The Blanks (E) Working Group of the Accounting Practices and Procedures (E) Task Force met Nov. 16, 2014. The following Working Group members participated: Jake Garn, Chair (UT); Kim Hudson, Vice Chair (CA); Maxine Froemling (AK); Richard Ford (AL); N. Kevin Brown (DC); David Lonchar (DE); David Altmaier (FL); Ramona Lee (IA); Kendra Coates (ME); Judy Weaver (MI); Steve Kerner (NJ); Eli Snowbarger (OK); Russell Latham (OR); Mark Jaquish (TN); Tom Houston (WI); and Leah Cooper (WV). Also participating were: Tomoko Stock (CA); Dale Bruggeman (OH); and Kimberly Rankin (PA).

1. **Adopted its Sept. 19 and Aug. 16 Minutes**

Mr. Latham made a motion, seconded by Mr. Kerner, to adopt its Sept. 19 (Attachment Two-A) and its Aug. 16 minutes (See NAIC Proceedings – Summer 2014, Attachment Two, Accounting Practices and Procedures (E) Task Force, Aug. 17, 2014, minutes). The motion passed unanimously.

2. **Adopted a Status Report and Minutes from the Investment Reporting (E) Subgroup**

Ms. Stock stated that the Investment Reporting (E) Subgroup held conference calls Oct. 14 and Sept. 24. During the calls, the Subgroup discussed the possible reduction of the current Schedule BA investment categories based on materiality and RBC charges. The Subgroup is in the process of drafting a blanks proposal with its recommendations. Once the draft is completed, it will be circulated to other related NAIC groups—for example, the RBC groups—for comment on any possible impact. She stated that the Subgroup discussed the continued inconsistencies of the security descriptions within the investment schedules and possible options. It was suggested that specific vendor sources be used for the descriptions. A suggestion was made to add electronic data fields to identify the capital structure of the security.

Ms. Stock stated that the Subgroup has several additional issues on its list to address, including the Schedule DB Verifications Between Years, the Schedule D Part 1 bond characteristics codes and foreign securities definitions. She stated that the Subgroup has received requests to review investment reporting issues that exceed its current charges. These issues include, but are not limited to, the investment classification project of the Statutory Accounting Principles (E) Working Group and clarification issues presented by interested party groups. As a result of the additional requests, the Subgroup voted unanimously, on Oct. 14, to approve updates to its 2014 charges and continuing into 2015. She stated that the Subgroup requests the Blanks (E) Working Group to approve the revised charges as requested in the meeting materials memorandum. Ms. Stock stated that the next Subgroup conference call is scheduled for Dec. 9.

Ms. Stock made a motion, seconded by Ms. Cooper, to adopt the changes in the charges for the Subgroup (Attachment Two-B) and to adopt the minutes (Attachment Two-C). The motion was adopted unanimously.

3. **Adopted Medicare Advantage and Medicare Part D Guidance**

Mr. Garn stated that the guidance document for reporting the Medicare Advantage and Medicare Part D business in the Supplemental Health Care Exhibit (SHCE) that is subject to the federal Affordable Care Act (ACA) medical loss ratio (MLR) requirement was exposed at the Summer National Meeting. He stated that interested parties submitted a comment letter dated Oct. 16, where they indicated that changing the reporting of this business would create undue hardship for companies as this information is not currently broken out in that manner. Mr. Garn stated that the Blanks (E) Working Group has received a memorandum from the Health Reform Solvency Impact (E) Subgroup (Attachment Two-D), dated Oct. 24, suggesting changes to the guidance to indicate no change to the 2014 reporting. The guidance would indicate that companies could continue to report the Medicare Advantage Part C and Medicare Part D in the “government business excluded by statute” column of the SHCE. NAIC staff has reached out to representatives from the U.S. Department of Health and Human Services (HHS)/federal Centers for Medicare & Medicaid Services (CMS), who indicated that the Medicare Advantage Part C and Medicare Part D company data reported to their office would be available publicly on their website after received in December 2015 for the 2014 data year.

