansion checklist to mirror the corporate amendment checklist on key items and clarification on how the affidavits should be submitted to the states.
- Adopted modifications to the independent third-party best practices to state that all transmissions of the background reports must be sent in a secure manner.
- Adopted modifications to the primary application review checklist, item #2 heading, and subsection f and subsection g, which clarify that an opining actuary and accountant not employed by the applicant company do not need to provide a biographical affidavit.

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

- Adopted procedures that incorporate a new formal process for adopting future amendments to the ORSA Guidance Manual, as well as a new submission form for requesting such amendments.

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 a recommendation that the states may consider Kroll Bond Rating Agency as a nationally recognized statistical rating organization (NRSRO) for certified reinsurer purposes, including revisions to the *Uniform Application Checklist for Certified Reinsurers* to clarify that the NRSRO must be recognized by the U.S. Securities and Exchange Commission (SEC) to provide financial strength ratings on insurance companies and to incorporate the matrix of ratings and collateral levels for Kroll Bond Rating Agency.