

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 **Sept. 13, 2022**. 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 Summer National Meeting

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

Sept. 2, 2022

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

Sept. 13, 2022

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

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

- Adopted the following new concepts to statutory accounting guidance:
 - *Statement of Statutory Accounting Principles (SSAP) No. 86—Derivatives*: Revisions adopt elements from Financial Accounting Standards Board (FASB) *Accounting Standards Update (ASU) 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* for determining hedge effectiveness. The revisions also incorporate statutory-specific measurement methods for excluded components in hedging instruments. The revisions were adopted with a Jan. 1, 2023, effective date, with early adoption permitted. (Ref #2021-20)
- Adopted the following clarifications to statutory accounting guidance:
 - *SSAP No. 4—Assets and Nonadmitted Assets* and the Preamble to the AP&P Manual: Revisions incorporate chapter reference updates from *FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 7, Presentation and Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*. These updates revise the definition of an asset. Also adopted *Issue Paper No. 166 – Definition of Assets* to document the statutory accounting principle (SAP) clarifications to SSAP No. 4. (Ref #2022-01)
 - *SSAP No. 22R—Leases*: Revisions reject *ASU 2021-09, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities* for statutory accounting. (Ref #2022-05)
 - *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items*: Revisions incorporate disclosures from *ASU 2021-10, Government Assistance, Disclosures by Business Entities about Government Assistance*. (Ref #2022-04)
 - *SSAP No. 25—Affiliates and Other Related Parties* and *SSAP No. 43R—Loan-Backed and Structured Securities*: Revisions clarify application guidance for the existing affiliate definition and add reporting codes within the investment schedules to identify investments that involve related parties. (Ref #2021-21)
 - *SSAP No. 47—Uninsured Plans* and *SSAP No. 68—Business Combinations and Goodwill*: Revisions reject *ASU 2021-08, Business Combinations, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* for statutory accounting. (Ref #2022-07)
 - *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*: Revisions clarify that the U.S. tax basis equity audit shall occur at the investee level. (Ref #2022-02)
 - *SSAP No. 104R—Share-Based Payments*: Revisions incorporate the practical expedient for the current price from *ASU 2021-07, Compensation – Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*. (Ref #2022-06)
 - *INT 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates*: An investment in a Freddie Mac “When Issued K-Deal” (WI) Program is in scope of SSAP No. 43R from acquisition. (Ref #2022-08)
 - Blanks Proposal: Adoption expressed support for a blanks proposal (2022-10BWG) that included instructional changes to Schedule T, the State Page, and the Accident and Health Policy Experience

Exhibit (AHPEE) to clarify guidance for premium adjustments. The instructions clarify that all premium adjustments shall be allocated as premium in the respective jurisdiction. (Ref #2022-03)

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

- None.

3. Financial Analysis Handbook Changes and Related Items

- Enhancements were adopted for regulator only financial analysis solvency tools.

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

- None.

5. Annual Statement Instructions Changes and Related Items

- Add a new reporting requirement in the investment schedules for investment transactions with related parties. In addition to capturing direct loans in related parties, it will also capture information involving securitizations (or other similar investments) where the related party is a sponsor/originator, along with whether the underlying investment is in a related party (2021-22BWG Modified).
- Add new questions to General Interrogatories Part 1, asking if the reporting entity accepts cryptocurrency for payment of premiums, which cryptocurrencies are accepted, and whether they are held for investment or immediately converted to U.S. dollars (2022-01BWG).
- Add four new electronic-only columns to Schedule D, Part 6, Section 1, for Prior Year Book/Adjusted Carrying Value (BACV) (Column 16), Prior Year Nonadmitted Amount (Column 17), Prior Year Sub-2 Verified Value (Column 18), and Prior Year VISION Filing Number (Column 19) (2022-02BWG Modified).
- Split Line 5 of the Quarterly Part 1 – Loss Experience and Part 2 – Direct Premiums Written into Line 5.1 – Commercial multiple peril (non-liability portion) and Line 5.2 – Commercial multiple peril (liability portion) (2022-03BWG).
- Add a new supplement to capture premium and loss data for Annual Statement Lines 17.1, 17.2, and 17.3 of the Exhibit of Premiums and Losses (State Page) – Other Liability by more granular lines of business (2022-04BWG).
- Add line numbers to the status data points in the Life/Fraternal, Health, and Property/Casualty (P/C) Schedule T footnote (2022-05BWG Modified).
- Revise the Health Annual Statement Test language in the *Annual Statement Instructions* (2022-06BWG Modified).
- Modify the Health Actuarial Opinion Instructions. Add definitions of “actuarial asset” and “actuarial liability.” Modify Section 4 – Identification, Section 5 – Scope, and Section 7 – Opinion to clarify that the actuary’s opinion covers actuarial assets, as well as actuarial liabilities. Modify Section 9 to clarify that the guidance related to the type of opinion rendered by an appointed actuary covers both actuarial assets and actuarial liabilities (2022-07BWG).
- Modify the instructions in Section 1, Section 3, and Section 8 of the P/C Actuarial Opinion Instructions to reflect the changes adopted by the Actuarial Opinion (C) Working Group (2022-08BWG).
- Changes to the Life/Fraternal VM-20, Requirements for Principle-Based Reserves for Life Products, Reserves Supplement blank (2022-09BWG).

- Add instructions to Schedule T, the State pages, and the AHPEE to clarify guidance for reporting premium adjustments by jurisdiction (2022-10BWG).
- Update the life/fraternal blank asset valuation reserve (AVR) factors to correspond with the adopted risk-based capital (RBC) factors for the expanded bond designation categories (2022-11BWG Modified).
- Modifies life blank Five-Year Historical Data questions 68 and 69 to reference group comprehensive and questions 70 and 71 to reflect the inclusion of all health lines of business other than group comprehensive. The crosschecks for these questions are being modified accordingly. Interested parties requested an annual 2022 effective date (2022-13BWG Modified).
- Adopted editorial listing.

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 instructions to clarify, in accordance with Part One, paragraph 34, that the Securities Valuation Office (SVO) can assign NAIC designations to investments, which it does not think are eligible for Schedule D or BA reporting so long as it has the methodology to do so. However, the SVO would have the authority, at its discretion, to notify the appropriate state insurance regulators of any investments that, in its opinion, would not or might not be eligible for reporting on Schedules D or BA. The SVO would also maintain its authority to offer its accounting and reporting opinion, when requested to do so, as part of its Regulatory Treatment Analysis Service (RTAS).
 - Added instructions in Part Four to reflect a consistent reference to “NAIC Designation Category” and the additional price points needed to determine them.
 - Updated the definition of principal protected securities (PPS) to include transactions that pose similar risks to PPS transactions, as had been previously defined in the P&P Manual, but which are structured in a way that did not cleanly fit that definition, which required “underlying investments.” The updated definition includes a principle-based approach that will now include these new “synthetic PPS.”

7. *NAIC RBC Formula Changes and Related Items*

- Adopted the 2013–2021 U.S. and Non-U.S. Wildfire Event Lists.

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 were made to the ORSA Guidance Manual to incorporate elements of the International Association of Insurance Supervisors’ (IAIS’s) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of state-based insurance regulation. Due to the substantive nature of these changes, they will not be adopted through the routine technical changes process and will instead be presented as a separate item for consideration by the Executive (EX) Committee at the Fall National Meeting.

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

- None.

16. Group Capital Calculation (GCC) Instructions and Template

- 2022 GCC Template and Instructions.

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

- None.