Joe Zolecki (Blue Cross Blue Shield Association—BCBSA) stated that interested parties agree with the guidance as recommended by the Health Reform Solvency Impact (E) Subgroup. He stated that interested parties were concerned with the
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timing of the proposal for annual 2014 reporting and not necessarily the actual carve-out of the data into column 12. He stated that BCBSA interested parties, America’s Health Insurance Plans (AHIP) and other members would work with NAIC staff to put together a 2015 proposal for exposure at the Spring National Meeting. He stated that this would be with the intent to have something in place for annual 2015 reporting to include the aggregate Medicare business, subject to the ACA, in column 12.

Upon a motion by Mr. Hudson, seconded by Ms. Weaver, the Working Group voted unanimously to adopt the Medicare Advantage Part C and Medicare Part D guidance as recommended by the Health Reform Solvency Impact (E) Subgroup.

4. Exposed New Items


   Mr. Garn stated that this proposal requests a clarification in the instructions for consistency of reporting in the Five-Year Historical Data page and the General Interrogatories, Part 2 by using the same terminology of statutory minimum capital and surplus. This proposal clarifies that Five-Year Historical Data page, line 3 and the General Interrogatory, Part 2, line 11 should be the same amount. Upon a motion by Mr. Latham, seconded by Mr. Kerner, the Working Group voted unanimously to expose the proposal for comment.

   b. Modify the Instructions and Illustrations for Note 32 and 34 to Correct Inconsistencies in the Use of Market Value and Fair Value (2014-20BWG)

   Mr. Bruggeman stated that this proposal affects the life and fraternal blanks. The Statutory Accounting Principles (E) Working Group noticed inconsistencies in the reporting for Note 32 and Note 34 in the use of market value and fair value. This proposal is intended to correct those inconsistencies. Upon a motion by Mr. Latham, seconded by Mr. Houston, the Working Group voted unanimously to expose the proposal for comment.

5. Adopted the Editorial Listing

Upon a motion by Mr. Kerner, seconded by Ms. Cooper, the Working Group voted unanimously to adopt the editorial listing (Attachment Two-E).

6. Discussed the Memorandum from the Corporate Governance (E) Working Group

Mr. Garn stated that the Blanks (E) Working Group received a memorandum from the Corporate Governance (E) Working Group dated Aug. 17 (Attachment Two-F) referencing interested parties’ concerns with possible redundant information between the annual statement filing and the Corporate Governance filing.

Brendan Bridgeland (Center for Insurance Research—CIR) stated that he is one of the NAIC funded consumer representatives. He stated that he understands the need for regulator discretion with regards to the information they request and collect from companies. He stated that, as a consumer advocate, he vehemently opposes eliminating anything from the annual statement public document and having it replaced in a confidential report. He stated that his understanding is that the Corporate Governance filing would not be public information. He stated that the request as presented would eliminate several general interrogatories that provide basic information to consumers and consumer advocates. It would move the information from a public document to a confidential report. He agreed that it is good to eliminate unnecessary areas of duplication, but if one set of information is public and the other confidential, that would not be viewed as duplication. This request should be viewed as a policy decision rather than an administrative change decision.

Mr. Bridgeland stated that there used to be a lot more corporate governance information in the annual statement that has long since been deleted. This previously deleted information was data that academics, consumers groups and consumers would investigate in lobbying salaries. He stated that Massachusetts was forced to pass a law two years ago to require disclosure of executive compensation. This was due to the fact that the information was not available to newspapers and other organizations from other sources, particularly the information for mutual companies. He stated that the general interrogatories in the annual financial statement filing give basic information about company operations that the public is entitled to, and he would object to it being eliminated and placed in a document that is not open to the public.
8. Discussed Changes to the Procedures

Mr. Garn stated that a comment letter was received by interested parties concerned with the Blanks (E) Working Group procedures and suggested a minor modification to the procedures. Connie Jasper Woodroof (StoneRiver) stated that interested parties are concerned with a trend developing over a period of time that came to a head this year with the increased number of blanks proposals being presented at a late date or presented without having the completed underlying framework to support it. Ms. Woodroof gave examples of not having definitions in place or the group sponsoring the proposal still working on an issue. She stated that when the underlying framework is not completely in place, the proposal may be addressed outside of the Blanks (E) Working Group procedures and have a much shorter exposure period, creating a “rush” to get it passed.

