

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 **Sept. 5, 2017**. 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 Summer National Meeting

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

Aug 24, 2017

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

Sept 5, 2017

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

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

- Adopted the following nonsubstantive revisions to statutory accounting:
 - *Statement of Statutory Accounting Principles (SSAP) No. 26R—Bonds:*
 - Revisions clarify that recognized losses from other-than-temporary impairments (OTTI) shall be recorded entirely to either the asset valuation reserve (AVR) or the interest maintenance reserve (IMR) in accordance with the annual financial statement instructions. (Ref #2016-41)
 - Revisions reject *Accounting Standards Update (ASU) 2017-08: Premium Amortization on Purchased Callable Debt Securities* and retains the “yield-to-worst” amortization methodology. (Ref #2017-13)
 - *SSAP No. 37—Mortgage Loans:* Revisions clarify investments within the scope of the SSAP, identifying that in addition to directly originated mortgages, the scope also includes mortgage loans acquired through a participation, assignment or syndication. (Ref #2016-39)
 - *SSAP No. 65—Property and Casualty Contracts:* Revisions incorporate enhanced disclosures for high-deductible contracts and data-capture existing disclosures. A materiality threshold was added to an existing disclosure on professional employer organizations (PEOs). (Ref #2017-11)
 - *SSAP No. 69—Statement of Cash Flow:* Revisions adopt *ASU 2016-18: Statement of Cash Flows – Restricted Cash*, effective Dec. 31, 2019, with early adoption permitted. The adoption clarifies that restricted cash and cash equivalents shall not be reported as operating, investing or financing activities, but shall be reported with cash and cash equivalents when reconciling beginning and ending amounts on the cash flow statement. The action also incorporated a change to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to ensure information on restricted cash, cash equivalents and short-term investments is reported in the restricted asset disclosure. (Ref #2017-02)
 - *SSAP No. 101—Income Taxes:* Revisions reject *ASU 2016-16: Intra-Entity Transfers of Assets Other Than Inventory*. (Ref #2016-45)
 - *Appendix A-010—Minimum Reserve Standards for Individual and Group Health Insurance Contracts:* Revisions incorporate the 2016 Cancer Claim Cost Valuation Table. The revisions are effective for contracts issued on or after Jan. 1, 2019, with early application permitted for contracts issued on or after Jan. 1, 2018. (Ref #2017-09)
 - *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 2017-02: Clarifying When a Not-for-Profit Entity That is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. (Ref #2017-06)
 - *ASU 2017-03: Amendments to SEC Guidance*. (Ref #2017-07)

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

- Adopted revisions to incorporate reference to the Own Risk and Solvency Assessment (ORSA) information sharing best practices document.

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:
 - 2017-01BWG – Deletes the Health Property Supplement instructions and blank pages. Updates the Supplemental Exhibits and Schedules Interrogatories to reflect the deletion.
 - 2017-02BWG – Replaces the description of “Other” for Code 4 with “Not Applicable” for column 34, Capital Structure Code on Schedule D, Part 1.
 - 2017-03BWG – Modifies the Committee on Uniform Security Identification Procedures (CUSIP) column for Schedule BA and Schedule DL and adds an international securities identification number (ISIN) column to Schedule DL for consistency with changes made to Schedule D. Adds an additional header for Schedule DL to identify which schedule reflects securities included in other investment schedules and which reflects one-line reporting.
 - 2017-04BWG – Clarifications on current requirements for 2017 P&C Statement of Actuarial Opinion and Actuarial Opinion Summary instructions. For 2017 title Statement of Actuarial Opinion instructions, the changes include incorporation of the same changes made to the 2016 and proposed 2017 instructions for the P&C Statement of Actuarial Opinion.
 - 2017-05BWG – Adds clarification to the line of business definitions for property and health for determining which line of business to report riders, endorsements and floaters. Adds clarification to the Analysis of Operation by Lines of Business instructions for life, health and fraternal.
 - 2017-06BWG – Adds definitions to the property line of business definitions appendix in the instructions.
 - 2017-08BWG – Modifies Statement of Actuarial Opinion Instructions to incorporate *Valuation Manual* requirements.
 - 2017-09BWG – Modifies the instructions for the Supplemental XXX/AXXX Reinsurance Exhibit to reflect changes to the *Valuation of Life Insurance Policies Model Regulation* (#830). Modifies some of the column header descriptions in Part 1. Adds additional columns to Part 1, Part 2A and Part 2B and remove columns from Part 2A and Part 2B to allow room on the page for the columns added. Modify the lines used on Part 3.
 - 2017-10BWG – Removes the definition for notional amount from the Schedule DB General Instructions, Schedule DB, Part A General Instructions and replaces with the definition of “notional amount” adopted by the Statutory Accounting Principles (E) Working Group for *SSAP No. 86—Derivatives* in the general instructions for Schedule DB. Modifies the instruction for the Notional Amount column for Schedule DB, Part A and Part B.
 - 2017-11BWG – Modifies the instructions and illustrations for Note 5A(4) and Note 5A(5) to reflect additional disclosures required by *SSAP No. 37*.
 - 2017-12BWG – Adds a code to the Code column to allow designation of Securities Valuation Office (SVO) Identified Funds for valuation using systematic value and make the appropriate modifications to the instructions for the Book Adjusted/Carrying Value column, the Unrealized Valuation Increase/(Decrease) column and the Current Year’s (Amortization)/Accretion column for Schedule D (Part 1, Part 4 and Part 5) and Schedule DA (Part 1).
 - 2017-13BWG – Removes the repurchase agreement and reverse-repurchase agreement disclosures from Note 5E and adds new disclosures for them as Note 5F through Note 5I and renumbers the remaining Note 5

