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 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 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 considered 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 the 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 September 16, 2013. Any item(s) receiving an objection will be pulled from this automatic consideration, and a call will be scheduled to address the issue.
The following technical items were adopted by the Financial Condition (E) Committee at the 2013 Summer National Meeting:

1. NAIC Accounting Practices & Procedures Manual Changes and Related Items
   - Adopted the following substantive revisions to statutory accounting:
     - No substantive changes adopted.
   - Adopted the following nonsubstantive revisions to statutory accounting:
     - Statement of Statutory Accounting Principles (SSAP) No. 40—Real Estate Investments: Revisions clarify the definition of “encumbrances.” (Ref #2013-08)
     - SSAP No. 43R—Loan-Backed and Structured Securities: Revisions incorporate guidance for interim financial statements for residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) acquired subsequent to year-end. (Ref #2013-16)
     - SSAP No. 62R—Property and Casualty Reinsurance: Adopted exposed revisions, with modifications discussed during the meeting, to change the Schedule F reporting and the provision for reinsurance calculation for certain retroactive reinsurance contracts on asbestos and environmental risks with a 2014 effective date. Also directed staff to prepare the blanks proposal for Working Group review. (Ref #2011-45)
     - SSAP No. 64—Offsetting and Netting of Assets and Liabilities, SSAP No. 86—Accounting for Derivatives and Hedging Activities, SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities: Revisions reject ASU 2013-01: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities for statutory accounting. (Ref #2013-06)
     - SSAP No. 92—Accounting for Postretirement Benefits Other than Pension, A Replacement of SSAP No. 14: Revisions adopt with modification EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, which specifies that endorsement split-dollar life insurance contracts do not settle the liability for postretirement benefit obligations. (Ref #2013-02)
     - SSAP No. 100—Fair Value Measurements: Revisions reject ASU 2013-03, Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities for statutory accounting. (Ref #2013-06)
     - Adopted revisions to remove 100% superseded SSAPs and nullified interpretations (INTs) (Appendix H) from the printed version of the Accounting Practices and Procedures Manual, effective with the 2014 version, and instead include them on the password-protected Web page for updates to the manual. Appendix H will still be included in the CD-ROM Folio version of the manual. (Ref #2013-05)
     - SSAP No. 56—Separate Accounts: Seed Money Disclosure. (Ref #2012-23)
- SSAP No. 101—Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10: DTA Admissibility Test for Financial and Mortgage Guaranty Insurers. Revisions clarify the deferred tax asset (DTA) admittance limitations for financial and mortgage guaranty insurers. (Ref #2013-12)

- SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures: Accounting Disclosure for Restricted Assets. Revisions provide enhanced disclosure of restricted asset information for items that are already categorized as restricted assets within the financial statements, allowing for a single location for the aggregated information. (Ref #2013-11)

- 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 30
  - Actuarial INT 31
  - Actuarial INT 32
  - Actuarial INT 33

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

- Adopted the following revisions to the Financial Condition Examiners Handbook:
  - Revisions to Section 1 – General Examination Guidance to require the Report of Examination be uploaded in the Financial Exam Electronic Tracking System (FEETS) and the examination closed.
  - Revisions referencing consideration of Form F – Enterprise Risk Report when identifying and assessing risks.
  - Revisions to Section 2-1 Assessing the Adequacy of the Audit Function to include guidance on the utilization of company performed testing.
  - Revisions to consider risks related to the accuracy/completeness of catastrophic risk exposure data filed through risk-based capital (RBC).
  - Background information and suggested risks for review during an examination of separate account business.
  - Revisions to Section 1-1 Coordination of Holding Company Group Exams and Exhibit Z – Examination Coordination.
  - Exhibit DD – Critical Risk Categories and related guidance in Section 2-1 – Phase 1, Section 2-2 – Phase 2, and Exhibit E – Audit Review Procedures.

3. Financial Analysis Handbook Changes and Related Items


- Adopted enhancements to existing confidential regulator-only financial analysis solvency tools.

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:
2013-02BWG (Effective 12/31/2013) - Add Two Categories to Schedule BA for Joint Ventures, Partnerships and Limited Liability Companies with Characteristics of Mortgage Loans (Affiliated and Unaffiliated). Modify the Asset Valuation Reserve Instructions to Reflect the Additional Line Numbers and the Change to Existing Line Numbers.

2013-04BWG (Effective 12/31/2013) - Add Illustrations to Note 23, Reinsurance for the Certified Reinsurer Disclosure for Those Entities Downgraded or Subject to Revocation of Certified Reinsurer Status. The Tables in the Illustration 23D(1)a and 23D(2)a for Life, Health and Fraternal; 23I(1)a and 23I(2)a for Property; 23H(1)a and 23H(2)a for Title will be Data Captured in the Electronic Notes.

2013-05BWG (Effective 12/31/2013) - Add a Note to the Instructions of Schedule Y (Part 1, 1A and 2) to Indicate that if Those Schedules are Completed the Answer to General Interrogatories Part 1, Question 1.1 Should be “YES.” Add a Code to the List for Schedule Y, Part 1A, Column 10 for the Reporting Entity Rather than Allowing it to be Left Blank.

