FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Financial Regulation Standards and Accreditation (F) Committee April 6, 2019 Minutes

- Memorandum Regarding Financial Regulation Standards – *Accounting Practices and Procedures Manual* (Attachment One)
- Memorandum Regarding Financial Regulation Standards – *Annual Statement Blanks and Instructions* (Attachment Two)
- Memorandum Regarding Financial Regulation Standards –*Financial Condition Examiners Handbook* (Attachment Three)
- Memorandum Regarding Financial Regulation Standards – *Risk-Based Capital Report Including Overview and Instructions* (Attachment Four)
- Memorandum Regarding Financial Regulation Standards – *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (Attachment Five)
- Revisions to the Part A Preamble Regarding Compliance of Fraternal Benefit Societies with PBR (Attachment Six)
- Referral from the National Treatment and Coordination (E) Working Group Regarding Part D of the Accreditation Standards (Attachment Seven)

Draft Pending Adoption

Date: 4/11/19

Financial Regulation Standards and Accreditation (F) Committee
Orlando Florida
April 6, 2019

The Financial Regulation Standards and Accreditation (F) Committee met in Orlando, FL, April 6, 2019. The following Committee members participated: Todd E. Kiser, Chair (UT); Jillian Froment, Vice Chair, (OH); Jim L. Ridling (AL); Lori K. Wing-Heier represented by David Phifer (AK); Allen W. Kerr represented by Mel Anderson (AR); Andrew N. Mais (CT); Nancy G. Atkins (KY); Gary Anderson (MA) Bruce R. Ramge (NE); Mike Causey (NC); Elizabeth Kelleher Dwyer (RI); Larry Deiter (SD); Michael S. Pieciak represented by Kevin Gaffney (VT); Scott A. White (VA); and Tom Glause (WY). Also participating was: Dale Bruggeman (OH).

1. Adopted its 2018 Fall National Meeting Minutes

Director Deiter made a motion, seconded by Commissioner Atkins, to adopt the Committee's Nov. 15, 2018, minutes (*see NAIC Proceedings – Fall 2018, Financial Regulation Standards and Accreditation (F) Committee*). The motion passed unanimously.

Commissioner Kiser said the Committee also met April 5 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. During this meeting, the Committee took the following action: 1) discussed state-specific accreditation issues; and 2) voted to award continued accreditation to the insurance departments of Arizona, California and Florida.

2. Adopted Revisions to the 2018 NAIC Publications Referenced in the Accreditation Standards

Commissioner Kiser 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 2018 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: *Accounting Practices and Procedures Manual* (AP&P Manual) (Attachment One); *Annual and Quarterly Statement Blanks and Instructions* (Attachment Two); *Financial Condition Examiners Handbook* (Attachment Three); *Risk-Based Capital (RBC) Formulas and Instructions for Life and Property/Casualty (P/C) Insurer*s (Attachment Four); and *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) (Attachment Five). The working group or task force responsible for each of these publications has deemed their 2018 changes as insignificant to the accreditation process.

Superintendent Dwyer made a motion, seconded by Commissioner Glause, to adopt the revisions to each of the publications immediately by reference to the accreditation standards. The motion passed unanimously.

3. Exposed Revisions to the Part A Preamble Regarding Compliance of Fraternal Benefit Societies with PBR

Commissioner Kiser stated that two years ago, at the 2017 Spring National Meeting, the Committee adopted principle-based reserving (PBR) into the accreditation standards with an effective date of Jan. 1, 2020. This included the recommendation from the Life Actuarial (A) Task Force to apply the standard to fraternal benefit societies (*see NAIC Proceedings – Fall 2016, Financial Regulation Standards and Accreditation (F) Committee*). When the decision was made, the Committee recognized that the Preamble to the *Accreditation Program Manual* would also need to be updated.

Becky Meyer (NAIC) stated that the Preamble to the *Accreditation Program Manual* serves as the scope for the NAIC Financial Regulation Standards and Accreditation Program and each part has its own preamble. Part A, which covers required laws and regulations, applies only to life insurers and P/C insurers, with a few exceptions. Therefore, Part A does not currently apply to fraternal benefit societies. When PBR was adopted as an accreditation standard, the adoption included applying the standard to fraternal benefit societies, and the Committee recognized that the preamble would need to be updated. Therefore, the proposed change to include fraternal benefit societies only for purposes of the PBR standard, and not the remaining Part A standards, will ensure consistency with the previous decision made by the Committee. Regarding the impact that applying this standard has on the states and their domestic insurers, NAIC staff are aware of only four states with domestic fraternals that would not qualify for an exemption from PBR due to premium volume and, therefore, be impacted by this standard as it relates to fraternals. NAIC staff have reached out to those states, and to their knowledge, there are no concerns with applying these standards to their companies.

Commissioner Ridling made a motion, seconded by Commissioner Atkins, to expose the referral for a 30-day public comment period ending May 8 (Attachment Six). The motion passed unanimously.

4. <u>Exposed Referral from the National Treatment and Coordination (E) Working Group Regarding Part D of the Accreditation Standards</u>

Mr. Bruggeman discussed a referral received from the National Treatment and Coordination (E) Working Group regarding Part D of the NAIC Financial Regulation Standards and Accreditation Program, which includes standards for primary licensing of new companies and Form A filings for mergers and acquisitions. He noted that there are three key changes: 1) updating the guidelines to reflect current practices; 2) expanding the scope to include redomestications; and 3) including Part D in the review team's recommendation with the result that the outcome can affect a state's accredited status.

The Working Group recommends that the revisions to the guidelines be adopted with an effective date of Jan. 1, 2020, and the change subjecting Part D to Recommendation A or B, and thus affecting a state's accredited status, be effective Jan. 1, 2022.

Director Froment made a motion, seconded by Director Ramge, to expose the referral for a 30-day public comment period ending May 8 (Attachment Seven). The motion passed unanimously.

Having no further business, the Financial Regulation Standards and Accreditation (F) Committee adjourned.

W:\National Meetings\2019\Spring\Cmte\F\Draft Minutes\4 19 F min.docx

MEMORANDUM

TO: Commissioner Todd E. Kiser (UT), Chair, Financial Regulations Standards and Accreditation (F) Committee
Jillian Froment (OH), Vice Chair, Financial Regulations Standards and Accreditation (F) Committee

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

DATE: February 20, 2019

RE: Financial Regulation Standards – As of March 2018 *Accounting Practices and Procedures Manual*

In 2001, the Financial Regulation Standards and Accreditation (F) Committee adopted 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 2018. 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 material changes made to the AP&P Manual in 2018. 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. Although some of the changes have been categorized as "substantive" by the Working Group, this is not meant to suggest the modifications are synonymous with the term "significant" within the Committee's context.

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 2019*. 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 Becky Meyer, Sara Franson, Sherry Shull, Robin Marcotte, Julie Gann, Fatima Sediqzad and Jake Stultz

Summary of Changes to the *As of March 2018 Accounting Practices and Procedures Manual* included in the *As of March 2019* Version

The following represents a summary of the changes that were made to the *As of March 2018 Accounting Practices and Procedures Manual* (Manual) to create the *As of March 2019* version.

Section 1 summarizes substantive revisions to statutory accounting principles. Substantive revisions introduce original or modified accounting principles and can be reflected in an existing or new SSAP. When substantive revisions are made to an existing SSAP, the effective date is identified in the Status section, and the revised text within is depicted by underlines (new language) and strikethroughs (removed language). This tracking will not be shown in subsequent manuals. New and substantively revised SSAPs are commonly accompanied by a corresponding issue paper that reflects the revisions for historical purposes. If language in an existing SSAP is superseded, that language is shaded and the new or substantively revised SSAP is referenced. Completely superseded SSAPs and nullified interpretations are included in Appendix H.

Section 2 summarizes the nonsubstantive revisions to statutory accounting principles. Nonsubstantive revisions are characterized as language clarifications which do not modify the original intent of a SSAP, or changes to reference material. Nonsubstantive revisions are depicted by underlines (new language) and strikethroughs (removed language) and will not be tracked in subsequent manuals. Nonsubstantive revisions are effective when adopted unless a specific effective date is noted.

Section 3 summarizes revisions to the Manual appendices.

1. Substantive Revisions – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 21R	2018-17	Revisions detail that periodic-certain structured settlements acquired under all state and federal laws are admitted assets. Life-contingent structured settlements and periodic-certain structured settlements not acquired pursuant to state and federal laws are nonadmitted assets.
SSAP No. 30R	2017-32	Revisions primarily update the common stock definition to include U.S. Securities and Exchange Commission (SEC) registered closed-end funds and unit-investment trusts within scope.
SSAP No. 62R	2017-28	Revisions clarify the determination of reinsurance credit and incorporate language from *EITF 93-6, Accounting for Multi-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* and *EITF D-035, FASB Staff Views on Issue No. 93-6*.
SSAP No. 108	2016-03	Revisions create a new *SSAP No. 108—Derivatives Hedging Variable Annuity Guarantees* to prescribe guidance for derivatives that hedge interest rate risk of variable annuity guarantees.
2. Nonsubstantive Revisions – Statutory Accounting Principles		
Section	**Reference**	**Description**
SSAP No. 1	2018-05	Revisions update the reference to 5* to reflect the new symbol of 5GI.
	2018-16	Revisions identify that the updates to *A-001 Investments of Reporting Entities* are effective January 1, 2019.
SSAP No. 5R	2018-13EP	Editorial revisions remove disclosure illustrations duplicated in the annual statement instructions.

