

Model Audit Rule Survey Results

The Annual Financial Reporting Model Regulation, commonly referred to as the Model Audit Rule, was revised in 2006 to incorporate certain best practices related to auditor independence, corporate governance and internal control over financial reporting. The amendments require that insurers with \$500 million or more in direct and assumed premium annually prepare management's assessment of internal control over financial reporting.

At its June 13, 2009 meeting, the Financial Regulation Standards and Accreditation (F) Committee voted to adopt the 2006 revisions to the Annual Financial Reporting Model Regulation as new significant elements required for accreditation, effective Jan. 1, 2010. As such, states that have not adopted the new requirements of the MAR as of Jan. 1, 2010 will be in danger of impacting their accreditation standing. As such, F Committee has requested that a thorough response to the quarterly survey be provided to gather more information on states that have not yet completed adoption. Those states that have not yet completed adoption should provide a detailed answer to Question 3 to provide the F Committee with appropriate information.

Below is a summary of the answers provided by the states as of August 2009, followed by the detailed responses of individual states.

QUESTION 1: Will your state be incorporating the revisions through a statute or will it be done through a regulation?

| | |
|------------------------|-----------|
| STATUTE/LAW | 12 |
| REGULATION/RULE | 32 |
| COMBINATION | 7 |
| UNKNOWN | 0 |

QUESTION 2: When does your state intend on either presenting the amendments to your legislature or making the change to a regulation?

| | |
|------------------|-----------|
| Completed | 31 |
| 2009 | 19 |
| 2010 | 1 |
| UNKNOWN | 0 |

Updated: 9/11/09

QUESTION 3: Have you publicly released or exposed proposed changes to your statute or regulation at this point? If so, please comment on the status and any problems/issues encountered so far.

Virginia, Alabama, Arizona, Connecticut, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah, West Virginia, Wisconsin and Wyoming have publicly released – and subsequently adopted – changes to their regulation/statute to complete the process. Arkansas, California, Nevada and Tennessee have publicly released changes to their regulations/statute – but not yet adopted. Alaska, Florida, Hawaii and Vermont have publicly released and adopted enabling legislation, but have not yet released finalized regulations to incorporate the 2006 revisions. No states reporting significant challenges in adopting the revisions at this time.

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| STATE | Q1 | Q2 | Q3 |
|-------------|--|--|---|
| Alabama | Regulation | Completed. | Adopted with no challenges noted. |
| Alaska | The Alaska DOI had to adopt the full MAR because it had been relying on the instructions in the Annual Statement Instructions. The enabling legislation was adopted in 2007 with delayed effective dates in two areas. Regulation must still be completed. | <p>The statute included the delayed effective dates for audit committees and management report on internal control. The first effective date is 1/1/2010 for audit committees and regulations are currently in process. Expected effective date is October 2009.</p> <p>The effective date for statute on Management Reporting on Internal Control is 12/31/2010 and that regulation project cannot start until early 2010. Draft regulations have already been prepared awaiting the earliest submission date for promulgation of the regulations. It is expected that these final regulations will be adopted in late 2010 with an effective date to coincide with the statute effective date.</p> | The regulation regarding audit committees is in progress. The required regulations hearing is scheduled for Thursday, August 20, 2009 and the proposed regulations are out to the public for review. The public comment period will close at 5:00 pm ADT on August 28, 2009. So far we have not had any comments or issues regarding the content of the proposed regulations. |
| Arizona | Statute. | Completed. | Adopted through statute with no significant challenges. |
| Arkansas | Regulation | Arkansas exposed amended Rule 25 in July and held a hearing on August 18 without opposition or material modifications. AID will adopt the amended rule in early September. The rule is set for legislative review in October. Assuming it passes through committee, it will become effective January 1, 2010 as planned. | Exposed rule and completed hearing. No challenges identified. |
| California | Both, legislation and regulation | Legislation was introduced in 2009 as AB299. Regulation hearing was completed in July 2009. Expect completion of process by November 2009. | Hearing resulted in no opposition to the regulation. Expect to complete adoption by November 2009. |
| Colorado | Regulation | A draft of the regulation has been completed and forwarded to the Attorney General for review. A hearing is expected on the regulation in October or November. | Plans for public hearing in October or November. |
| Connecticut | Regulation | Completed | Adopted 12/23/08. Connecticut Regulation Section 38a-54-1 to 38a-54-14. |
| Delaware | Regulation | Completed | Adopted through its regulations on October 1, |

