Financial Condition (E) Committee Technical Changes

Background Information. At the NAIC 2009 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 in order to provide these technical changes to the industry and impacted parties as quickly as possible, in an effort to allow them more time to modify their systems and processes for such changes.

Details of Process Adopted

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

Request for Approval. Under the above process, the Executive (EX) Committee and Plenary members are hereby requested to review the attached list and voice any objections to a specific item(s) by Jan. 13, 2014. Any item(s) receiving an objection will be pulled from this automatic consideration, and a call will be scheduled to address the issue.
Financial Condition (E) Committee Technical Changes

Action Taken During Fall 2013

Date Released to Executive (EX) Committee and Plenary: December 31, 2013
Objections Due From Executive (EX) Committee and Plenary Members January 13, 2014

The following technical items were adopted by the Financial Condition (E) Committee at the 2013 Fall National Meeting:

1. NAIC Accounting Practices & Procedures Manual Changes and Related Items
   - Adopted the following substantive revisions to statutory accounting:
     - SSAP No. 104R—Share-Based Payments: Revisions adopt, with modification, the generally accepted accounting principles (GAAP) guidance as reflected in Accounting Standards Codification 505-50–Equity Payments to Non-Employees, with a Dec. 31, 2014, effective date. (Ref #2013-03)
     - SSAP No. 105—Working Capital Finance Investments: Adopted a new SSAP, SSAP No. 105—Working Capital Finance Investments, with an effective date of Jan. 1, 2014. SSAP No. 105 allows working capital finance investments to be admitted assets if certain criteria are met. This action also included adoption of Issue Paper No. 147, Working Capital Finance Investments. (Ref #2013-10)
   - Adopted the following nonsubstantive revisions to statutory accounting:
     - SSAP No. 26—Bonds, excluding Loan-Backed and Structured Securities: Adopted revisions to clarify the “yield to worst” concept for bonds with make whole call provisions with an effective date of Jan. 1, 2014. (Ref #2013-21)
     - SSAP No. 43R—Loan-Backed and Structured Securities: Nonsubstantive changes to SSAP No. 43R to revise the disclosure requirement in paragraph 48.g to limit the disclosure for bifurcated other-than-temporary credit impairments to items recognized in the current reporting period. (Ref #2013-15)
     - SSAP No. 68—Business Combinations and Goodwill: Nonsubstantive revisions to SSAP No. 68 to clarify accounting treatment when Investees Subsequently Cease to Exist. (Ref #2013-20)
     - SSAP No. 43R—Loan-Backed and Structured Securities; SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities; Appendix A-001—Investments of Reporting Entities; and Actuarial Guideline 43—CARVM for Variable Annuities: Revisions to SSAP No. 43R, SSAP No. 103, Appendix A-001 and Actuarial Guideline 43, changing the term “NAIC rating” to “NAIC designation.” (Ref #2013-23)
     - All SSAPs: Nonsubstantive revisions to all SSAPS to rename the “Authoritative Literature” section to “References” and remove GAAP references as detailed in Appendix A. It was also determined that the changes do not need to be tracked in the 2014 Accounting Practices and Procedures Manual. (Ref #2013-24)
     - SSAP No. 101—Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10: Nonsubstantive changes to SSAP No. 101 related to previously adopted financial guaranty and mortgage guaranty realization threshold limitations. (Ref #2013-25)
Ratified the nonsubstantive changes adopted by the Emerging Accounting Issues (E) Working Group to reference remaining INTs within the applicable SSAPs, not just listing the INTs on the face of the SSAP. (Ref # 2013-30)

SSAP No. 57—Title Insurance: Guidance to clarify insurance loss and loss adjustment reserves as recommended by the Title Insurance Financial Reporting (C) Working Group and California. The revisions are intended to clarify the calculation and reporting of title reserves within SSAP No. 57. (Ref # 2012-33)

SSAP No. 50—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities); SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures; SSAP No. 15—Debt and Holding Company Obligations; and SSAP No. 52—Deposit-Type Contracts. Revisions to SSAP No. 30, SSAP No. 1, SSAP No. 15, and SSAP No. 52 to (1) improve the reporting of Federal Home Loan Bank (FHLB) capital stock, (2) develop additional and enhanced disclosures for FHLB transactions, and (3) incorporate the current guidance for collateral requirements in INT 01-31: Assets Pledged as Collateral into SSAP No. 30. The revisions were modified to reorder general interrogatory 25.2, to be effective as of Jan. 1, 2014, and to require quarterly reporting of the disclosures. (Ref # 2013-27)

Adopted the following Actuarial Interpretations with respect to Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation (AG 38):

- Actuarial INT No. 34: Actuarial Guideline 38 Section 8D.a.2(a)
- Actuarial INT No. 35: Actuarial Guideline 38 Section 8D.A.2(a)(I)
- Actuarial INT No. 36: Actuarial Guideline 38 Section 8D.a
- Actuarial INT No. 37: Actuarial Guideline 38 Sections 8B and 8C