SSAP No. 15	2018-20	Revisions reference existing guidance for when there has been a forgiveness of a debt owed.
SSAP No. 21	2018-08	Revisions restrict the guidance when a reporting entity is the owner and beneficiary of a life insurance contract to require the policy to be in compliance with Internal Revenue Code (IRC) §7702 and to require the product to be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person. Disclosure is required of the cash surrender value within an investment vehicle by underlying investment category.
SSAP No. 22	2018-25	Revisions reject *ASU 2018-01, Leases – Land Easement Practical Expedient for Transition to Topic 842* for statutory accounting.
SSAP No. 25	2018-20	Revisions reference existing guidance when there has been a forgiveness of a debt owed.
SSAP No. 26R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 30R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 32	2018-05	Revisions remove reference to the reporting codes of “RP” and “P” as redeemable and perpetual preferred stock will be reported on separate lines on the investment schedule. Duplicative language was also removed.
	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 41R	2017-21	Revisions reference guidance that requires adjustment to prevent double-counting of surplus notes between insurance reporting entities and subsidiary, controlled and affiliated entities.
	2018-13EP	Editorial revisions eliminate an outdated footnote identifying that the NAIC SVO maintains a listing of CRP ratings of surplus notes.
SSAP No. 43R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
	2018-19	Revisions eliminate the modified filing exempt (MFE) process for determining NAIC designations.
SSAP No. 47	2016-19 2017-37	Revisions reject the following ASUs: • *ASU 2014-09, Revenue from Contracts with Customers* • *ASU 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date* • *ASU 2016-08, Revenue from Contracts with Customers, Principal versus Agent Considerations* • *ASU 2016-10, Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing* • *ASU 2016-12, Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients*
SSAP No. 48	2018-27	Revisions require disclosures when a reporting entity’s share of losses exceeds its investment.
SSAP No. 49	2017-35	Revisions clarify the reporting of policy loans and require policy loans that originate from separate account policies to be “funded” to the general

		account in order for the policy loan to be admitted.
SSAP No. 51R	2018-28	Revisions add liquidity disclosures for year-end 2019.
SSAP No. 52	2018-13EP	Editorial revisions remove disclosure illustrations duplicated in the annual statement instructions.
	2018-28	Revisions add liquidity disclosures for year-end 2019.
SSAP No. 56	2017-35	Revisions clarify that policy loans related to the separate account shall follow the guidance in *SSAP No. 49—Policy Loans*.
	2018-08	Revisions incorporate disclosures of non-SEC registered products.
SSAP No. 61R	2018-28	Revisions add liquidity disclosures for year-end 2019.
SSAP No. 62R	2018-13EP	Editorial revisions remove reference to “new” or “revised” accounting rules as the guidance has been in effect for several years.
SSAP No. 68	2017-18	Revisions capture additional goodwill disclosures.
	2018-23	Revisions clarify that statutory mergers include scenarios in which the stock of an owned entity is cancelled, with the parent entity reporting the assumed assets and liabilities.
SSAP No. 72	2018-21	Revisions incorporate accounting guidance for when a reporting entity provides a distribution that is a return of capital.
SSAP No. 86	2016-48	Revisions require disclosures for derivatives with financing premiums.
	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
	2018-24EP	Editorial revisions remove an outdated effective date.
	2018-30	Revisions reflect hedge documentation and assessment efficiencies from *ASU 2017-12, Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities.*
SSAP No. 92	2017-30	Revisions remove the Level 3 fair value reconciliation disclosure.
SSAP No. 97	2017-21	Revisions clarify the existing concept that restricts the double-counting of surplus notes to explicitly state that surplus notes issued by the parent and held by the subsidiary, controlled or affiliated (SCA) entity shall be eliminated in the SCA’s value reported by the parent insurance company.
	2018-09	Revisions require disclosure when a reporting entity’s share of losses exceeds its investment in a SCA.
	2018-24EP	Editorial revisions update reference to guidance relocated to other SSAPs.
SSAP No. 100R	2018-12	Revisions reject *ASU 2018-03, Recognition and Measurement of Financial Assets and Financial Liabilities* for statutory accounting.
SSAP No. 101	2018-01	Revisions in response to the Tax Cuts and Jobs Act.
SSAP No. 102	2017-30	Revisions remove the Level 3 fair value reconciliation disclosure.
SSAP No. 103R	2017-31	Revisions exclude cash equivalents, derivatives and short-term investments with credit assessments equivalent to an NAIC 1 or NAIC 2 designation from the wash sale disclosure and clarify that the wash sale disclosure is required in the period in which the security is sold.

3. Revisions to the Appendices

Section	Reference	Description
Appendix A	2018-16	Revisions to *Appendix A-001— Investments of Reporting Entities* align the summary investment schedule more closely to the underlying investment schedules, allowing for cross-checks and less manual allocations.
	2018-24EP	Editorial revisions to *Appendix A-010—Minimum Reserve Standards For Individual And Group Health Insurance Contract* update paragraph references and an incorrect date.
	2018-29	Revisions remove the phrase “good and sufficient reserve” from *Appendix A-820—Minimum Life and Annuity Reserve Standards* as it is not consistent with the related NAIC *Standard Valuation Law Model 820*.
Appendix B	2017-36	Revisions update *INT 02-22: Accounting for U.S. Terrorism Risk Insurance Program* to clarify that the INT will remain in effect as long as the related Act is authorized by Congress.
	2018-10	New *INT 18-02: ACA Section 9010 Assessment Moratorium* (replacing INT 16-01) provides guidance for the 2019 moratorium and future moratoriums for the federal Affordable Care Act (ACA) Section 9010 fee.
	2018-14	Revisions to *INT 05-05: Accounting for Revenues Under the Medicare Part D Coverage* add a description of the Coverage Gap Discount Program, amend existing guidance on program payments, and update definitions.
	2018-15	New *INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act* provides guidance for the repatriation transition tax (RTT), Alternative Minimum Tax (AMT) Credit, and the Global Intangible Low-Taxed Income (GILTI) Tax provisions under the Act.
Appendix C	AG 42	Revisions to *Actuarial Guideline XLII—The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities* provide guidance for purposes of the certification requirements related to the selection of the appropriate preferred class structure mortality table.
	AG 48 2016 Valuations	Deleted the version of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the AIC Valuation of Life Insurance Policies Model Regulation (Model #830)* that applied to 2016 valuations.
Appendix D	Rejected as Not Applicable to Statutory Accounting:	
	2017-03	*ASU 2017-06, Master Trust Reporting*
	2018-11	*ASU 2017-15, U.S. Steamship Entities, Elimination of Topic 995*
Appendix E	2017-32	*IP No. 158— Unaffiliated Common Stock*
	2016-03	*IP No. 159— Special Accounting Treatment for Limited Derivatives*
Appendix F		No revisions impacting this appendix were adopted in 2018.
Appendix G		No revisions impacting this appendix were adopted in 2018.

Appendix H	2017-36	Nullifies *INT 09-08: Accounting for Loans Received Under the Federal TALF Program* as there are no more loans outstanding under the program.
	2018-10	Nullifies *INT 16-01: ACA Section 9010 Assessment 2017 Moratorium*. This INT was replaced with INT 18-02.
	2018-02	Nullifies *INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act*. This INT provided a limited-scope, limited-time interpretation in response to the Act and was nullified December 31, 2018.
	2018-31	Nullifies *INT 18-04: Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael*. This INT provided a temporary extension to the ninety-day rule under *SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers* for policies impacted by the named storms.

G:DATA\Stat Acctg\1. Statutory\E. Referrals\2019\2018 SAPWG to Accreditation Memo.doc

National Association of Insurance Commissioners & The Center for Insurance Policy and Research

TO: Honorable Todd E. Kiser, Chair
Financial Regulation Standards & Accreditation (F) Committee

FROM: Jake Garn, Utah Chief Financial Examiner, Chair
Blanks (E) Working Group

DATE: January 24, 2019

RE: Items Impacting Current Accreditation Standard

Please find attached a list of items adopted by the Blanks (E) Working Group during 2018. 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 2018 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 Orlando, FL in the event any member of the committee wishes to discuss these issues.

