

Financial Condition (E) Committee Technical Changes

Background Information. At the 2009 NAIC Fall National Meeting, the NAIC Membership approved a new process for the final adoption of technical matters coming from the Financial Condition (E) Committee. The new process was enacted to get these technical changes to the industry and impacted parties as quickly as possible to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted.

1. A list of technical items (shown on page(s) that follow) will be provided from the Financial Condition (E) Committee to the Joint Executive/Plenary within one week of the completion of the national meeting;
2. The list only contains what the Financial Condition (E) Committee considers technical and routine, and does not include items that are significant by NAIC standards (e.g. it would not include proposed model laws, model regulations, or guidelines) or items consider controversial;
3. Members of the Joint Executive/Plenary have 10 days to review the attached list, and voice their objection of a specific item;
4. If no objections are raised on a particular item, or any of the items, each and all will be considered adopted by the Joint Executive/Plenary, similar to the consent agenda process;
5. If there is an objection on any one or multiple items, a joint Executive/Plenary conference call will be scheduled on that particular item(s);
6. The other items will be considered adopted, and thus inserted into the appropriate publication and/or made available to the industry and other parties for implementation;

Request for Approval. Under the above process, the Executive Committee/Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by November 8, 2010. Any item(s) receiving an objection will be pulled from this automatic consideration, and a call will be scheduled to address the issue.

2010 Fall National Meeting

Date Released to Joint Executive/Plenary:
Objections Due From Joint/Executive Members

Wednesday, October 27, 2010
Monday, November 8, 2010

The following items were adopted by the Financial Condition (E) Committee at the 2010 Fall National Meeting

1. NAIC Annual Statement Blanks & Instructions Proposals

- 2010-14BWG—Add a new question to the General Interrogatories Part 1 regarding letters of credit unrelated to reinsurance capturing the American Bankers Association (ABA) routing number, issuing or confirming banks' name and the circumstances where the letter of credit might be triggered.
- 2010-17BWG—Modify the definition of “All Other Governments” in the Investment General Instructions to include bonds issued by corporate entities that are fully guaranteed by non-U.S. governments.
- 2010-18BWG—Add instructions from the Property Schedule P, Parts 2, 3 and 4 instructions for “Prior” line to the Schedule P, Parts 2, 3 and 4 instructions of the Workers' Compensation Carve-Out Supplement.
- 2010-19BWG—Add new code “B” to the Foreign Code matrix in the Investment General Instructions.
- Listing of editorial changes.

2. NAIC Accounting Practices & Procedures Manual Changes

- **SSAP No. 52—Deposit Type Contracts** (Ref #2010-10) Adopted a nonsubstantive change that requires 2010 Annual Statement disclosure related to Retained Asset Accounts.
- **SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets (SSAP No. 5R) and SSAP No. 25—Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties (SSAP No. 25)** (Ref # 2003-12, FIN 45). Adopted revisions resulting with a substantively revised SSAP (SSAP No. 5R) that adopts, with modification, FIN 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and interpretation of FASB Statement No. 5, 57 and 107 and rescission of FASB Interpretation No. 34. The substantive revisions require reporting entities to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. Revisions to SSAP No. 25 are nonsubstantive and update the disclosure requirements to complement the revisions made to SSAP No. 5R.
- **SSAP No. 10R—Income Taxes – A Temporary Replacement of SSAP No. 10 (SSAP No. 10R)** (Ref #2010-09) Adopted revisions to SSAP No. 10R that extend the effective period (sunset clause) through 2011 and incorporated additional disclosures for tax-planning strategies. Discussion by the DTA Subgroup and Statutory Accounting Practices Working Group on the admittance of DTAs will continue.
- **SSAP No. 16R—Electronic Data Processing Equipment and Accounting for Software (SSAP No. 16R)** (Ref # 2010-03, ASU 2010-04) Adopted revisions resulting with a substantively revised SSAP (SSAP No. 16R) that incorporates guidance regarding software that was previously included within other SSAPs. Also adopts, with modification, as a nonsubstantive change *ASU 2010-04—Certain Revenue Arrangements That Include Software Elements*. Although the revisions are primarily considered placement changes, this item is considered a substantive change, as the adoption resulted with the following SSAPs being superseded: *SSAP No. 79—Depreciation of Nonoperating System Software – an Amendment to SSAP No. 16*; *SSAP No. 81—Software Revenue Recognition*; and *SSAP No. 82—Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs*. However, due to the nature of the revisions, an issue paper was not considered necessary.
- **SSAP No. 35R—Guaranty Fund and Other Assets (SSAP No. 35R) and Issue Paper No. 143—Prospective-Based Guaranty Fund Assets (Issue Paper No. 143)** (Ref # 2006-14, ASC 405-30) Adopted revisions resulting with a substantively revised SSAP (SSAP No. 35R) and related issue paper (Issue Paper No. 143) that adopts, with modification, *Accounting Standards Codification 405-30, Insurance Related Assessments*. The revised SSAP modifies the conditions required before recognizing liabilities for insurance-related assessments. Under the new guidance the liability is not recognized until the event obligating an entity to pay an imposed or probable assessment has occurred. This impacts prospective-premium-based guaranty-fund assessments, as the event that obligates the entity for the assessment liability is the writing of, or becoming obligated to write or renew, the premiums on which the expected future assessment is to be based.

