

Draft date: 11/14/23

*2023 Fall National Meeting
Orlando, Florida*

FINANCIAL CONDITION (E) COMMITTEE

Sunday, December 3, 2023

12:30 – 1:15 p.m.

Bonnet Creek—Bonnet Creek IV–XII & Corridor I—Level I

ROLL CALL

Elizabeth Kelleher Dwyer, Chair	Rhode Island	Mike Chaney	Mississippi
Nathan Houdek, Vice Chair	Wisconsin	Chlora Lindley-Myers	Missouri
Mark Fowler	Alabama	Justin Zimmerman	New Jersey
Michael Conway	Colorado	Adrienne A. Harris	New York
Michael Yaworsky	Florida	Michael Wise	South Carolina
Amy L. Beard	Indiana	Cassie Brown	Texas
Doug Ommen	Iowa	Scott A. White	Virginia
Timothy N. Schott	Maine		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jenson

AGENDA

1. Consider Adoption of its Oct. 25 and Summer National Meeting Minutes —*Superintendent Elizabeth Kelleher Dwyer (RI)* Attachment One
2. Consider Adoption of its Task Force and Working Group Reports —*Superintendent Elizabeth Kelleher Dwyer (RI)*
 - A. Accounting Practices and Procedures (E) Task Force Attachment Two
 - B. Capital Adequacy (E) Task Force Attachment Three
 - C. Examination Oversight (E) Task Force Attachment Four
 - D. Financial Stability (E) Task Force Attachment Five
 - E. Receivership and Insolvency (E) Task Force Attachment Six
 - F. Reinsurance (E) Task Force Attachment Seven
 - G. Risk Retention Group (E) Task Force Attachment Eight
 - H. Valuation of Securities (E) Task Force Attachment Nine
 - I. NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group Attachment Ten
 - J. National Treatment and Coordination (E) Working Group Attachment Eleven
 - K. Risk-Focused Surveillance (E) Working Group Attachment Twelve



3. Consider Adoption of Qualified Jurisdictions and Reciprocal Jurisdictions —*Bob Wake (ME)* Attachment Thirteen
4. Receive Oral Comments on the Framework for Insurer Investment Regulation—*Superintendent Elizabeth Kelleher Dwyer (RI)*
 - A. Aaron Sarfatti—Equitable
 - B. Carrie Haughawout—American Council of Life Insurers (ACLI)
 - C. Christopher Anderson—Anderson Insights (Virtual participant)
 - D. Daren Moreira—American Investment Council (AIC)
 - E. Joe Engelhard—Alternative Credit Council (ACC)
 - F. John Golden—Athene
 - G. Amnon Levy—Bridgeway Analytics
 - H. John Garrison—Lease-Backed Securities Working Group
 - I. Francisco Paez—MetLife
 - J. Fred Andersen—Minnesota Department of Commerce
 - K. Richard Cantor—Moody’s Investor Services
 - L. Colleen Scheele—National Association of Mutual Insurance Companies (NAMIC)
 - M. Lindsay Crawford—Nebraska Department of Insurance (DOI)
 - N. Jennifer Webb—Pacific Life Insurance Company (Pac Life)
 - O. Edward Toy—Risk & Regulatory Consulting (RRC)
 - P. Douglas C. Stolte—Commonwealth of Virginia
5. Discuss Any Other Matters Brought Before the Committee —*Superintendent Elizabeth Kelleher Dwyer (RI)*
6. Adjournment

Draft: 11/3/23

Financial Condition (E) Committee
Virtual Meeting
October 25, 2023

The Financial Condition (E) Committee met Oct. 25, 2023. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Nathan Houdek, Vice Chair (WI); Mark Fowler (AL); Michael Conway represented by Rolf Kaumann (CO); Michael Yaworsky represented by Virginia Christy (FL); Doug Ommen and Carrie Mears (IA); Amy L. Beard represented by Roy Eft (IN); Timothy N. Schott and Robert Wake (ME); Chlora Lindley-Myers and John Rehagen (MO); Justin Zimmerman and David Wolf (NJ); Adrienne A. Harris represented by Joan Riddell (NY); Michael Wise represented Ryan Basnett (SC); Cassie Brown represented by Brian Riewe (TX); and Scott A. White, Dan Bumpus and Doug Stolte (VA). Also participating were: James J. Donelon (LA); and Kevin Baldwin (IL).

1. Adopted its 2024 Proposed Charges

Superintendent Dwyer stated that the Committee had previously exposed its 2024 proposed charges and received no comments. Dwyer highlighted that those proposed charges only contained two material changes, one to dissolve the Mortgage Guaranty Insurance (E) Working Group and its charges due to the NAIC's adoption of the *Mortgage Guaranty Insurance Model Act* (#630) and another to add a charge for the Valuation Analysis (E) Working Group regarding reinsurance. Dwyer noted that all the task forces reporting to the Committee had adopted their charges, which are incorporated into the proposed charges currently before the Committee.