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

Changes to blanks and instructions adopted during 2018

1. Add language to General Interrogatory merger questions (5.1 annual and 4.1 quarterly) to require the filing of merger history with the NAIC, if the questions are answered "YES" (2017-21BWG) Effective 12/31/2018.
2. Add a question to the Supplemental Exhibits and Schedules Interrogatories regarding the filing of the Statement of Exemption in the second quarter (2017-22BWG) Effective 1/1/2019.
3. Modify the *Annual Statement Instructions* to reflect the requirement of filing the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit and the Adjustments to the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit by companies that are members of the life, health and annuity guaranty associations and write the respective lines of business (2017-23BWG) Effective 12/31/2018.
4. Add new category lines for bank loans to Schedule D, Part 1, Part 3, Part 4 and Part 5, Schedule DL, Part 1 and Part 2 and Schedule E, Part 2 and adjust category line number references in the "Default Component – Basic Contribution, Reserve Objective and Maximum Reserve Calculations" section of the *Annual Statement Instructions*. Add a new section to Schedule D, Part 1A for bank loans and add references to bank loans to the Summary by Country. Update references to annual Schedule D, Part 1A, Section 1 and in quarterly Schedule D, Part 1B (2017-24BWG) Effective 12/31/2018.
5. Add language to the cash flow statement instructions regarding inclusion of restricted cash or restricted cash equivalents in the beginning and ending balance (2017-25BWG) Effective 12/31/2019.
6. Modify the category line descriptions for property/casualty (P/C) Schedule F, Part 3 and add crosschecks for lines 1499999, 2899999, 4299999, 4399999, 4499999, and 9999999 to clarify the subtotal calculations for protected cells and authorization categories. Replace old references to "Part 5" with updated "Part 3" references throughout. Revise the calculation references in the headings for Column 60, Column 66 and Column 74. Revise the calculation references for Column 72 and Column 73 to clarify certain calculations related to amounts in dispute (2017-26BWG) Effective 12/31/2018.
7. Update the language for the different lines on the Schedule DB, Part D, Section 1 regarding exchange traded funds and centrally cleared derivatives (2018-01BWG) Effective 12/31/2018.
8. Update the columns and rows on the Summary Investment Schedule to tie to the different investment schedules (2018-02BWG) Effective 12/31/2019.
9. Add the definition of Supranational to the Supplemental Investment Risks Interrogatories section of the Annual Statement Instructions (2018-03BWG) Effective 12/31/2018.
10. Remove the reference to LTC from the Type of Reinsurance Assumed and Type of Reinsurance Ceded columns for Schedule S, Part 1, Section 2 and Schedule S, Part 3, Section 2. Remove then GMDB, GMDBFW, ADB, DIS and the annuity specific references from Schedule S, Part 1, Section 1 and Schedule S, Part 3, Section 1. Add a Type of Business Assumed column to Schedule S, Part 1, Sections 1 and 2. Add code to Schedule S, Part 1, Section 1 and Schedule S, Part 3, Section 1 to identify general account versus separate account (2018-04BWG) Effective 12/31/2018.
11. Change the instructions for the Property/Casualty Statement of Actuarial Opinion to incorporate the *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) requirements and to increase disclosures for accident and health (A&H) reported on a P/C blank (2018-05BWG) Effective 12/31/2018.
12. Add "999" to the end of all line numbers for Schedule DBs. This will increase the number of lines available from 9,996 to 9,999,996, eliminating the need to accumulate data within certain categories (2018-06BWG) Effective 12/31/2018.
13. Add new "PL" and "PLGI" symbols to the instructions to identify private letter rated securities. Add a "YE" and "IF" symbol as indication of a new "carry-over" administrative procedure of the NAIC Securities Valuation Office (SVO). Modify definitions of the symbol "Z" to indicate a security is in transition from one reporting status to another. Add a general interrogatory for PL securities issued prior to Jan. 1, 2018. Remove designation matrices from the instructions and replace them with a list of administrative symbols valid for use on Schedule BA and Schedule D. Eliminate the use of "P" and "RP" with the designation and add specific line categories for perpetual preferred and redeemable preferred stock. Remove the "Market Indicator" column from Schedule D, Part 2, Section 2 for common stocks (2018-07BWG) Effective 12/31/2018 for all but removal of market indicator column which is effective 12/31/2019.

14. Modify the instructions and illustration for Note 3A to reflect disclosure changes being adopted by the Statutory Accounting Principles (E) Working Group (2018-08BWG) Effective 12/31/2018.
15. Modify the instructions for Note 20A, Note 20C and Note 20D to reflect changes to *SSAP No. 100R—Fair Value*. Add a new disclosure Note 20E. Modify the illustrations for Note 20A and Note 20C to move the "NAV" column and data-capture it (2018-09BWG) Effective 12/31/2018.
16. Modify the instructions for Line 2 of the interest maintenance reserve (IMR) and Line 2 of the asset maintenance reserve (AVR) regarding bifurcation of other-than-temporary impairment (OTTI) investments subject to *SSAP No. 26R—Bonds* (2018-10BWG) Effective 12/31/2018.
17. Add additional instruction to the "Fixed or Variable Interest Rate Investments that Have the Underlying Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument" and "Joint Ventures or Partnership Interests for Which the Primary Underlying Investments are Considered to Be Fixed Income Instruments" categories to clarify not reporting investments in those categories when there is specific category for the investment (2018-11BWG) Effective 12/31/2018.
18. Add illustration for Note 8H to be data-captured. Add electronic-only columns related to derivatives with financing premiums and additional instructions to the description column related to derivatives with financing premiums to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add a new code to the "Code" column instructions for Schedule DB, Part A. Add a definition of "finance premiums" to the Schedule DB General Instructions. Add additional instructions to Schedule DB, Part A for Column 11 and Column 12 of Section 1 and Column 13 of Section 2 (2018-12BWG) Effective 12/31/2018.
19. Modify the VM-20 Reserves Supplement, Part 3 and Exhibit 5 – Aggregate Reserves for Life Contracts blanks and instructions to be consistent with the changes made to the *Valuation Manual*. Add a new Part 4 for the reporting of "Other Exclusions from Life PBR" (2018-13BWG) Effective 12/31/2018.
20. Split the Column 2 for Question 1.01 in the Separate Accounts General Interrogatories into two new columns ("Registered with the SEC" and "Not Registered with the SEC") and renumber the remaining columns. Add a new Question 101A for private placement variable annuities and private placement life insurance (2018-14BWG) Effective 12/31/2018.
21. Add a new disclosure to Note 10 to reflect changes to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* being considered by the Statutory Accounting Principles (E) Working Group. New instructions and illustration will be added as Note 10O. The illustration will be data-captured (2018-15BWG) Effective 12/31/2018.
22. Delete the instruction and illustration for Note 12C(2) and renumber Note 12C(3) to Note 12C(2) (2018-16BWG) Effective 12/31/2018.
23. Modify the instruction for Note 17C – Wash Sales (2018-17BWG) Effective 12/31/2018.
24. Combine the annual and quarterly reporting for life and fraternal companies onto one blank. This combined blank will be based on changes to the existing life blank. Life blank pages that are not being modified but have additional lines or columns not present on the fraternal blank are provided in the proposal as a reference for fraternal companies (2018-18BWG) Effective 1/1/2019.
25. Add Annual Statement Line (ASL) 29 for "International" to the Exhibit of Premiums and Losses (state page) and provide instruction that data should only be provided for the "Other Alien" page and the "Grand Total" page (2018-19BWG) Effective 12/31/2019.
26. Split the column for annual statement line of business for the illustration of Note 31A(1), High Deductibles, into two columns with one to capture ASL number and the other to capture the ASL description (2018-20BWG) Effective 12/31/2019.
27. Add new line to Note 32, Analysis of Annuity Actuarial Reserves and Deposit Type Contracts by Withdrawal Characteristics, that identifies surrender charges over 5% in the current year that will be less than 5% in the subsequent year. Add new Note 33, Analysis of Life Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics. These are to be data-captured. Renumber subsequent notes (2018-21BWG) Effective 12/31/2019.
28. Add columns to Life and Fraternal Analysis of Operations and Analysis of Reserves for types of life insurance; separate into individual life, group life, individual annuities and group annuities. Delete Interest Sensitive Supplement and Annuities Supplements. Add new appendix for Definitions of Lines of Business and move expense allocation instructions from Analysis of Operations to appendices. Renumber all subsequent pages. Delete current Analysis of Operations and Analysis of Reserves in Separate Accounts and replace with proposed revisions (2018-22BWG) Effective 12/31/2019.

29. Add Analysis of Operations by Lines of Business – Summary blank page and instructions for the general and separate accounts. Modify crosschecks in the Summary of Operations and Analysis of Operations by Lines of Business pages for life (individual and group), annuities (individual and group) and health to have a direct tie between the Summary of Operations and the Analysis of Operations by Lines of Business – Summary (2018-26BWG) Effective 12/31/2019.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

To: The Financial Regulation Standards and Accreditation (F) Committee

From: Susan Bernard, Chair, Financial Examiners Handbook (E) Technical Group

Date: February 11, 2019

Subject: Consideration for Financial Accreditation Standards
2019 Financial Condition Examiners Handbook

The Accreditation Program 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* (the Handbook). This memorandum is to update the FRSAC on changes that the Financial Examiners Handbook Technical Group (FEHTG) has made to the Handbook during 2018.

