FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Date: 3/20/24

Financial Regulation Standards and Accreditation (F) Committee
Phoenix, Arizona
March 16, 2024

The Financial Regulation Standards and Accreditation (F) Committee met in Phoenix, AZ, March 16, 2024. The following Committee members participated: Lori K. Wing-Heier, Chair (AK); Sharon P. Clark, Co-Vice Chair represented by Vick Kelleher (ND) 3.3 (e)-32 TJ0 Tc 0 Tw (,)Tj2.315 0 Td( )Tj0.002 Tc 0.109 Tw 0.337 0 Td[(t)10.9 (o)-3.6 (a)2.8(d)5.2 (o)-3

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That 2023 Revisions

		credit losses (CECL) for statutory accounting.
SSAP No. 34	2022-17	Revisions add additional disclosures in SSAP No. 34 to data capture the gross, nonadmitted and admitted amounts of interest incom and accrued, and to reflect the cumulative amount of paid-in-kind (PIK) interest income included in the current principal balance.
	2023-13	Revisions clarify and incorporate a practical expedient to the paid-in-kind (PIK) interest aggregate disclosure for SSAP No. 34—Investment Income Due and Accrued and proposed annual statement instructions.
	2023-24	Revisions reject ASU 2016-13, F13,20.2y acoS[(a)9.2n1.7 (l)-4.6 7

SSAP No. 61R	2023-24	Revisions reject ASU 2016-13, Financial Instruments—Credit Losses and related subsequent ASUs.

		expiration date of the guidance in INT-01 to December 31, 2024.
	INT 22-02	Revisions to INT 22-02: Third Quarter 2022 through Second Quar 2023 Reporting of the Inflation Reduction Act – Corporate Alternative Minimum Tax extend this interpretation for the second quarter 2023 statutory financial statements.
	2022-19 INT 23-01	INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve provides an optional, limited-time guidance, which allows th admittance of net negative (disallowed) interest maintenance reserve (IMR) up to 10% of adjusted capital and surplus. INT 23-01 will be automatically nullified on January 1, 2026.
	2023-04 INT 23-03	INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax provides guidance for CAMT reporting on or after year-end 2023 and addresses accounting, the statutory valuation allow admissibility, disclosures, and year-end 2023 transition.
	INT 23-04	INT 23-04: Scottish Re Life Reinsurance Liquidation Questi

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Lori K. Wing-Heier, Chair
Financial Regulation Standards & Accreditation (F) Committee

FROM: Pat Gosselin, Chair

Changes to blanks and instructions adopted during 2023

1. Modify Exhibit 1, Parts 1 and 2, and Exhibit 8, Parts 1 and 2, in the life and accident and health/fraternal blank, to include the line of business detail reported on the Analysis of Operations by Lines of Business pages. (2022-14BWG Modified) Effective Dec. 31, 2023
2. In the life, accident and health/fraternal, and property/casualty (P/C) blanks, revise the language of Schedule H, Part 5 to remove the 5% of premiums filing exemption. (2022-15BWG) Effective Dec. 31, 2023
3. Remove Supplemental Health Care Exhibit Part 3 and Supplemental Health Care Exhibit's Expense Allocation Report. (2022-16BWG) Effective Dec. 31, 2023
4. Add a new disclosure paragraph for Note 8 – Derivative Instruments and illustration. The new disclosure to be data captured. Add electronic-only columns related to derivatives with excluded components to Schedule DB, Part A and Part B for both Section 1 and Section 2. Add new code column instructions for Schedule DB, Part A and B (SAPWG-2021-20) (2022-17BWG Modified) Effective Dec. 31, 2023
5. For the life and accident and health/fraternal blank, instructional corrections on the handling of Exchange Traded Funds (ETFs) and/or Securities Valuation Office (SVO) Identified Funds within the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR). (2022-18BWG) Effective Dec. 31, 2023
6.

MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Eli Snowbarger (OK), Co-

- Revisions to Section 1–10 and Exhibit D – Planning Meeting with the Financial Analyst in response to the May Examination Peer Review session to clarify the role and expectations of the department analyst throughout the examination and to include any significant deviations or additions from the initial planning approach as a required element in status updates.

- Revisions to integrate the consideration of additional procedures to help regulators in their review of affiliated service agreements during a financial examination. Additional considerations for affiliated service agreements were included throughout the following:
  - Narrative guidance in Sections 1–3 and Section 2 Phase 1
  - Related Party Repository
  - Exhibits: Exhibit A – Examination Planning Procedures Checklist, Exhibit B – Insurer Profile Summary Template, and Exhibit CC – Issue/Risk Tracking Template.

The Technical Group will continue to notify the FRSAC of any changes to the Handbook and advise if, in our opinion, these changes are "significant" by accreditation expectations.

NAIC

Attached please find a brief description of changes to the 2023 risk-based capital (RBC) reports, including an overview and instructions, for health, life, and property/casualty (P/C). These changes were adopted by the Capital Adequacy (E) Task Force and the Executive (EX) Committee and Plenary in 2023. The significance of these changes was viewed as it relates to the overall RBC standard.

No changes to the RBC formulas or instructions were deemed to be significant for health, life, or P/C.

Any questions can be directed to NAIC staff:
P/C – Eva Yeung
Life – Dave Fleming
Health — Crystal Brown

Health RBC Formula

Not Significant	Modify the Affiliated Investment instructions and structure of the Affiliated Investment pages (XR002-XR004) to provide a relatively more consistent treatment of affiliated investment between the Health, Life and P/C RBC formulas.
Not Significant	Modified the preferred stock instructions to delete the reference to the bond factors and revised for consistency with the P/C RBC preferred stock instructions.

Not Significant	Clarify the stop loss instructions to provide clarity on reporting stop loss premiums in the RBC formula.
Not Significant	Update the comprehensive medical, Medicare supplement, and dental and vision factors in XR013 Instructions and RBC formulas to include a 5% investmnUpd%struur.2 (c(Ul)-3.u Tw ( )Tj -

Not Significant Modify

- <u>Standard 3</u>, the Accounting Practices and Procedures Manual[5] uses NAIC Designations produced by the SVO or SSG, or by insurers through the filing exempt process and or Price Grids produced by the SSG to identify valuation rules applicable to an investment and the reserved capital amount the insurer must report;

- <u>Standard 8</u>, pertaining to state investment regulations often incorporate NAIC mechanisms that relate asset allocations to credit risk expressed in the form of NAIC Designations[6]; and

- Standard 10, the Credit for Reinsurance Model Act (#785)[7] identifies insurer owned

Attachment One

RECENT CHANGES TO THE PURPOSES AND PROCEDURES MANUAL
Published in the December 31, 2023 Publication

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- Adopted update Notice of Credit Deterioration for the List of Qualified U.S. Financial Institutions – The SVO maintains the List of Qualified U.S. Financial Institutions ("QUSFI") which indicates the financial institutions eligible to issue letters of credit ("LOCs") which, pursuant to Section 3 of the Credit for Reinsurance Model Law ("Model #785"), can be used to reduce an insurers liability when ceding reinsurance to certain assuming insurers. To qualify as a QUSFI the LOC issuing financial institution needs to meet the criteria listed in Section 4 of Model #785, which includes a requirement that the financial institution "Has been determined by either the commissioner or the Securities Valuation Office of the National Association of Insurance Commissioners to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner." The SVO has encountered situations in which a financial institution on the QUSFI list was not downgraded below the minimum permitted ratings of BBB/Baa3 in the QUSFI guidelines in Part Two of the Purposes and Procedures Manual prior to regulatory action being taken by their primary regulator(s), such as closure of the bank by the relevant state regulator and appointment of the Federal Deposit Insurance Corp. as receiver. The amendment authorizes the SVO to remove a financial institution from the List of Qualified U.S. Financial Institutions if actions are either announced or taken by their primary regulator(s)