Ms. Woodroof stated that when the underlying framework is not in place until after the Blanks (E) Working Group adopted a reporting change, there might be missing pieces, prompting a need to post clarifying guidance on the Blanks (E) Working Group website or other related websites. She stated that companies may not always be aware of the guidance. She stated that there are a lot of groups within the NAIC that feel that their projects are important, and interested parties are not trying to say they are not important. However, the Blanks (E) Working Group has procedures that need to be adhered to as much as possible, and the other groups need to be aware of the timing issues. She stated that the Blanks (E) Working Group is probably one of the few groups that has procedures with regards to meeting timing deadlines and that there are other parties involved in the timing of changes like software vendors or companies needing to change their internal reporting processes and computer systems. She stated that interested parties have suggested changes to the procedures to indicate that the proposals presented need to be complete proposals and that the underlying framework needs to be completed before the proposal is presented.

She stated that interested parties realize that some of the proposals come from groups higher up the hierarchy, so in theory, this may be difficult to enforce. She stated that sometimes upgrading the language and calling other groups’ attention to timing may force other groups to think about their issue a little bit more before it is presented to the Blanks (E) Working Group as it addresses annual statement blanks and/or instructions-related issues. Mr. Hudson stated that he had the same understanding. He stated the regulatory redundancy focus was going to be primarily with the Risk-Focused Surveillance (E) Working Group and that the Blanks (E) Working Group might receive referrals. Mr. Garn stated that there are some redundancies that are beneficial. He stated that some of the data can serve as a “heads up” display or regulator key to help identify if there is a need to look elsewhere for additional information. The general interrogatory examples in the Corporate Governance (E) Working Group memorandum appear to be broad whereas the Corporate Governance annual filing requires greater detail.

Upon a motion by Mr. Hudson, seconded by Mr. Samsom, the Working Group voted unanimously to expose the memorandum for comment as it relates to possible redundancy of the general interrogatories.
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Group. She stated that the additional suggested language would not necessarily solve the issue but would just bring attention to it.

Mr. Garn stated that this year did seem to be an unusual year for proposals, and he was not sure if 2014 is an anomaly or a trend. He agreed that it would be ideal for proposals to be presented earlier. He stated that with some of the high-profile proposals, industry representatives have encouraged the shortened time frame to facilitate reporting in a specific year. There have been joint exposures to accommodate the time frame issues. He asked Ms. Woodroof for input on joint exposure situation compressing the time frame on an exception basis. She stated that, theoretically, it sounds good, but in her experience, joint exposures do not always result in a decision being made simultaneously.

Mr. Garn said that any Blanks (E) Working Group procedures would likely not override the authority of a higher group such as the Financial Condition (E) Committee, the Executive (EX) Committee or Plenary, where an issue is important enough that they wanted it to happen even within a short time period. He stated that the suggested interested parties’ change to the procedures would not be a “firewall.” Ms. Woodroof agreed that there is no finite firewall, but the suggested language is an attempt to approach one. Mr. Hudson stated that in a perfect world, the Working Group would like the process to work in a lineal fashion. However, it recognizes that this cannot always occur, or else complete issues would not be dealt with timely.

Mr. Garn stated that there has to be room within the Working Group procedures for judgment. For the proposals that are presented outside of the process time frame, there are procedures for a two-thirds supermajority in order to consider them. Mr. Hudson stated that it is not appropriate to draft procedures restricting the regulators’ flexibility when needed. He stated that there have been times when interested parties let the members know that a particular proposal would cause an undue burden on them and the group has made adjustments to work with interested parties on those issues.