Modifications are made to the Handbook each year, and a new edition is printed annually. This process allows for an efficient way to update the Handbook and ensures that users have the latest version. The FEHTG made several changes to the Handbook in 2018. It is the FEHTG's opinion that none of these changes should be considered "significant" for accreditation purposes. FEHTG defined "significant" as a change that may immediately warrant a change to at least one accreditation standard or the Review Team Guideline(s) for said standard. Although some changes may be categorized as "significant" by the FEHTG, this is not meant to suggest the modifications are synonymous with the term "significant" within the FRSAC context.

During 2018, the FEHTG made the following changes:

- Revised the Investments and Underwriting exam repositories to ensure appropriate risks and procedures were included.

- Revised various section of Handbook guidance to improve efficiencies within the solvency monitoring framework. The revisions primarily serve to reduce redundancies between the exam and analysis functions, to encourage input from the analysis function throughout exam planning and to encourage examiners to leverage existing work, when possible. Two of the more significant areas of revision include:

    - Creation of Exhibit D: Planning Meeting with the Financial Analyst. This optional tool was included in both the Financial Condition Examiners Handbook and the Financial Analysis Handbook. It may be used to facilitate the planning meeting between these two functions.

    - Removal of Exhibit F: Analytical Review Procedures. It was determined that the analytical review procedures performed as part of the financial analyst's responsibilities is generally sufficient to provide an understanding of an insurer's operations. Therefore, it is no longer expected that a financial examiner would complete these procedures. Guidance for performing analytical procedures as a detail test in Phase 5 remains in the Handbook.

- Revised guidance related to Information Technology (IT) to incorporate additional tools that may be used in assessing an insurer's IT general control environment. This includes:
    - A description and guidance for using System and Organization Controls (SOC) for Cybersecurity reports and Cyber Risk Analytics reports.
    - An overview of requirements related to Information Security Program. Note that these requirements are only applicable to states that have adopted the NAIC Insurance Data Security Model Law (#668).
- Added narrative guidance referencing the NAIC Troubled Insurance Company Handbook. The revisions provide a definition of troubled insurance companies and remind examiners that specific procedures are required for companies meeting the definition of "troubled".
- Added narrative guidance which provides a brief overview of NAIC Jumpstart reports. This includes a description of the high-level quality assurance validation performed by the NAIC as well as guidance for obtaining correspondence between the insurance company and the NAIC.

The FEHTG sincerely requests that the FRSAC consider the items listed above as insignificant changes to the Handbook. We will continue to notify the FRSAC of any changes to the Handbook and also advise if, in our opinion, those changes are "significant" by accreditation expectations.

G:\FRS\DATA\FIN\FEHTG\2019\Revisions to 2019 Exam HB for Accreditation.docx

MEMORANDUM

TO: Todd E. Kiser, Chair
Financial Regulation Standards and Accreditation (F) Committee

FROM: David Altmaier, Chair
Capital Adequacy (E) Task Force

DATE: February 27, 2019

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

Attached please find a brief description of changes to the 2018 *Risk-Based Capital Report Including Overview and Instructions* for health, life and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and Executive (EX) Committee and Plenary in 2018. Significance of these changes was viewed as it relates to the overall risk-based capital (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 The basic operational risk "add-on" structure and instructions were modified to reflect a 3% charge equal to total RBC after covariance. The operational risk charge is offset (to a minimum of zero) by the amount of C-4a risk RBC carried by life RBC filers, as well as the C-4a risk RBC of life insurance subsidiaries owned directly by an insurer type.

Not Significant Instructions were added to include ASC and ASO broker commissions on Lines (8) and (9) on page XR021.

Not Significant Electronic Only tables were added to page XR014 to review and evaluate the stop loss factors and to capture the number of stop loss contracts by group size.

Not Significant Deleted the individual definitions included in Appendix 2 – Commonly Used Terms for Medicare Part D Coverage and added a reference to *Interpretation (INT) 05-05: Accounting for Revenue Under Medicare Part D Coverage*.

Not Significant Instructions were added for Lines (1) and (6) on page XR012 to exclude beneficiary premium and incurred claims and included on Line (25.1) on page XR014 for Stand-Alone Medicare Part D Coverage.

Not Significant The Receivables for Securities factor was updated to 0.0250.

Not Significant Change were made to reflect that Medicaid Pass-Through Payments are more like uninsured business, such as ASC and ASO, and should reflect a similar charge. Therefore, a new line (Line 25.2) was added to page XR014 for Medicaid Pass-Through Payments and new lines (Line (5), Line (8), and Line (9)) were also added to remove the premium and claim amounts on page XR012.

Not Significant The All Other Low-Income Housing Tac Credit factor was corrected to 0.1500.

Not Significant Changes to the health formula relating to the Federal Affordable Care Act were made to the health RBC formula as a result of the discontinuation of reinsurance and risk corridor programs as well as continued changes to the program. The changes included the deletion of the structure and instructions for the Underwriting Risk-Experience Fluctuation Risk-Informational Only pages; the removal of the ACA reinsurance lines on page XR019; and removed the reference to the risk corridor program from the Risk Adjustment and Risk Corridor Sensitivity Test.

Not Significant The Instructions and Line (17) on page XR009 were removed for Money Market Mutual Funds.

Life RBC Formula

Not Significant Changes necessitated for the life and fraternal RBC factors and instructions by the implementation of the Federal Tax Cuts and Jobs Act were made.

Not Significant The treatment of Federal Home Loan Bank (FHLB) advances was modified. The charge for collateral held for FHLB advances on LR017 was changed to 0% for the collateral equal to the amount advanced when that liability is part of C-3 modeling, and a factor based on the risk of the FHLB for any collateral in excess.

Not Significant The basic operational risk “add-on” structure and instructions were modified to reflect a 3% charge equal to total RBC after covariance. The operational risk charge is offset (to a minimum of zero) by the amount of C-4a risk RBC carried by life RBC filers, as well as the C-4a risk RBC of life insurance subsidiaries owned directly by an insurer type.

P/C RBC Formula

Not Significant The RBC charge for the affiliated bonds from PR003, PR004 and PR005 in the RBC formula were removed. Both affiliated and unaffiliated bonds will be reported in the PR006 and PR011.

Not Significant The non-government MMMFs line for Common Stocks in PR007 was removed.

Not Significant The PR017 and PR018 Line 1 industry average development factors were updated.

Not Significant The basic operational risk “add-on” structure and instructions were modified to reflect a 3% charge equal to total RBC after covariance. The operational risk charge is offset (to a minimum of zero) by the amount of C-4a risk RBC carried by life RBC filers, as well as the C-4a risk RBC of life insurance subsidiaries owned directly by an insurer type.

Not Significant The reinsurance credit risk component of R3 will no longer be needed to calculate in the new PR012 as these amounts will be directly linked to the Annual Statement Blanks.

Not Significant The “Yes” or “No” responses in PR027 were replaced by the checklist format. The purpose of this change is to make it clear that the PR027 interrogatory must be completed by the filers taking an catastrophe risk charge exemption on either earthquake, hurricane or both.

Not Significant Electronic Only tables were added to page PR019 to review and evaluate the stop loss factors and to capture the number of stop loss contracts by group size.

Not Significant New Lines were added to page PR019. The purpose of the change reflects that Medicaid Pass-Through Payments are more like uninsured business, such as ASC and ASO administrative services contract (ASC) and administrative services only (ASO) and should reflect a similar charge.

Not Significant The risk corridor portion was removed from the Risk Adjustment and Risk Corridor Sensitivity Test. The purpose of these changes was due to discontinuation of the reinsurance and risk corridor programs, as well as the continued changes of the Federal Affordable Care Act (ACA).

Not Significant Deleted the individual definitions included in Appendix 2 – Commonly Used Terms for Medicare Part D Coverage and added a reference to *Interpretation (INT) 05-05: Accounting for Revenue Under Medicare Part D Coverage*.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Kevin Fry (Ill), Chair Valuation of Securities (E) Task Force
Robert Carcano, Esq. Consultant to the NAIC, Investment Analysis Office

CC: Dan Daveline, Director, NAIC Financial Regulatory Services
Charles Therriault, Director, NAIC Securities Valuation Office

DATE: February 13, 2019

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 2018 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 *2019 Accreditation Program Manual* consists of four parts: Part A identifies laws and regulations deemed necessary to financial solvency regulation;[1] Part B identifies regulatory practices and procedures that supplement and support enforcement of the financial solvency laws and regulations discussed in Part A;[2] 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;[3]

- Standard 2, the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)[4] assigns RBC factors for securities based on their credit risk as measured by NAIC Designations;

- Standard 3, the *Accounting Practices and Procedures Manual*[5] uses NAIC Designations produced by the SVO 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;

- <u>Standard 8</u>, pertaining to state investment regulations often incorporate NAIC mechanisms that relate asset allocations to credit risk expressed in the form of NAIC Designations;[6] and

- <u>Standard 10,</u> the *Credit for Reinsurance Model Act* (#785)[7] 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 banks on the NAIC Bank 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 2018, the *Purposes and Procedures Manual* was revised once, in December, with all policies, analytical procedures and instructions adopted during 2018 effective for year-end financial reporting. Amendments to the *Purposes and Procedures Manual* <u>would automatically be reflected</u> 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* <u>would be indirectly incorporated by reference</u> 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 M*anual adopted by the Valuation of Securities (E) Task Force in 2018 can be characterized as maintenance items consistent with the existing regulatory framework and automatically incorporated into the Part A Standards identified above. In addition the amendments identified in Attachments One, ***with two possible exception***, 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.

