

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 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 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 on 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 **Jan 9, 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 2022 Fall National Meeting

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

December 22, 2022

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

January 9, 2023

The following technical items were adopted by the Financial Condition (E) Committee during the 2022 Fall National Meeting:

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

- Adopted the following clarifications to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 19—Furniture, Fixtures, Equipment and Leasehold Improvements* and *SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities*: Revisions clarify that leasehold improvements shall be immediately expensed upon lease termination unless limited exceptions are met. (Ref #2021-25)
 - *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions identify foreign open-end investment funds as a fund in which ownership percentage is not deemed to reflect control unless the entity controls with the power to direct the underlying company. (Ref #2022-13)
 - *SSAP No. 36—Troubled Debt Restructuring*: Revisions reject *Accounting Standards Update (ASU) 2022-02, Troubled Debt Restructurings and Vintage Disclosures* and identify that retained guidance reflects superseded U.S. generally accepted accounting principles (GAAP). (Ref #2022-10)
 - *SSAP No. 86—Derivatives*: Revisions adopt with modification derivative guidance from *ASU 2017-12, Derivatives and Hedging* and *ASU 2022-01, Fair Value Hedging – Portfolio Layer Method* to include guidance for the portfolio layer method and partial-term hedges. These revisions are effective Jan. 1, 2023, with early adoption permitted. (Ref #2022-09)
 - *Interpretation (INT) 22-02: Third Quarter 2022 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax* was initially adopted on Oct. 24, and a modified INT 22-02 was adopted at the Fall National Meeting and renamed “*Third Quarter 2022 through First Quarter 2023 Reporting of the Inflation Reduction Act*” to provide statutory accounting exceptions and disclosure requirements in response to the Inflation Reduction Act of 2022.

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): Guidance added related to terrorism reinsurance that was previously maintained in the *Solvency Monitoring Risk Alert*.
 - Section 1-3 (A): General Information Technology Review, Exhibit C Part Two: IT Work Program, and Exhibit C Part Three: IT Summary Review Memo – Guidance added to clarify the role of information technology (IT) examiners in identifying and evaluating IT prospective risks and involvement in the financial examination after the IT review is complete. Also added guidance

emphasizing that additional scrutiny may be required when examining companies that heavily outsource operations to third parties.

- Capital & Surplus Examination Repository: New guidance added to integrate the updated Own Risk and Solvency Assessment (ORSA) guidance, including Capital Model Review Procedures, more directly into the exam process. Also added guidance for monitoring startup insurers to evaluate the reasonableness of an insurer’s business plan, projections, strategy, and specifically, the projected timeline to profitability and the level of funding needed to meet targets.
- Investments Examination Repository and Reserves/Claims Handling—Life Examination Repository: New guidance related to private equity (PE) issues intended to assist examiners in evaluating related party investment holdings, as well as asset adequacy of complex investments.
- Underwriting Examination Repository: New guidance related to uncollected premiums and agent balances that emphasizes the importance of understanding and evaluating affiliated relationships in monitoring the services provided by and receivable balances due from key agents and producers. Also added a possible control procedure related to tracking unique exposures, including terrorism, at a more granular level (e.g., by geocode).
- Exhibit E—Audit Review Procedures: Updates to clarify expectations surrounding Audit Awareness Letters.
- Approved updates to the Exhibit C mapping tool on the IT Examination (E) Working Group website to include references to the Service Organization Control (SOC) 2 processes.

3. *Financial Analysis Handbook* Changes and Related Items

- Adopted enhancements for the *Financial Analysis Handbook* that include analysis procedures and guidance for documentation of the analysis of the Form F Enterprise Risk Report, the Corporate Governance Annual Disclosure (CGAD), terrorism risk, agents balances and premium trust accounts, monitoring startup insurers, interstate communication in the redomestication of an insurer, intercompany pooling arrangements, new disclosures of investments involving related parties, clarifications on branded risk assessments, federal Centers for Medicare & Medicaid (CMS) Star Ratings, *Actuarial Guideline LIII—Application of the Valuation Manual for Testing of Adequacy of Life Insurer Reserve* (AG 53), the prioritization framework for the definition of priority 4 insurers, and the quarterly quantitative assessment of non-troubled insurers.