The Valuation of Securities (E) Task Force adopted this amendment via email vote on Apr. 19, 2023

- Adopted a non-substantive technical amendment clarifying the corresponding NAIC Designation Category for NAIC 5GI – At the 2021 Fall National Meeting the Task Force adopted a non-substantive technical amendment to the PL Securities section in Part Three of the Manual which

- Adopted an amendment including Collateralized Loan Obligations (CLO) as a Financially Model Security in Part Four – A collateralized loan obligation (CLO) is type of structured security backed by a pool of debt, typically corporate loans with low credit ratings. An insurer that purchases every tranche a CLO holds the exact same investment risk as if it had directly purchased the entire pool of loans backing the CLO. The aggregate risk-based capital (RBC) factor for owning all of the CLO tranches should be the same as that required for owning all of the underlying loan collateral. If it is less, it means-there is ris based capital (RBC) arbitrage. As noted in the Investment Analysis Office's (IAO) memo of May 25 2022, "Risk Assessment of Structured Securities – CLOs", it is currently possible to materially (and artificially) reduce C1 capital requirements just by securitizing a pool of assets. The Task Force assigned the Structured Securities Group (SSG) the responsibility of financially modeling CLO investments and evaluating all tranche level losses across all debt and equity tranches under a serie calibrated and weighted collateral stress scenarios to assign NAIC Designations that create equivale between securitization and direct holdings, thereby eliminating RBC arbitrage. This amendment is effective beginning with year-end 2024.

The Valuation of Securities (E) Task Force adopted this amendment on Feb. 21, 2023

END NOTES

[1] "…The purpose of the Part A: Laws and Regulations standards are to assure that an accredited state has sufficient authority to regulate the solvency of its multi-state domestic insurance industry in an effective manner. … A state may demonstrate compliance with a Part A standard through a law, a regulation, an established practice, which implements the general authority granted to the state or any combination of laws, regulations or practices, which achieves the objective of the standard … Accreditation Program Manual. "…For those standards included in the Part A … where the term "substantially similar" is included, a state must have a law, regulation, administrative practice or a combination of the above that addresses the significant elements included in the NAIC model laws or regulations. ... Accreditation Interlineations (Substantially Similar)

[2] " …Part B sets out standards required to ensure adequate solvency regulation of state insurers … In addition to a domestic state's examination and analysis activities, other checks and balances exist in the regulatory environment. These includes … analyses by NAIC's staff, … and to some extent the evaluation by private rating agencies…" Accreditation Program Manual

[3] The SFRS requires that securities owned by insurance companies be valued in accordance with standards promulgated by the NAIC's Capital Markets and Investment Analysis Office approved by VOS TF while other invested assets should be valued in accordance with procedures promulgated by the Financial Condition (E) Committee. The Investment Analysis Office refers to two independent staff functions: i.e., that of the SVO and that of the NAIC Struct-3.6 (lys

insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R." This standard does not articulate a threshold level for minimum capital and surplus required for insurers to transact business … basis. Risk-capital will, however, effectively require minimums when adopted by states." Accreditation Interlineations – Financial Regulation Standards

[5] The SFRS requires the use of the codified version of the Accounting Practices and Procedures Manual. Valuation procedures applicable to long-term invested assets are determined by the nature of the insurer (life or property/casualty) and the NAIC designation assigned to the security by the SVO or SSG; NAIC Designations assigned by insurance companies pursuant to the filing exempt rule contained in the Purposes and Procedures Manual or NAIC Designations derived by insurance companies for RMBS and CMBS from Price Grids produced by the SSG pursuant to SSAP No. 43R. To satisfy this standard, … specific adoption of the NAIC Annual Statement Blank, NAIC Annual Statement Instructions, and the NAIC 2 68-(i)293ID [(d)-2.4 (e)0- 2 60.00 (nu)2.5/gr293ID [(d)-6

Attachment A

LATF VM Amendment

AttachmentSix

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