The first exception relates to Standard 5 and involves the *September 4, 2018* determination of the Task Force, upon the recommendation of the SVO, to delete the valuation instructions from the P&P Manual and formally eliminate the SVO's historic valuation of securities role. The decision reflected that changes made to the valuation instructions in 2008 and the addition of a fair value framework to statutory accounting guidance in 2010 provide for the same regulatory needs once served by the SVO valuation function. The SVO will continue to assign values to securities not reported with a price by the insurer as part of the quarterly compilation of the SVO List of Investment Securities. However, these valuations, published in the AVS+, are not binding on insurers and are produced solely for the benefit of state insurance regulators. The elimination of the SVO's valuation function and its replacement with similar procedures in the Accounting Practices and Procedures Manual does not substantially alter and should not impact the Accreditation Program. However, the Committee may wish to consider whether states, as a mechanical exercise concerned with factual accuracy, should be advised that references to valuation instructions in the P&P Manual that are now contained in NAIC Models and state laws can be amended to align them with the applicable statutory accounting instructions.

The second exception relates to Standard 2 and involves the June 11, 2018 amendment of the definition of NAIC Designation to incorporate the NAIC Designation Category that maps NAIC CRP credit ratings (and SVO assigned Designations) to the 20 risk-based capital (RBC) factors the NAIC Capital Adequacy (E) Task Force has adopted. This framework will be used solely for RBC. NAIC 1 through NAIC 6 Designations will continue to be assigned and used for all other NAIC purposes. The Committee may wish to monitor the incorporation of greater granularity in risk-based capital into the *Risk-Based Capital (RBC) for Insurers Model Act* (#312). The Task Force has amended its guidance to facilitate what is expected to be an eventual adoption of the more granular RBC framework, including to permit the SVO to modify analytical procedures to enable a more granular Designation scale. Because these processes have not yet been implemented, there should be no impact on the Accreditation Program at this time. We anticipate that changes to the Model Law will be made at the appropriate time.

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, 2018 Publication

- **Policy Statement - Principles for NAIC staff on coordination of the work of the Statutory Accounting Principles Working Group (E) and the Valuation of Securities (E) Task Force** – This policy (see Part One paragraph 23) requires staff to cooperate on an on-going basis to identify issues that impact both the VOS/TF and the Statutory Accounting Principles Working Group and to coordinate work between the two groups on those issues. The policy is published in the P&P Manual and also in the policy Appendix of the NAIC Accounting Practices and Procedures Manual. A key principle identified in the policy is that the use of NAIC Designations (whether assigned by the SVO or derived by the SVO from credit ratings of NAIC CRPs under filing exemption) does not determine the statutory accounting status of an investment and does not change the statutory accounting status of the investment. *The Valuation of Securities (E) Task Force adopted this amendment on February 8, 2018.*

- **Modernize the Credit Assessment Procedure Applicable to subsidiary, controlled and affiliated (SCA) investments**. SCA investments are subject to special scrutiny under statutory accounting guidance, reflecting that they are transactions between related entities. The SVO procedure under which SCAs in the form of bonds or preferred stock could be assigned NAIC Designations was significantly amended to align it with NAIC statutory accounting requirements. Under the revised procedure, the SVO can only assign an NAIC Designation if it determines that an SCA investment has terms, structure, complexity and purpose like those in investments between unaffiliated parties. Otherwise there is no basis on which to assume that credit methodologies used for unaffiliated investments would be relevant and therefore no way to ensure that assignment of an NAIC Designation would be meaningful to regulators. The new procedure provides that when the SVO determines it cannot assign an NAIC Designation to an SCA investment, the insurer can suggest documentation and methodology that might permit a conclusion that the transaction is an investment that can be designated. *The Valuation of Securities (E) Task Force adopted the amendment on March 25, 2018.*

- **Simplifying Amendments –** The VOS/TF adopted a series of proposed “simplifying amendments” to move text for a given topic or security type housed in different parts of the Manual into one place. The subject matter of the first series of such amendments were Power Generation; Working Capital Finance Investments; Credit Tenant Loans; Structured Transactions; Post-Default Securities; Certified Capital Companies and Lottery Securities. *The Valuation of Securities (E) Task Force adopted the simplifying amendments identified above on March 25, 2018.*

- **Definition of NAIC CRPs is amended** – The definition of NAIC CRP was modified to reflect that H.R. Ratings de Mexico expanded the rating activities in which it is registered with the US SEC as an NRSRO. *The Valuation of Securities (E) Task Force adopted the amendment relative to the NRSRO status of H.R. Ratings de Mexico on March 25, 2018.*

- **Simplifying Amendments –** A second series of adopted “simplifying amendments” involved Catastrophe-Linked Bonds; Sovereign and Supra-Nationals; Preferred Stock; U.S. Government Securities and Military Housing Securities and SCA Investments. *The Valuation of Securities (E) Task Force adopted the simplifying amendments identified above on June 11, 2018, except for the simplifying amendment for SCA Investments which was adopted on July 12, 2018.*

- **Adopted a policy framework for the Filing Exemption Procedure** - The VOS/TF adopted a number of policy statements to provide a policy framework applicable to filing exemptions based on NAIC CRP credit ratings. The policy framework articulates rationale, identifies regulatory objectives for transferring the administration of filing exemption to the SVO and enumerates expectations of the SVO as the administrator of filing exemption. *The Valuation of Securities (E) Task Force adopted this amendment on June 11, 2018.*

- **Definition of NAIC Designation is amended to incorporate the NAIC Designation Category –** The VOS/TF adopted an amendment that expands the definition of NAIC Designation to include an NAIC Designation Category framework which maps NAIC CRP credit ratings (and SVO assigned Designations) to the 20 risk-based capital (RBC) factors the NAIC Capital Adequacy (E) Task Force has adopted. This framework will be used solely for RBC. **NAIC 1** through **NAIC 6** Designations will continue to be assigned and used for all other NAIC purposes. *The Valuation of Securities (E) Task Force adopted this amendment on June 11, 2018.*

- **Definition of NAIC CRPs is amended –** Federal law requires a CRP to register with the U.S. Securities and Exchange Commission (SEC) to be accorded nationally recognized statistical rating organization (NRSRO) status. The CRP initiates the registration process by filing Form NRSRO with the SEC. In that Form, the CRP may identify any of its Affiliates that are subject to the same standards as it is with the intent that such Affiliates be considered co-applicants in the registration. If the SEC accepts the CRP's registration application, it also accepts the inclusion of the CRP's Affiliates as NRSROs. This amendment modifies the definition of NAIC CRP to recognize that credit ratings of Affiliates of an NRSRO on the NAIC CRP List can be used in the filing exemption process discussed in Part Three of this Manual. *The Valuation of Securities (E) Task Force adopted an amendment to identify NRSRO Affiliates as NAIC CRPs on June 11, 2018.*

- **The Large Company Standard of Swiss GAAP FER was added as a National Financial Presentation Standard** - The Large Company Standard of Swiss GAAP FER was added to the National Financial Presentation Standard (NFPS) component of NAIC's definition of Audited Financial Statement. The amendment permits insurers to file a security with the SVO with Audited Financial Statements prepared in accordance with that standard without also providing a reconciliation of the national standard to US GAAP. *The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018.*

- **The List of Broker-Dealers Eligible to Act as Custodians of Insurance Company Assets was deleted.** Broker-dealers that might have been interested in serving as custodians of insurer assets would be required to meet eligibility standards identified in the NAIC Model Act #295 and Model Regulation #298. The subject of the models is Custodial Agreements and the Use of Clearing Corporations. The procedure in the above identified List provided that broker-dealers could apply to have their name added to the List if the SVO confirmed eligibility to act as custodians under the Models. The List was deleted because the Models just mentioned and other guidance already identifies standards broker-dealers must meet making the additional procedure in this Manual unnecessary. *The Valuation of Securities (E) Task Force adopted this amendment on August 5, 2018.*