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disclosures accordingly. The illustrations for Note 5F through Note 5I will be data-captured. Also, Note 17B(5) and modify Note 17B(7) instructions to remove references to repurchase agreements and reverse-repurchase agreements.

- 2017-14BWG – Modifies the current illustration for Note 31, High Deductibles and data-capture. Adds additional illustration to Note 31 also for data-capture.
- 2017-15BWG – Adds additional disclosure item to Note 25, Change in Incurred Losses and Loss Adjustment Expenses (life, health, property, fraternal and title) and Note 32, Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses (property).
- 2017-16BWG – Adds a new disclosure to Note 14, Liabilities, Contingencies and Assessments for Long-Term Care insolvencies related guaranty funds liabilities and assets and data capture the new illustration.
- 2017-17BWG – Adds a new line B10 to the bond section of the Cash from Investments Worksheet in the Cash Flow Statement instructions, renumber the remaining lines in the bond section (B10 and B11) and update the formula for the existing line B11 to reflect the line addition.
- 2017-18BWG – Moves the total count of “L” (and “D” for property) status codes provided for Column 1 of Schedule T to footnote and provide in the footnote a count for each status provided in column 1. Adds a crosscheck to ensure a status is provided for each jurisdiction on Line 1 through Line 57.
- 2017-19BWG – Adds a question to the General Interrogatories, Part 2 to help identify insurers that assume reinsurance business covering risks in at least two states.
- Editorial changes/non-substantive corrections including the instructional addition of an NAIC 2 reference to the Asset Valuation Reserve-Equity and Other Investment Asset Component exhibit and a clarification for the use of cession ID used in the Supplemental Term and Universal Life Insurance Reinsurance Exhibit (aka XXX/AXXX Exhibit).

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

- Adopted revisions to the List of Qualified U.S. Financial Institutions to clarify how the monitoring function would be conducted.
- Adopted policy revisions for Enhancements to the Filing Exempt (FE) Rule.
- Adopted revisions deleting the SVO-administered process for 5*/6* certifications. Certification of the 5* qualifications will now occur through a General Interrogatory in the annual statutory financial statements.
- Adopted revisions to add filing, documentation and analytical methodology instructions for Power Generation and Renewable Energy Projects.

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

- Adopted R3 credit risk charge implemented from an informational-only page in the calculation in the property/casualty (P/C) formula for 2018 reporting.
- Adopted Non-Government Money Market Mutual Funds (MMMMF) to remove the factor on the common stock RBC page to avoid double counting.
- Adopted the Operational Risk Instructions for 2017 year-end reporting; the factor is set to zero for 2017.
- Adopted the Line 4 Ex-cat factors and Line 1 factors for PR017 and PR018 RBC pages.
- Adopted the Life instructions to coordinate *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) and the *NAIC Term and Universal Life Reserve Financing Model Regulation* (#787) for guidance for the shortfall reflected in the authorized control level.

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

- Adopted revisions to the primary application instructions.

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- Adopted revisions to the corporate amendments application instructions.
- Adopted revisions to the expansion application instructions.
- Adopted modifications to the independent third-party vendor listing.
- Adopted frequently asked questions (FAQ) for the pro forma financial spreadsheet.
- Adopted the Form A Review Best Practices.

9. *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*

- None.