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

- Adopted the following revisions to the Financial Condition Examiners Handbook:
  - 2014 salary recommendations for financial examiners with an increase based on the consumer price index.
  - Revisions to address areas where there may be confusion about which sections or exhibits within the Financial Condition Examiners Handbook are required to be completed and what sections are considered optional tools. Revisions were made to narrative guidance related to the Summary Review Memo, Subsequent Events Review Procedures, Interviews, Management Letters and Section 1-4 – Other Procedures.
  - Revisions to Exhibit M – Understanding the Corporate Governance Structure and Exhibit A – Examination Planning Procedures Checklist.
  - Revisions to the Life Reserves – Repository and Exhibit Y – Examination Interviews (Chief Actuary interview) related to the implementation of principle-based reserving.
  - Revisions to sections 2-3, 2-4 and 2-5 to clarify testing performed on other than financial reporting risks.
  - Revisions to Section 1-4 – Reinsurance Review to be consistent with revisions to adopted revisions to the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786).
  - Revisions to Section 1-8 – Interim Reporting to Chief Examiner.
  - Revisions to Section 2-3 – Consideration of Small/Medium-Sized Insurers to clarify the original intent of the guidance that describes the exceptions to performing control testing.
  - Revisions to Exhibit C, Part 2 – IT Work Program. The revisions were made to reflect new elements under the COBIT 5 framework.

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Revisions to the IT guidance to address several issues, including clarifying the purpose of the review of IT general controls and its effect on the examination approach, differentiating between general controls and application controls, the expectations regarding an overall conclusion to document the results of the review of IT general controls and highlighting the importance of including the IT specialist in Phase 3 for testing of application controls.

3. **Financial Analysis Handbook Changes and Related Items**
   - Adopted enhancements to the 2013 edition of the Financial Analysis Handbook. Enhancements include revisions to the procedures and guidance for holding company lead state and non-lead state analysis, restricted assets, property and casualty actuarial opinion and actuarial opinion summary, non-troubled level one, investments purchased and sold near the end of the reporting period, references to other source materials, and corporate governance at the legal entity and the holding company.

4. **Model Audit Rule Implementation Guide Changes and Related Items**
   - No changes adopted.

5. **Annual Statement Instructions Changes and Related Items**
   - Adopted the following changes to the Annual Statement Blanks/Instructions:
     - 2013-23BWG, effective Jan. 1, 2014
     - 2013-13BWG: Add instructions and illustrations for a new disclosure to Note 5, Investments for Working Capital Finance Investments (WCFI) as Note 5I with an effective date of first quarter 2014. The illustrations for Note 5I(1) and 5I(2) will be data-captured beginning annual 2014.
     - 2013-22BWG: Add contact email address to the list of information to be included on the combined statement title page.
     - Guidance for Exhibit 3A of the health annual statement blank.
     - Listing of Editorial Changes
   - Approved the website posting of the medical loss ratio regulator only reconciliation tool blank.

6. **Purposes and Procedures Manual of the NAIC Securities Valuation Office and Related Items**
   - Adopted the Structured Securities Group’s recommendation on the modeling scenarios.
   - Adopted recommendations of the Invested Assets (E) Working Group that insurers file Freddie Mac’s Structured Agency Credit Risk (STACR) transaction with the NAIC Structured Securities Group (SSG); that the SSG generate an NAIC designation using financial modeling and for the security to be accounted for pursuant to Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds, Excluding Loan-Backed and Structured Securities. Adopted definitions for “mortgage-referenced security” and for “structured note.” Mortgage-referenced securities are not eligible for filing exemption effective with the Dec. 31, 2013, publication of the Purposes and Procedures Manual of the NAIC Securities Valuation Office.

7. **NAIC Risk-Based Capital Formula Changes and Related Items**
   - Adopted a proposal for page XR012 – Underwriting Risk – Experience Fluctuation Risk, that breaks out premiums, incurred claims and loss ratio by individual, small group and large group business. This data will be collected on an informational-only basis.

- Adopted the amended Biographical Affidavit instructions in the UCAA Manual to align with International Association of Insurance Supervisors’ (IAIS) Insurance Core Principle (ICP) 5.
- Adopted a proposal with respect to the UCAA Manual to add definitions of “key persons in control functions” and “senior management.”
- Adopted a proposal to update to the Company Licensing Best Practices Handbook for the Primary, Expansion and Corporate Amendment applications for the NAIC Biographical Affidavits and how the biographical affidavit and background investigation reports are reviewed.
- Adopted the revised template for third-party background investigation reports.

9. **NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual and Related Items**

- Adopted the Own Risk and Solvency Assessment (ORSA) (E) Subgroup’s report and recommendations regarding the 2013 ORSA Feedback Pilot Project.