- **Valuation Instructions were deleted and the SVO's Valuation Function was eliminated**. Changes to the valuation portion of this Manual made in 2008 and the addition of a fair value framework to statutory accounting guidance in 2010 provide for the same regulatory needs once served by the SVO valuation function. This amendment deleted the valuation guidance from the P&P Manual. The amendment also provides that SVO continue to assign values to securities not reported with a price by the insurer as part of the quarterly compilation of the SVO List of Investment Securities. However, these valuations, published in the AVS+, are not binding on insurers and are produced solely for the benefit of state insurance regulators. The amendment also deleted certain Administrative Symbols from this Manual formerly used by the SVO in the valuation of common stock but effective December 31, 2019. *The Valuation of Securities (E) Task Force adopted this amendment on September 4, 2018.*

- **The Modified Filing Exemption procedure was deleted**. Modified Filing Exemption (MFE) was a procedure applied by insurers to loan backed and structured securities (LBaSS) that could not be financially modelled but were assigned credit ratings by an NAIC CRP. This amendment deletes the MFE procedure from this Manual and proposes the deletion of MFE from paragraph 26 (b) of Statement of Statutory Accounting Principles (SSAP) No. 43R– *Loan Backed and Structured Securities*. A referral was made to the Statutory Accounting Principles (E) Working Group to delete MFE from SSAP No. 43R. The deletion of MFE means insurer valuation calculations would be based directly on the assigned NAIC Designation per paragraph 25 of SSAP No. 43R. The deletion is effective March 31, 2019 but companies were permitted to adopt the rules change for 2018 year-end reporting. *The Valuation of Securities (E) Task Force adopted this amendment on October 11, 2018.*

- **The description of financial modeling in Part Seven of the Manual was moved**. As part of an on-going effort to streamline the P&P Manual to maximize its communicative value, general and high level descriptions of the financial modelling process was moved from Part Four to the web-site maintained by the SSG. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **The description of SVO operations was expanded**. A section in Part One of this Manual contains a list of ongoing SVO assignments. That section was amended to reflect that as of November 2017administration of filing exemption is an on-going assignment of the SVO. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **Old filing and documentation instructions were deleted from the Manual**. A reporting instruction in the Manual requires insurers reporting a filing exempt security to the SVO to file evidence of an NAIC CRP credit rating. The clause, which is embedded in instructions for many types of securities, was deleted because SVO produces NAIC Designations for filing exempt securities in an automated process in which NAIC CRPs are obtained via electronic date feeds. The P&P Manual also provides for insurers to submit PDF files for securities subject to private rating letter but only when the NAIC CRP credit rating cannot be confirmed in the electronic file. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **SVO notching guidance was modified**. Notching guidance addresses SVO procedures to make distinctions in the credit quality of instruments (liabilities) in an issuer's capital structure. Current guidance conveys that when making notching distinctions SVO would consider each NAIC Designation (NAIC 1 through 6) to consist of a higher quality segment (expressed with an NAIC Designation and a plus symbol); a middle quality segment (expressed with the NAIC Designation alone) and a lower quality segment (expressed with the NAIC Designation and a minus symbol). The plus or minus symbols just described have no regulatory meaning but are used by the SVO as an internal tool to identify the trend of the credit. Notching guidance was amended to delete the reference to plus and minus symbols because the NAIC Designation Category (discussed above) contains a notching convention and would have regulatory meaning in the form of RBC factors. The modifications align notching guidance to the NAIC Designation Category framework. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **NAIC Standard Procedures for Amending Manuals/Handbooks replaced the existing process to amend the Manual**. This amendment brings the procedure to make changes to the P&P Manual into compliance with the Standard procedure adopted by the NAIC Governance Review (Ex) Task Force of the NAIC Executive (Ex) Committee. The NAIC Standard procedure applies only to NAIC work product that – like the P&P Manual – is incorporated by reference into state law through the NAIC Accreditation Program. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **SVO Compilation Instructions were amended**. SVO compilation instructions describe the process to be used by the SVO to produce the quarterly SVO List of Investment Securities (the"List"), which identifies insurer owned securities with assigned NAIC Designations. The information on the List is published in the AVS Plus + platform as the then current and official NAIC Designation for insurer-owned securities. Insurers obtain and report that information to state regulators. The NAIC Credit for Reinsurance Model Law and NAIC Model Reinsurance Regulation and other NAIC reinsurance standards refer to the List and provide (using different wording) that the securities on the List can be used as collateral in reinsurance transactions. The proposed amendment distinguishes between the stand-alone investment that the VOS/TF is concerned with and a reinsurance arrangement which incorporates an instrument that is otherwise eligible to be on the SVO List if presented as a stand-alone investment. The text also clarifies that the determination of what constitutes eligible collateral under NAIC reinsurance standards can only be determined by the Reinsurance Task Force–not by the VOS/TF, the SVO or SSG. *The Valuation of Securities (E) Task Force adopted this amendment on November 16, 2018.*

- **Credit substitution methodology was modernized**. This amendment provides filing instructions, documentation requirements, definitions, analytical criteria and methodology for investments where a third party gives an unconditional and legally enforceable promise to pay the insurer money due from an unrated or lower rated obligor. The modernized methodology replaces a narrative description of the process. *The Valuation of Securities (E) Task Force adopted this amendment on November16, 2018.*

Amendments to the P&P Manual effective in 2019 - A number of amendments were adopted by the VOS/TF in 2018 to be effective for year-end 2019. These amendments will be published in the December 31, 2019 Manual.

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 …" 2014 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…" 2014 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.

NAIC valuation procedures, applicable to corporate, municipal and asset backed securities (ABS) are contained in Part Five of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (Purposes and Procedures Manual). These procedures seek to identify a market value and in certain circumstances to require the use of a market value. Insurance companies either report the fair value determined by the SVO for a security or determine a fair value in accordance with one of the valuation methodologies described in the Purposes and Procedures Manual. The fair value determined in accordance with the Purposes and Procedures Manual is reported in the fair value column and the book/adjusted carrying value column of the NAIC financial annual statement blank. In addition, the *Annual Statement Instructions* require insurers to report a fair value, so that even an insurer entitled to use amortized value in the "Book/Adjusted Carrying Value" column, must use fair value in the "Rate Used to Report Fair Value" column.

The financial modeling process administered by the SSG generates intrinsic price values (referred to Price Grids) for RMBS and CMBS instead of an NAIC Designation. These standards are contained in Part Seven of the Purposes and Procedures Manual. Price Grids are used by insurers to generate NAIC Designations in accordance with procedures specified in paragraph 25 of 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.

[4] 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 paragraph 25 of 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

[5] 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 paragraph 25 of 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

[6] 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 paragraph 25 of 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 imposes 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.

[7] 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.

National Association of Insurance Commissioners
The Center for Insurance Policy and Research

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: NAIC Staff

DATE: March 15, 2019

RE: Application of PBR to Fraternal Benefit Societies

At the 2017 Spring National Meeting, the Financial Regulation Standards and Accreditation (F) Committee adopted revisions to the Part A: Laws and Regulations (Part A), Liabilities and Reserves standard of the Financial Regulation Standards and Accreditation Program to include the 2009 revisions to the *Standard Valuation Law* (#820), commonly referred to as principle-based reserving (PBR). The original referral from the Life Actuarial (A) Task Force also included a recommendation to apply the standard to fraternal benefit societies (fraternals) when specifically referenced by the significant elements.

Fraternals are not currently included in Part A of the accreditation program. When the referral was discussed, the Committee agreed that fraternals should be included in relation to PBR. The revisions adopted to the accreditation standard, therefore, reflect inclusion of fraternals in the following significant element:

> "The *Valuation Manual* should be adopted by the states uniformly, utilizing the version effective Jan. 1, 2017, and all subsequent revisions adopted by the NAIC membership (including any provisions with respect to fraternal benefit societies). For policies issued on or after the operative date of the *Valuation Manual*, the standard prescribed in the *Valuation Manual* is the minimum standard of valuation in accordance with Section 11A."

To ensure consistency with this decision, the Part A Preamble of the *Accreditation Program Manual*, which defines the scope of the program, should also be updated.

We ask that the Committee consider the attached revision to the Part A Preamble to include fraternals in regard to the PBR standard, with an effective date of Jan. 1, 2020. This date aligns with the effective date of the PBR standard, which is also Jan. 1, 2020.

See the attachment for the proposed changes to the Part A Preamble. The initial referral, which includes the complete list of significant elements adopted by the Committee, is also attached for reference.

W:\National Meetings\2019\Spring\Cmte\F\Open\3a - Fraternal Memo.docx

EXECUTIVE OFFICE • 444 North Capitol Street NW, Suite 700 • Washington, DC 20001-1509 p | 202 471 3990 f | 816 460 7493
CENTRAL OFFICE • 1100 Walnut Street, Suite 1500 • Kansas City, MO 64106-2197 p | 816 842 3600 f | 816 783 8175
CAPITAL MARKETS & INVESTMENT ANALYSIS OFFICE • One New York Plaza, Suite 4210 • New York, NY 10004 p | 212 398 9000 f | 212 382 4207
www.naic.org

NAIC POLICY STATEMENT ON FINANCIAL REGULATION STANDARDS

PART A: LAWS AND REGULATIONS

Preamble for Part A: Laws and Regulations

Purpose of the Part A Standards

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. The Part A standards are the product of laws and regulations that are considered to be basic building blocks for effective financial solvency regulation. A state may demonstrate compliance with a Part A standard through a law, a regulation, or an administrative practice that implements the general authority granted to the commissioner, or any combination thereof, which achieves the objective of the standard. The term "state" as used herein is intended to include any NAIC member jurisdiction, including U.S. territories. The term "commissioner" means commissioners, directors, superintendents or other officials who by law are charged with the principal responsibility of supervising the business of insurance within each state.

