

Financial Condition (E) Committee Technical Changes

Background Information. At the 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 to provide these technical changes to the industry and affected 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 the page[s] that follow) will be provided by 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 it 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 to any one or multiple items, a joint meeting 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 **Dec 27, 2023**. Any item(s) receiving an objection will be pulled from this automatic consideration, and a meeting will be scheduled to address the issue.

Action Taken During 2023 Fall National Meeting

Date Released to Executive (EX) Committee and Plenary Members:

Dec 13, 2023

Objections Due from Executive (EX) Committee and Plenary Members:

Dec 27, 2023

The following technical items were adopted by the Financial Condition (E) Committee during the 2023 Fall National Meeting:

1. Accounting Practices and Procedures Manual (AP&P Manual) Changes and Related Items

- Adopted the following new statutory accounting principle (SAP) concept revisions:
 - *Statement of Statutory Accounting Principles (SSAP) No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments*: Revisions further restrict the investments that are permitted for cash equivalent and short-term reporting, with an effective date of Jan. 1, 2025. The revisions exclude all Schedule BA: Other Long-Term Investments and mortgage loans. (Ref #2023-17)
 - *Annual Statement Instructions*: Revisions update and remove guidance that has permitted allocation of non-interest-related losses to the interest maintenance reserve (IMR) with an effective date of Jan. 1, 2024. The revisions address mortgage loans with valuation allowances and debt securities with known credit events. (Ref #2023-15)
- Adopted the following clarifications to statutory accounting guidance:
 - *SSAP No. 20—Nonadmitted Assets and SSAP No. 21R—Other Admitted Assets* to clarify that pledged collateral must qualify as an admitted invested asset for a collateral loan to be admitted. The revisions require audits and the use of fair value for valuation assessments when the pledged collateral is in the form of partnerships, limited liability companies, or joint ventures. (Ref #2022-11)
 - *SSAP No. 30R—Unaffiliated Common Stock and SSAP No. 32R—Preferred Stock*: Revisions clarify that investments that are in substance residual interests shall be reported on Schedule BA on the dedicated reporting line for residuals, effective year-end 2023. (Ref #2023-23)
 - *SSAP No. 43R—Loan-Backed and Structured Securities and SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* to clarify the scope and reporting for investment structures that represent residual interests. (Ref #2023-12)
 - *SSAP No. 54R—Individual and Group Accident and Health Contracts*: Revisions clarify that gross premium valuation (under A-010, Minimum Reserve Standards for Individual and Group Health) and cash-flow testing (under *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves*) are both required if indicated. (Ref #2023-22)
 - *SSAP No. 92—Postretirement Benefits Other Than Pensions and SSAP No. 102—Pensions* to remove the transition guidance, as the 10-year applicable transition period has ended. (Ref #2023-21)
 - *Various SSAPs*: Adopted with modification in several SSAPs certain aspects of *ASU 2016-19—Technical Corrections and Improvements* and revisions to SSAP No. 92 to change the term “insurance contracts” to “insurance annuities” consistent with SSAP No. 102. (Ref #2023-18)
 - *INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax* revisions direct that for third-quarter 2023 reporting entities are required to disclose whatever information is available regarding their applicable reporting entity status.

- *INT 23-03: Corporate Alternative Minimum Tax Guidance* revisions provide guidance and disclosures for year-end 2023 reporting of the corporate alternative minimum tax, which applies *SSAP No. 101—Income Taxes* with modification. (Ref #2023-04)
- *Appendix D—Nonapplicable GAAP Pronouncements*: The following U.S. generally accepted accounting principles (GAAP) standards were rejected as not applicable to statutory accounting:
 - *ASU 2018-09—Codification Improvements* (Ref #2023-19)
 - *ASU 2020-10—Codification Improvements* (Ref #2023-20)