- **How to Use the AP&P Manual** (Ref # 2010-11) Adopted revisions reflecting a new process to remove 100% superseded SSAPs and INTs from Volume I of the *NAIC Accounting Practices and Procedures Manual* and include these items within a new appendix in Volume III. Reference to this new approach will be included in the instructions on how to use the Manual.
- **SSAP No. 43R—Loan-Backed and Structured Securities (SSAP No. 43R)** (Ref # 2010-12) Adopted nonsubstantive changes that clarify the definitions of loan-backed and structured securities modified to include an effective date of Jan. 1, 2011.
- **SSAP No. 51—Life Contracts (SSAP No. 51); SSAP No. 52—Deposit-Type Contracts (SSAP No. 52); and SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance (SSAP No. 61)** (Ref # 2010-15) Adopted revisions expanding the disclosure requirements for annuity actuarial reserves and deposit liabilities by withdrawal characteristics in accordance with the following categories: general account, separate account with guarantees, separate account nonguaranteed, and the total.
- **SSAP No. 86—Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions (SSAP No. 86)** (Ref # 2010-13, ASU 2010-08) Adopted revisions resulting with a change to paragraph 21(e) to change “hedged items” to reflect “related financial assets or liabilities” as well as to incorporate guidance in paragraph 55 on what guidance has been adopted from *ASU 2010-08, Technical Corrections to Various Topics*. Additional revisions to statutory accounting principles from ASU 2010-08 were not considered necessary, as the other technical corrections were made to GAAP standards that have previously been rejected, deemed not applicable, or are pending for statutory accounting.
- **Issue Paper No. 99—Nonapplicable GAAP Pronouncements (Issue Paper No. 99)** (Ref # 2010-14, ASU 2010-16) Adopted revisions to Issue Paper No. 99 rejecting *ASU 2010-16, Entertainment – Casino: Accruals for Jackpot Liabilities* as not applicable to statutory accounting.

3. Financial Condition Examiners Handbook Changes

- Adopted guidance on coordinating with external auditors into the *Financial Condition Examiners Handbook*.
- Adopted guidance on communication with other regulators into the *Financial Condition Examiners Handbook*.
- Adopted revisions to the *Financial Condition Examiners Handbook* regarding the timing of completion and the contents of the Examination Planning Memorandum.
- Adopted guidance on documenting judgmental residual risk into the *Financial Condition Examiners Handbook*.
- Adopted guidance on corporate governance and executive compensation into the *Financial Condition Examiners Handbook*.
- Adopted revisions to Exhibit N – Reinsurance Review into the *Financial Condition Examiners Handbook*.
- Adopted revisions to Section 2 of the *Financial Condition Examiners Handbook* to properly reflect the risk-focused IT review process.
- Adopted additional guidance for conducting IT reviews of small or medium-sized companies into Exhibit C of the *Financial Condition Examiners Handbook*.
- Based on the change in the Consumer Price Index, adopted a 1% increase to the financial examiner salary recommendations for 2011.

4. Financial Analysis Handbook Changes

- Adopted a new Management Considerations Supplemental Chapter.
- Adopted revisions to the Level One Analyst Reference Guide.

5. Model Audit Rule Implementation Guide Changes

- Adopted changes to the example management reports in the Implementation Guide, including guidance for foreign filers and additions to the addendum to reflect processes not covered by an insurer’s SOX 404 report.

6. NAIC Risk Based Capital Formula Changes

- Adopted a change to the 2011 Life RBC instructions to change the treatment of non-U.S. insurance affiliates so that the RBC charge was eliminated from page LR039 Details for Affiliated Investments and the carrying value of the affiliate was also eliminated from the total adjusted capital on page LR031 Calculation of Total Adjusted Capital.

7. Purposes and Procedures Manual of the NAIC Securities Valuation Office

- No changes

8. NAIC UCAA Manual and Company Licensing Best Practices Handbook

- Financial Proformas were updated for the Life & Health, Property Casualty and Title spreadsheets. Changes were made to the Cash Flow, Balance Sheet and Profit and Loss Statement.
- Adopted recommended wording by the Financial Regulation Standards and Accreditation (F) Committee to the *Company Licensing Best Practices Handbook*.
- Adopted a New Uniform Form 15, Affidavit of Lost Certificate of Authority.
- Adopted a New Uniform Form 16, Voluntary Dissolution and instructions for completion to the UCAA Manual.
- Adopted a New Uniform Form 17, Statement of Withdrawal.
- Adopted guidelines for the Review of Electronic Application Coordination and Processing (REACAP) project.