2013-06BWG (Effective 12/31/2013) - Modify the Line Descriptions for Line 34 (Life & Health – Life Supplement) and Line 30 (Fraternal) on the Analysis of Annuity Operations by Lines of Business to Clarify Reporting of Policies/Certificates. Add a Crosscheck to Life and Fraternal for that Line to Tie to the “Exhibit of Number of Policies…” Annual Statement Page 27 (Life) and Page 24 (Fraternal).

2013-07BWG (Effective 12/31/2013) - Provide Instruction for 23F(1)f, Retroactive Reinsurance and Modify the Instructions for 23F(1)a Through 23F(1)e to Add Additional Clarity.


2013-11BWG (Effective 12/31/2013) - Add New Lines to Schedules F and S to Capture Reinsurance Data Related to Captive Companies. Existing Lines in the Instructions and Blank will be Adjusted to Reflect These New Lines. Add a Definition to the Schedule F and S General Instructions to Define Which Companies Will Be Reported on the New Lines.

2013-12BWG (Effective 12/31/2013) - Add a New Exhibit and Related Instructions to Health Annual Statement as Exhibit 3A – Analysis of Health Care Receivables Collected and Accrued.

2013-14BWG (Effective 12/31/2013) - Modify the Disclosures in Note 5, Investments to Reflect the Changes to SSAP No. 37–Mortgage Loans. The Current Instructions and Illustrations for Notes 5A(2), 5A(4) and 5A(6) Through 5A(10) will be Removed and Instructions and Illustrations for Notes 5A(4), 5A(5) and 5A(6) Will Be Added. Illustrations for Notes 5A(4), 5A(5) and 5A(6) Will Be Data Captured. Notes 5A (11) and 5A(12) Will Be Renumbered to 5A(7) and 5A(8).

2013-15BWG (Effective 12/31/2013) - Modify the Current Interrogatory Question 1 in the Separate Accounts Blank General Interrogatories and Add Additional Sub-Questions to the Interrogatories Regarding Seed Money; Other Fees and Expenses; and Other Surplus.

2013-16BWG (Effective 12/31/2013) - Modify the Instructions and Illustrations for Note 21C, Other Items for Unusual Items and Restricted Assets, to Reflect Disclosure Changes Being Adopted by Statutory Accounting Principles (E) Working Group for SSAP No. 1–Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures. The Illustrations for Note 21C(2)a, 21C(2)b and 21C(2)c Will Be Data Captured.


2013-19BWG (Effective 12/31/2013) - Modify the Instructions for the AVR Basic Contribution, Reserve Objective and Maximum Reserve Calculation for the Default Component and Equity and Other Invested Asset Component to Reflect Elimination of the Mortgage Experience Adjustment Factor Used to Adjust Factors for Certain Lines. The Same Lines on the Blank Will Be Modified to Reflect the New Specific Factors.

2013-20BWG - Modify the supplemental compensation exhibit and add instructions to facilitate the collection of additional detail on the nature of compensation paid to top executives and directors.

Listing of Editorial Changes
6. **Purposes and Procedures Manual of the NAIC Securities Valuation Office and Related Items**
   - Adopted amendments to the *Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO)* related to the Foreign Audit Project that clarifies the financial presentation standards and adds a procedure to govern future requests to add national GAAP or national IFRS to permitted financial performance presentation standards. Germany and German GAAP accounting standards will now be added to the countries whose national GAAP can be presented without reconciliation.
   - Adopted amendments to add Egan Jones Rating Company to the NAIC CRP List included in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

7. **NAIC Risk-Based Capital Formula Changes and Related Items**
   - Adopted the 2013 Property/Casualty Underwriting Risk Factors.
   - Adopted the Working Capital Finance Investment Factors.
   - Adopted the Mandatory Convertible Securities (MCS) Proposal for all RBC forecasting blanks.
   - Adopted the 2013 Health *Risk-Based Capital Overview and Instructions*.
   - Adopted the reformatting of the 2013 Health *Risk-Based Capital Overview and Instructions*.
   - Adopted the 2013 Life *Risk-Based Capital Overview and Instructions*.
   - Adopted the Safety Level Targets and Correlation/Covariance Documents.
   - Adopted the 2013 Underwriting Risk – Line 1 Factors.
   - Adopted the 2013 Underwriting Risk – Premiums – Line 4 Ex-Cat Factors.
   - Adopted the 2013 Property/Casualty RBC Forecasting Publications.
   - Adopted the Attestation for inclusion in the 2014 RBC Formula.
   - Adopted the Life Insurer RBC Common Stock Report dated July 10, 2013, that contains the recommendation for the common stock life RBC charge, and the memo dated Aug. 21, 2013 that addresses instruction-related questions regarding the calculation of beta and recommends a change to the AVR instructions.

   - Adopted updates to the *Company Licensing Best Practices Handbook* to replace the “receipt” with “executed” in order to clarify that the biographical affidavit is current for 12 months from the date the affidavit is executed.
   - Adopted an amendment to the corporate amendment redomestication application to require a certificate of deposit from the new domiciliary state.

9. **NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual and Related Items**
   - No changes adopted.