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

- None.

5. *Annual Statement Instructions* Changes and Related Items

- Adopted revisions to the *Annual Statement Instructions*:
 - 2022-12BWG – Combined the Health Analysis of Operations by Lines of Business Supplement page and the Health Care Receivable Supplement pages (Exhibits 3 and 3A) into one supplement filing set for health blank pages filed as a supplement by life/fraternal companies.

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- 2022-19BWG Modified – Modified the Life Insurance (State Page) to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. Adds definitions for life and annuity products to the lines of business definitions in the health appendix.
- Adopted editorial listing.
- Approved language to the blanks proposal form to address duplication of reporting.
- Approved the state filing checklists.

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

- Adopted the following amendments to the P&P Manual:
 - Added updated instructions for Subsidiary, Controlled, and Affiliated (SCA) and Related Party Debt or Preferred Stock Investments to clarify that it includes non-control relationships. The expanded definition includes structures in which the non-issuer underlying credit exposure would qualify as a related party pursuant to paragraph 4.a. in *SSAP No. 43R—Loan-Backed and Structured Securities*. It also creates a new category of SCA and related party investment called SCA and Related Party Filing Exempt Investments, which would mean any investment issued by an affiliate or related party special purpose entity (SPE), which itself is not an obligor or ultimate source of the investment repayment; or issued as part of a structure in which the originator, sponsor, manager, servicer, or other influential transaction party is an affiliate or related party of the reporting insurance company. SCA and Related Party Filing Exempt Investments would be eligible for filing exemption (FE) unless otherwise ineligible, for reasons other than their affiliate or related party status. The P&P Manual also clarifies that state insurance regulators are permitted, as specified in Part One of the P&P Manual, to require an insurance company to file what would otherwise be an SCA and Related Party Filing Exempt Investment for analysis and/or assignment of an NAIC designation only by the Securities Valuation Office (SVO), thereby making it ineligible for FE in the future.

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

- Adopted the following amendments to the RBC formulas:
 - Updated Jan. 1 – Sept. 30 U.S. and non-U.S. catastrophe risk event lists.
 - Proposal 2022-10-H – Modifying the preferred stock instructions in the health formula to delete the sentence on the development of preferred stock factors because of the changes to the bond factors.
 - Proposal 2022-11-H – Modifying the Underwriting Risk – Experience Fluctuation Risk on page XR013 and changes to the Analysis of Operations on page XR014 in the Health formula to reflect changes adopted under annual statement blanks proposal 2021-17BWG-MOD.
 - Proposal 2022-07-P – Modifying the lines of business categories on page PR035 of the property/casualty (P/C) formula to provide consistency in the lines of business categories used in the annual statement, Underwriting and Investment Exhibit, Part 1B.
 - Proposal 2022-08-CR – Modifying the Catastrophe Risk instructions of the P/C formula to: 1) capture the spirit of the own model permission review; and 2) clarify the requirements expected from the company that submits its own model for permission.

- 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**
 - Substantive changes to the ORSA Guidance Manual were approved by the Executive (EX) Committee at the Fall National Meeting, and they are not subject to approval through this process.
- 10. *Receiver’s Handbook for Insurance Company Insolvencies (Receiver’s Handbook)* and Related Items**
 - None.
- 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**
 - None.
- 15. Risk Retention Group (RRG) Regulatory Tools and Related Items**
 - Adopted the RRG Preliminary Memorandum, an optional tool designed to be completed by a domiciliary state when a new RRG is formed and the Insurer Profile Summary (IPS) is not yet available. It can be shared with non-domiciliary states in which the RRG is registering. It forms the basis of the IPS and would be replaced by the IPS once the first annual statement filing is received.
- 16. Group Capital Calculation (GCC) Instructions and Template**
 - None.
- 17. Financial Stability/Macroprudential Risk Assessment Tools and Related Items**
 - The Financial Stability (E) Task Force adopted the 2022 Liquidity Stress Testing Framework (LST Framework) with no substantive changes from the 2021 LST Framework.