Part A: Laws and Regulations – Excluding Risk Retention Groups Organized as Captives

Scope of the Part A Standards (Excluding Risk Retention Groups Organized as Captives)

Life/Health and Property/Casualty Insurers
The following Part A standards apply to the regulation of a state's domestic insurers licensed and/or organized under its life/health and property/casualty statutes (life/health or property/casualty insurer), but only if the insurer is a multi-state insurer. NOTE: This section does not apply to a state's domestic insurers licensed and/or organized under its captive or special purpose vehicle statutes or any other similar statutory construct. For purposes of Part A, a life/health or property/casualty insurer that meets any of the following conditions is considered to be a multi-state insurer and subject to the Part A standards:

1) A property/casualty or life/health domestic insurer that is licensed in at least one state other than its state of domicile.

2) A property/casualty or life/health domestic insurer that is operating in at least one state other than its state of domicile.

3) A property/casualty or life/health domestic insurer that is accredited or certified as a reinsurer in at least one state other than its state of domicile.

4) A property/casualty or life/health domestic insurer that is reinsuring business covering risks residing in at least two states.

5) A property/casualty domestic insurer that is accepting business on an exported basis as an excess or surplus line insurer in at least one state other than its state of domicile.

Accreditation Program Manual

NAIC Policy Statement on Financial Regulation Standards

Captive Reinsurers

---------------Detail Excluded to Conserve Space---------------

Other Types of Insurers

For clarity purposes, the scope of the Part A standards excludes regulation of those insurers licensed as fraternal ~~orders~~ benefit societies and title insurers, except that compliance with the "Liabilities and Reserves" standard is required for entities licensed as fraternal benefit societies where specifically referenced within the standard. The scope of the Part A standards also excludes regulation of health organizations, except that compliance with the "Capital and Surplus Requirement" standard is required for entities licensed as health organizations (including health maintenance organizations, limited health service organizations, dental or vision plans, hospital, medical and indemnity or service corporations, or other managed care organizations) to the extent the insurance department regulates such entities. This definition does not include an organization that is licensed as either a life/health insurer or a property/casualty insurer, which are subject to the full Part A accreditation standards.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

To: Commissioner Todd E. Kiser (UT), Chair of Financial Regulation Standards and Accreditation (F) Committee

From: Jeff Hunt (TX) and Joel Sander (OK), Co-Chairs of National Treatment and Coordination (E) Working Group

Date: February 15, 2019

Re: Company Licensing Accreditation Standards

Executive Summary

The National Treatment and Coordination (E) Working Group (Working Group) is charged with monitoring usage of the Form A database and implementation of company licensing best practices. As of a result of this monitoring, updates and enhancements are made that must also be considered for their impact on the accreditation program and, specifically, Part D: Organization, Licensing and Change of Control of Domestic Insurers (Part D).

On February 14, 2019 the Working Group adopted a recommendation regarding the Part D Accreditation Standards to a) update the guidelines to reflect current practices, b) expand the scope to include redomestications, and c) include Part D in the review team's recommendation with the result that the outcome can affect a state's accredited status.

A baseline set of standards for the completion of primary applications for the licensing of new companies and redomestications, and Form A filings promotes reliance on other states in these important functions. Each application requires consideration of financial solvency of the insurers to both strengthen financial regulation and prevent unlicensed or fraudulent activities. The significant reliance on other states combined with the potential solvency impact of non-compliance with the Part D standards result in the recommendation to the Financial Regulation Standards and Accreditation (F) Committee outlined in this referral.

The Working Group recommends that the revisions to the guidelines be adopted with an effective date of January 1, 2020. However, the Working Group also recommends that the effective date for subjecting Part D to Recommendation A or B and thus impacting a state's accredited status, be effective January 1, 2022. This timeline allows states to adjust to the revised guidelines before elevating the status of the Part D standards. The recommendations are intended to be prospective and applicable to filings received on or after the effective date.

Summary of Changes

Updates to Reflect Current Practices
Following is a summary of the Working Group's recommended revisions to the Part D accreditation guidelines:

1) update the scope to include primary applications for redomestications,
2) update timing guidelines to rely on department policies along with state statute or regulation or the Company Licensing Best Practices Handbook,

3) add a new standard for the scope and performance of procedures for redomestications which includes elements of a quality review in addition to communication expectations,
4) update the process-oriented guidelines for Form A filings to include documenting an assessment of business plans and the quality and expertise of key persons, and
5) require updates to the Form A database at a minimum every six months for open filings.
6) update the title of Part D to "Primary Licensing, Redomestications and Change of Control"

Expand Scope to Redomestications
Insurance companies redomicile for a variety of reasons. When a redomestication occurs, state regulators take on the responsibility to review the request. The Working Group believes it is key for regulators in both states to communicate, review the information provided, and understand the reasons for the redomestication. In addition, the Working Group received a referral from the Financial Analysis (E) Working Group (FAWG) supporting inclusion of redomestications in the Part D Standards based on their work monitoring troubled and potentially troubled companies. As an example, FAWG has identified situations where companies have sought to take advantage of the redomestication process to achieve regulatory arbitrage. The recommended accreditation guidelines include elements for a quality review of these transactions as well as communication requirements with other regulators.

Subject to Recommendation A or B
In 2016, The Working Group together with the Group Solvency Issues (E) Working Group redesigned the Form A Database to enhance regulatory reviews and provide a more dynamic regulatory tool. The database now captures more information regarding mergers, acquisitions, consolidated hearings and/or coordinated reviews of Form A filings. The Form A is reviewed and analyzed by the state in which the Form A is filed, and the appropriate action is taken by the state to either approve or disapprove the transaction within a specified time frame. Making this information available to regulators in each state via the Form A Database provides awareness of other similar transactions such as a large insurer initiating acquisitions in numerous states or denials/issues with filings from the same ultimate controlling party. The database can also lead to efficiencies in analyzing similar transactions using the Lead State concept incorporated into the database.

To fully realize the regulatory value the Form A Database can provide, all states must effectively use the database for each applicable transaction. The Working Group recommends subjecting the Part D accreditation guidelines to a Recommendation A or B as defined in the accreditation manual to ensure a complete database of information.

In the primary application process for new companies, other states may not immediately rely on the work done by the domiciliary state, but as soon as the insurer begins requesting licenses in other states, heavy reliance is placed on the initial application process done by the domiciliary state. In the primary application process for redomestications, other states rely on the new domestic regulator as discussed above.

Therefore, primary applications for new companies and redomestications, in addition to Form A filings, are equally important and should be encompassed in the Recommendation A or B for the entirety of Part D.

A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:

The purpose of subjecting primary licensing, redomestications and mergers/acquisitions to Recommendation A or B is to ensure that states have effective processes in place that other states may rely on when these functions are performed. A quality review of each filing includes assessing the financial solvency of the company to ensure the interests of the policyholders are met. These filings promote interstate communication and coordination, which are key elements of effective solvency regulation and an area of increased focused as holding company assessments, supervisory colleges and other coordinated efforts increase the effectiveness of regulation.

In addition, the Form A Database provides a system to communicate whether any similar or related Form A has been approved, denied or withdrawn from another state. The purpose of this database is to: 1) facilitate the communication of actions taken by the states on all Form A filings; and 2) facilitate the coordination of Form A reviews in an attempt to avoid the duplication of regulatory processes via a Web-based application. This database will assist insurance regulators by producing a streamlined regulatory process that maintains the integrity of state holding company laws, while being responsive to a dynamic and evolving industry.

A statement as to why ultimate adoption by every jurisdiction may be desirable:

States place significant reliance on the work of another state's review and approval/denial of a primary application for a new company or redomestication or a Form A filing. Elements within the standard such as review of items submitted by the company along with communication between states enhance the system of state-based regulation. Reliance is most effective when states have comfort that other states are in compliance with the minimum uniform standards.

In addition to increasing the uniformity of review, the updated guidelines are designed to enhance the value of the Form A Database. As of December 2018, a substantial number of Form A filings had not been updated in over a year, likely due to delays outside the state's control. The revised guidelines will require a status update in the Form A Database at least once every six months. With more current information available, states have more tools to avoid fraudulent or questionable acquisitions that could lead to insolvency of an insurer.

A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:

Part D initially became effective for accreditation in 2012 as an "unscored" section of the accreditation program. This meant that a state could not fail accreditation based solely on the lack of compliance with these standards. If deficiencies were noted, the review team would provide management comments to the state insurance department, requesting the state to consider improvements as needed, but Part D would not factor into a state's accredited status. Because state's have been subject to this section since 2012, there is already a base level of compliance. Including the standards in the review team's recommendation appropriately elevates the importance of the reliance placed on these processes.