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

- Adopted revisions to the following sections of the *Financial Condition Examiners Handbook*:
 - Section 1-2 (D): Salary and Per Diem Guidelines to include updated legacy daily rates for various financial examination positions adopted by the Risk-Focused Surveillance (E) Working Group.
 - Section 1-3 (D): Business Continuity; Investments, Reinsurance Assuming, Reinsurance Ceding and Underwriting Examination Repositories; Exhibits A (Examination Planning Procedures), B (Examination Planning Questionnaire), I (Examination Planning Memorandum), V (Prospective Risk Assessment), Y (Examination Interviews), and DD (Critical Risk Categories); and the Glossary, to further integrate consideration of climate change risks into the financial examination process, as referred by the Climate and Resiliency (EX) Task Force.
 - Section 1-3 (I): Considerations for Potentially Troubled Insurance Companies to incorporate a reference to the Memorandum of Understanding (MOU) maintained by the Receivership and Insolvency (E) Task Force as an optional tool that can help facilitate communication and information sharing, as well as transitional planning and preparation in pre-receivership situations.
 - Section 1-4 (E): Consideration of Fraud, Exhibit A (Examination Planning Procedures), Exhibit E (Audit Review Procedures), and Exhibit G (Consideration of Fraud) to provide clarity on which portions of Exhibit G are required and to align the review of fraud with the risk-focused examination approach.
 - Capital and Surplus and Underwriting Repositories and Exhibit V (Prospective Risk Assessment) to include additional considerations for strategic and operational risks of health insurers, as referred by the Financial Analysis (E) Working Group.
 - Section 1-10 (A): Interim Reporting to Chief Examiner and Exhibit D (Planning Meeting with the Financial Analyst) to incorporate takeaways from the examination peer review program, as referred by the Risk-Focused Surveillance (E) Working Group.
 - Section 1-3 (F): Outsourcing of Critical Services, Section 2 Phase 1 (Understanding the Company), Related Party Examination Repository, and Exhibit A (Examination Planning Procedures), Exhibit H (Insurer Profile Summary Template), and Exhibit CC (Issue/Risk Tracking Template) to incorporate guidance for the review of affiliated services agreements, as referred by the Risk-Focused Surveillance (E) Working Group.

3. Financial Analysis Handbook Changes and Related Items

- Enhancements to the Insurance Regulatory Information Systems (IRIS) ratios and manual to incorporate line of business changes from the life annual statement blank.
- Enhancements to the *Financial Analysis Handbook* related to climate risk, group capital calculations for risk retention groups (RRGs), efficiencies in risk-focused analysis processes and documentation, coordination and planning with examiners, and receivership.
- Enhancements to the *Financial Analysis Handbook* as referred by the Risk Focused Surveillance (E) Working Group on Aug. 14, which includes guidance for the review of affiliated services agreements. The guidance was developed through a collaborative and open process with regulators and interested parties and included multiple exposures and revisions.
- Enhancements to and development of regulator-only tools.

4. Implementation Guide for Annual Financial Reporting Model Regulation (#205) Changes and Related Items

- None

5. Annual Statement Instructions Changes and Related Items

- 2023-06BWG: Split the Schedule D, Part 1, into two sections: one for issuer credit obligations and the other for asset-backed securities (ABS). Update the other parts of the annual statement that reference the bond lines of business.
- 2023-07BWG: Update the code column and delete the legal entity identifier (LEI) column for the following investment schedules: Schedules A; B; BA; D, Part 2; D, Part 6; and E, Part 1.
- Adopted its editorial listing.

6. Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual) and Related Items

- None.

7. NAIC Risk-Based Capital (RBC) Formula Changes and Related Items

- Adopted the following amendments to the RBC formulas:
 - Proposal 2023-11-H: Including Medicare and Medicaid fee-for-service and other risk revenue amounts in XR013 and XR014 for health RBC formula.
 - Proposal 2023-12-CA: Clarifying both common and preferred stock amounts should be included in column 13 of XR002 and PR003 for health and property/casualty (P/C) RBC formulas, respectively.
 - Proposal 2023-16-CR: Providing routine catastrophe events updates happening between Jan. 1 through Oct. 31, 2023, for P/C RBC formula.

8. Uniform Certificate of Authority Application (UCAA), Company Licensing Best Practices Handbook, and Related Items

- None

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

- None.

10. Receiver's Handbook for Insurance Company Insolvencies (Receiver's Handbook) and Related Items

- Enhancements to all chapters and certain exhibits of the *Receiver's Handbook for Insurance Company Insolvencies*.

11. Process for Evaluating Qualified and Reciprocal Jurisdictions and Related Items

- None.

13. NAIC Enterprise Risk Report (Form F) Implementation Guide and Related Items

- None.

14. Troubled Insurance Company Handbook Changes and Related Items

- Enhancements to Chapters II and V and new appendices in the *Troubled Insurance Company Handbook* (regulator-only publication) primarily related to continuation of essential services by affiliates in receivership; recovery and resolution planning and crisis management preparedness; and early coordination with guaranty funds.

15. Risk Retention Group (RRG) Regulatory Tools and Related Items

- None.

16. Group Capital Calculation (GCC) Instructions and Template

- None

17. Financial Stability/Macroprudential Risk Assessment Tools and Related Items

- Adopted the 2023 Liquidity Stress Testing Framework (LST Framework).