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| STATE | Q1 | Q2 | Q3 |
|---------------|--|--|--|
| | | | 2008. |
| DC | Statute | The DISB is working on presenting a bill to its council and completing the process in 2009. | N/A |
| Florida | Enabling Statute and Regulation | Florida has completed the statutory amendment to adopt the model. However, Florida must still complete the rule making process to adopt the detailed revisions. | Adopted a statutory amendment and in the process of drafting the rule. |
| Georgia | Regulation | We have submitted the regulation to the Attorney General's office and are awaiting their approval. A hearing is scheduled for September 29 on the proposed rule. The rule should be adopted approximately 30 days after the completed hearing. | Upon approval of the AG's office the regulation will be publicly exposed and subject to a hearing on September 29. |
| Hawaii | Enabling Statute and Regulation. | Statute adopted by 2009 legislature. Rules are in draft format. | The Rules have not yet been publicly released. |
| Idaho | Regulation | Completed | Adopted 5/8/09. |
| Illinois | Regulation | Completed | 50 Ill. Admin. Code 925 May 11, 2009 |
| Indiana | Regulation | Completed | Adopted via regulation. Plan to make one minor correction (auditor rotation requirement) through legislation in 2010. |
| Iowa | Regulation | Completed. | Iowa has adopted. |
| Kansas | Regulation | Completed. | Adopted 7/6/09. |
| Kentucky | Regulation | Completed. | Adopted (806 KAR 3:170). Plan to make one minor correction (auditor rotation requirement) through legislation late in 2009 or early in 2010. |
| Louisiana | Regulation | 2009. We have our Regulation drafted. A public hearing is scheduled for September 28. | N/A |
| Maine | Regulation, but will make minor technical amendments to the statute as well. | A draft amendment to the regulation has been completed, with a proposed effective date of January 1, 2010. We anticipate initiating the formal rulemaking process in September. | N/A |
| Maryland | Regulation | Completed. | Adopted Aug. 10, 2009. |
| Massachusetts | Regulation | Completed. | Adopted 211 CMR 26.00. |
| Michigan | Statute | Completed. | Adopted 12/23/08. Public Act 342 of 2008. |
| Minnesota | Statute | Completed. | Adopted 5/8/09. |
| Mississippi | Statute | Completed | Adopted. |
| Missouri | Statute | Completed. | Adopted. |
| Montana | Regulation | We expect that the revision will take place before | The proposed changes have not yet been |

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| STATE | Q1 | Q2 | Q3 |
|----------------|---|--|--|
| | | the end of 2009. | publicly released. |
| Nebraska | Amend regulation | Completed. | Adopted 3/7/09. |
| Nevada | Regulation | 2009 | A revised regulation was exposed and hearings were conducted. The rule has been completed by the DOI and forwarded to the legislative attorneys for review. The rule must still be approved by the Legislature Council before it can be finalized. |
| New Hampshire | Regulation | Completed. | Adopted on August 26, 2008. |
| New Jersey | Regulation | The Attorney General's office has approved the proposal and approval is expected from the Governor's office in the next few days. The goal is to publish in an upcoming NJ Register, which will be the final step in the adoption process. | No challenges identified. |
| New Mexico | Regulation. | Expect to complete prior to year end. | Currently in the rule-making process. |
| New York | Regulation. | Anticipate amending regulation by the fall 2009 with effective date January 2010 to be consistent with NAIC. | Nearing completion of a draft regulation for public exposure and hearing. |
| North Carolina | Statute | Completed. | Adopted effective 7/31/09. |
| North Dakota | Regulation | Expected to be exposed in September, with a hearing to be performed in mid-November. Adoption is not expected to be completed until April 2010. | N/A |
| Ohio | Regulation – Requires Legislative approval. | Completed. | Adopted on 12/27/08. |
| Oklahoma | Statute | Completed. | Adopted on 5-11-2009 in SB 1022. |
| Oregon | Regulation | Completed changes to OAR 836-011-0235. | Adopted. |
| Pennsylvania | Regulation | 2009 | Adopted. Final rulemaking approved. To be published in October. |
| Rhode Island | Regulation | Completed | Adopted Regulation 87 to include the new MAR requirements 4/15/09. |
| South Carolina | Regulation. | Completed | Adopted 5/22/09. |

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| STATE | Q1 | Q2 | Q3 |
|---------------|--------------------------------------|--|---|
| South Dakota | Statute. | Completed | Adopted |
| Tennessee | Regulation. | Rule has been exposed and discussed through two public hearings. The rule is expected to be finalized on November 4. | Rule has been exposed and 2 public hearings were held with 22 comments received. |
| Texas | Regulation. | The original intent was to adopt through legislation, but the session ended with the bill in committee. The intent now is to complete through regulation, which should be possible before the end of 2009. | Proposed changes to legislation were previously discussed with industry, with no significant issues identified. No issue anticipated in completing a regulation. |
| Utah | Enabling legislation and regulation. | Completed. Enabling legislation passed in February, 2009. Regulation completed July 8, 2009. | Adopted 7/8/09. |
| Vermont | Enabling legislation and Regulation | Enabling legislation has been completed. Rulemaking process is now beginning and is expected to be completed prior to year-end. | N/A |
| Virginia | Regulation | Completed as of 2/15/08. | Adopted - Comment letters were received upon exposure and a hearing was scheduled. Hearing was subsequently canceled when request was retracted. No other challenges faced. |
| Washington | Regulation | Washington expects to adopt its revised regulation September 23. | On July 22, Washington exposed the proposed changes to the audit rule. No adverse comments have been received. |
| West Virginia | Statute | Completed. | Adopted changes to Article 33 in 2009 Session. |
| Wisconsin | Regulation | Completed. | Adopted 1/1/09. WI worked with a group of domestic insurers to discuss and resolve potential issues. |
| Wyoming | Statute | Completed. | Adopted March 2, 2009. |