Ms. Woodroof stated that interested parties are not recommending that the Blanks (E) Working Group take out the two-thirds supermajority option; rather, they are trying to emphasize to other groups that they should have completed their issue and submitted it as a complete proposal where possible. She agreed that there is always going to be exceptions. Mr. Garn stated that the Working Group will put this on the agenda for the Spring National Meeting for further discussion. He asked the members and interested parties to consider what changes if any should be considered.

9. Considered the Financial Statement Barcoding Listing

Mr. Garn stated that a survey of the states was performed, and it was determined that only seven states continue to use the barcoding system. Staff indicated a need to make a slight change to the listing and questioned the use of the coding system. Mary Caswell (NAIC) stated that the barcode listing within the annual statement instructions has to be changed for all statement types even if a supplemental filing is only added to certain statement type. This occurred recently with the Principles Based Reserves (PBR) XXX/AXXX Reinsurance Exhibit, which was added to the life and fraternal blanks. Staff asked if the barcode number listing could be housed on the Blanks (E) Working Group website, similar to the index, and updated administratively as needed and deleted from the actual instructions. The barcoding instructions would remain as they are not affected by a barcode numbering change. This change would reduce the statements being affected when a supplement is added to just one or two statement types like the PBR XXX/AXXX Reinsurance Exhibit, for example.

Ms. Caswell indicated that staff surveyed the states and territories to see if the barcode system was still being used. The barcodes were used for recording receipt of the hard copy files. It allowed states to log in the annual statement filings and the related supplements. From the survey, there were 52 responses from states and territories. Of these, 45 do not use the barcode system, and seven stated indicated they use the barcode system. Three of the states have a larger than average number of companies as domestics. The states that currently use the barcode system are: Indiana, Iowa, New York, Oregon, Pennsylvania, Texas and Wisconsin. Ms. Caswell stated that there are states like Ohio that indicated they would like to use the barcoding system but could not locate a system that would work for them. Mr. Garn asked: As a result of the survey, do regulators want to continue to use that barcoding system? Is it something that can be eliminated and a different logging system used? Or, could the system be greater used by other states that currently do not use the barcoding system but would like to use it?

Mr. Latham said that he would check with his state to see if it still wants to use the system, but he believes it does since Oregon has used it for years. Ms. Rankin stated that Pennsylvania still uses the barcoding system and wants to continue to use it. Its support staff uses it to track receipt of the filings. Mr. Garn stated that the Working Group is not in a position to take any action at this time. It is just a topic for discussion. Ms. Rankin said that her state department still requires companies to file hard copy financial statements. She indicated that she is not aware of any discussions to the contrary. She stated that it still an important feature for them. Ms. Weaver stated that Michigan used to use the barcoding system, but it could not get a scanner that would work with its system to log the filings. It logs its filings manually. Michigan no longer requires hard
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copies of its foreign companies, which reduced the number of its hard copy filings received. Ms. Rankin stated that it has a large number of domestics. It has recently purchased an additional scanner to handle the volume. She stated that Pennsylvania uses the scanning process for foreign company filings, as well as for domestic company filings. Mr. Latham stated that he preferred to keep the current barcoding system as his state office still uses that process.

Mr. Garn asked Ms. Rankin if she would agree with moving the barcoding listing to the website. Ms. Caswell indicated that the barcoding instructions would remain in the instructions, but the barcode listing would be put on the Blanks (E) Working Group website for reference similar to the annual statement index. Ms. Rankin indicated that she did not currently see a problem with that move. Mr. Garn stated that NAIC staff could draft a blanks proposal to that effect and have it presented at the Spring National Meeting for regulators to consider and expose for comment.

Having no further business, the Blanks (E) Working Group adjourned.