Note: The accreditation program moved from a scoring system to a recommendation system effective January 1, 2017.

A statement as to the provisions needed to meet the minimum requirements of the standard:

Revised standards and guidelines for Part D are attached.

PART D: ~~ORGANIZATION, LICENSING AND CHANGE OF CONTROL OF DOMESTIC INSURERS~~PRIMARY LICENSING, REDOMESTICATIONS AND CHANGE OF CONTROL

Preamble for Part D

The focus of the Part D standards is on strengthening financial regulation and the prevention of unlicensed or fraudulent activities. The scope of this section only includes primary applications for the licensing of new companies and redomestications, and Form A filings. The section applies to only traditional life/health and property/casualty companies, and this scope is narrower than that of Part B in that it does not include entities such as health maintenance organizations, health service plans, and captive insurers (including captive risk retention groups). These standards only deal with the department's analysis of domestic companies or those applying for redomestication, and do not include foreign or alien insurers. The initial company licensing process does not consider the "multi-state" concept since the company is in its initial licensing phase. The standards regarding primary applications for redomestications, and Form A filings ~~deal with~~ apply to only those filings submitted that are related to multi-state insurers, as that term is defined in the Part B Preamble.

Part D: ~~Organization, Licensing and Change of Control of Domestic Insurers~~Primary Licensing, Redomestications and Change of Control

a. Sufficient Qualified Staff and Resources

Standard: The department should have the appropriate staff and resources to effectively and timely review applications for primary licensure of new companies and redomestications, and Form A filings for all domestic insurers.

Results-Oriented Guidelines:

1. The department should have qualified staff with appropriate skill sets, abilities, knowledge and experience levels to satisfactorily and effectively perform a thorough review of applications for primary licensure of new companies and redomestications, and Form A filings. When assessing whether a department has qualified staff and resources, consideration should be given to the quality of work ~~performed by department staff~~ as documented in the files.

2. The review of applications for primary licensure of new companies and redomestications, and Form A filings should be completed timely, as described by department procedures.~~as discussed in the Compliance Guidelinesprocess-oriented guidelines.~~ If the review was not completed timely, the department should document the reasons for such, and the review team may take extenuating circumstances into consideration.

Process-Oriented Guidelines:

1. The department staff responsible for reviewing the applications for primary licensure of new companies and redomestications, and Form A filings should have an accounting, insurance, financial analysis and/or actuarial background. College degrees should focus on accounting, insurance, finance or actuarial science. Professional designations and credentials may also demonstrate expertise in insurance and/or financial analysis.

2. The department should have a policy that establishes timing requirements for the review of applications for primary licensure of new companies and redomestications, and Form A filings. The policy should include timing expectations for initial review from date of receipt, notification to the insurer, and completion of the review. The policy should account for any requirements mandated by the state's statute or regulation. The use of the Company Licensing Best Practices Handbook is considered acceptable.

~~The department should review applications for primary licensure of new companies and , redomestications, and Form A filings within 30 days of receipt. If additional or supplementary information is needed from the insurer based on the initial review for completeness, the insurer should be notified of such within 45 days of receipt of the application.~~

~~3. For primary applications of new companies and redomestications, the review should be completed in accordance with timing requirements mandated by the state's statute or regulation, unlessif the state's statutes or regulations do not specify timing requirements, in which case, the review should be completed within 90 calendar days of receipt. A review of an application is complete once the insurer is notified of approval or denial. If additional information not originally requested in the application is needed to finalize the review of the application, the review may take longer to complete. Once a request for information is made, the timing requirement is suspended until the information is received from the applicant.~~

~~For Form A filings, Tthe review of the primary application or Form A should be completed in accordance with timing requirements mandated by the state's statute or regulation.~~

b. Scope and Performance of Procedures for Primary Applications

Standard: The department should have documented licensing procedures to provide for consistency in the review process and to ensure that appropriate procedures are performed on all primary applications. The use of the Company Licensing Best Practices Handbook is considered acceptable.

Results-Oriented Guidelines:

1. The review process should adequately assess primary applications and allow the department to reach appropriate conclusions regarding whether the primary applications are approved or denied.

Process-Oriented Guidelines:

1. The department should review and document its assessment of each of the following:
   - Business and strategic plans.
   - Pro forma financial projections.
   - Adequacy of proposed reinsurance program.
   - Adequacy of investment policy.
   - Adequacy of short-term and long-term financing arrangements:
     - Initial financing of proposed operations or transactions.
     - Maintenance of adequate capital and surplus levels.
   - Biographical affidavits
   - Assessment of the quality and expertise of the following:
     - Ultimate controlling person.

- Proposed officers and directors.
- Appointed actuary.
- Appointed accountant.
- Related party agreements' compliance with Statement of Statutory Accounting Principles *(SSAP) No. 25—Affiliates and Other Related Parties*.

2. The department should review the NAIC Form A and ~~Special Activities Database (SAD)~~Market Action Tracking System (MATS) databases for related information about the primary applicant and other key persons.

c. Scope and Performance of Procedures for Redomestications

Standard: The department should have documented procedures for the review of redomestication applications to provide for consistency in the review process and to ensure that appropriate procedures are performed for all redomestications. The use of the Company Licensing Best Practices Handbook and/or Financial Analysis Handbook are considered acceptable.

Results-Oriented Guidelines:

1. The review process should adequately assess the redomestication application and accompanying information to effectively allow the department to reach appropriate conclusions regarding whether a redomestication application is approved or denied.

2. The department should effectively communicate with the domestic state to gain an understanding of the reasons for redomestication and any concerns of the domestic state. Any concerns raised should be assessed and documented with rationale to support the conclusion.

Process-Oriented Guidelines:

1. The department should review the application and accompanying information and document, at a minimum, its assessment of each of the following:
   - Business and strategic plans of the insurer.
   - Actuarial Opinion
   - Annual and Quarterly statements
   - Risk-based capital (RBC) report
   - Independent CPA audit report
   - Insurance Holding Company System Annual Registration Statement and Exhibits (Form B)
   - Assessment of senior management, board of directors and corporate governance

2. The department should meet with the domestic regulator to obtain, discuss, and conclude on, at a minimum, the items listed below. The meeting should be held via conference call; an email exchange alone is not considered sufficient.
   - Most recent Insurer Profile Summary (IPS) and supervisory plan, including supporting analysis detail for significant risks
   - Reason for redomestication
   - Concerns identified with the insurer/group
   - History of communication with the insurer/group

- History of regulatory actions
- Results of recent examinations (financial and market conduct), including findings and resolutions
- Status of and responsibilities for annual financial analysis and group analysis, if applicable
- Status of and responsibilities for the financial examinations

3. The department should notify the lead state of the insurance holding company group of receipt of a primary application for redomestication and obtain a copy of the most recent Group Profile Summary (GPS), if applicable.

d~~e~~. Scope and Performance of Procedures for Form A Filings

Standard: The department should have documented procedures for the review of Form A filings to provide for consistency in the review process and to ensure that appropriate procedures are performed on all Form A filing reviews. The use of the Company Licensing Best Practices Handbook and/or Financial Analysis Handbook is considered acceptable.

Results-Oriented Guidelines:

1. The review process should ~~be designed to~~ adequately assess the Form A filings and accompanying information and ~~to~~ effectively allow the department to reach appropriate conclusions regarding whether the Form A filings are approved or denied.

Process-Oriented Guidelines:

1. The department should~~'s~~ review and document its assessment of each of ~~of Form A filings should include~~ the following:
   - Business and strategic plans of the insurer.
   - Identity and background of the applicant and individuals associated with the applicant including use of biographical affidavits to assess the quality and expertise of the following:
     - Ultimate controlling person
     - Proposed officers and directors (as listed on Jurat Page of most recent or upcoming financial statement)
     - Other owners of 10% or more of voting securities
   - The source, nature and amount of the consideration used or to be used in effecting the merger or other acquisition of control.
   - Fully audited financial information regarding the earnings and financial condition of the acquiring parties for the preceding five years. If fully audited financial information is not available, substantially similar information such as compiled financial statements or tax returns, as deemed acceptable to the commissioner, may be reviewed in lieu of fully audited financial information.
   - Unaudited financial information regarding the earnings and financial condition of the acquiring parties as of a date not earlier than 90 days prior to the filing of ~~each statement~~the Form A.

2. The department should ~~utilize and update~~review the Form A Database for prior filings made by the Form A applicant and the ultimate outcome of such filing(s).

3. Pertinent and relevant information from the Form A filing should be manually entered into the Form A Database within 10 business days of receipt of the Form A.

4. Any changes to the status of the filing or other data elements should be entered into the Form A Database within 10 business days.

~~4.~~5. If the progress of a filing stalls, the Form A database should be updated at a minimum every six months to confirm the status of the filing and document the reason the filing has stalled.