Commissioner Ommen made a motion, seconded by Rehagen, to adopt its 2024 proposed charges (Attachment One-A). The motion passed unanimously.

2. Adopted Proposed Changes to Model #540

Superintendent Dwyer stated her appreciation for the work and the product adopted by the Receivership and Insolvency (E) Task Force for *Property and Casualty Insurance Guaranty Association Model Act* (#540), as the initial request to change Model #540 to enable insurance business transfers (IBTs) and corporate divisions (CDs) came from the Restructuring Mechanisms (E) Working Group that Dwyer co-chairs with Commissioner Mulready. The overall goal was to ensure that consumers who start with guaranty fund coverage keep that coverage after those transactions. Dwyer stated her appreciation to Commissioner Donelon for his work and also acknowledged the great amount of work done by the Task Force and Working Group.

Commissioner Donelon said the Receivership and Insolvency (E) Task Force is requesting the Financial Condition (E) Committee adopt amendments to Model #540. Last year, the NAIC Executive (EX) Committee approved two requests to amend the model. The first request was in response to a referral from the Restructuring Mechanisms (E) Working Group, which had identified the need to preserve guaranty fund coverage for policyholders subject to IBTs and CDs where the policyholder had guaranty fund coverage before the transaction. The second request originated from the National Conference of Insurance Guaranty Funds (NCGIF) and identified the need to clarify the language in the model regarding guaranty fund coverage of cybersecurity insurance to ensure there was no ambiguity in the coverage of those types of policies.

Commissioner Donelon said the amendments presented to the Committee address both of these topics. He stated the proposed amendments had been through multiple rounds of open discussion and revision and were exposed

for public comment through the Working Group and then through the Task Force. Commissioner Donelon noted there was a great deal of open discussion between regulators and interested parties on the restructuring revisions where certain sections of the model pertaining to the 2009 assumed claims transaction language are deleted. This was the primary subject of comments sent to the Working Group and Task Force. The newly added Section 5G(2) is intended to ensure that coverage is preserved if coverage existed before an IBT or CD transaction. Because this amendment is broad, it automatically includes common law novation and assumption reinsurance without stating these specifically. He said that in drafting the new 5G(2) and 5G(3) sections, the Working Group understood that there may be some states that need coverage in certain circumstances, such as when a non-member transfers claims to a member insurer, and it is not clear whether the member insurer issued a replacement policy. Therefore, the deleted sections are replaced with the new optional 5G(3) section, which members of the Working Group believe is more streamlined and results in greater clarity when combined with the new 5G(2) section that specifically addresses IBTs and CDs.

Commissioner Donelon also noted that only three states had adopted the 2009 assumed claims transaction language. The new 5G(3) section offers states the option to consider such language if they desire. It also gives states the option to either adopt both new sections or only section 5G(2). Commissioner Donelon noted that at the conclusion of these discussions, both the Working Group and the Task Force unanimously adopted the amendments to Model #540, which were presented to the Committee for consideration.

Patrick Cantilo (Cantilo & Bennett) stated that he supported the purpose of the request from the Restructuring Mechanisms (E) Working Group that assurances are provided for continued guaranty fund protection with these policies. He stated that his comments and his reservations were because of the way the Working Group drafted those changes; specifically, that the 278-line changes went too far. He said the Working Group draft adds a number of provisions for the removal of guaranty fund coverage for assumed claims transactions that were part of the 2009 changes to Model #540. Cantilo stated he did not believe there was a reason for this to be done and noted that if the Committee is inclined to consider removing policyholder protection for assumed claims transactions, it should provide notice to the world that this is being considered. Cantilo stated that he has proposed a simple three-line amendment that would achieve the objective requested by the Restructuring Mechanisms (E) Working Group. Cantilo submitted that the Committee ought to either adopt his proposed three-line amendment or tell the world their intent of removing existing guaranty fund protection that was added by this Committee in 2009.

Barbara Cox (National Conference of Insurance Guaranty Funds—NCIGF) noted that the 2009 changes to Model #540 had only been adopted in three states; therefore, there is some question as to whether the guaranty funds would cover such assumed claims transactions in all the other states. Cox stated she believed Wake had reviewed the 278-line changes, and most of them are strikethroughs to make the model consistent with what the other 47 states have in their statutes. However, the proposed changes from the Task Force include optional language that is intended to be coverage-neutral and keeps a state's coverage the same before and after the proposed changes. Cox stated that if policymakers want to go beyond coverage neutrality and cover transactions that were not covered before the transaction, her conclusion was that none of the drafts and options presented by Cantilo would achieve that objective, as they either go beyond or do not go far enough.

Baldwin said that while personally sympathetic to the points made by Cantilo, as co-chair of the Working Group that was initially tasked with this project, the Working Group believed it achieved the objective with the optional language. Baldwin noted that there were different options considered in the process but what was developed was a consensus product and clearly meets the objectives. Wake agreed with Baldwin that many options were considered, including looking at some of the laws New Hampshire and other states already had, and he supported the statements made by Baldwin.

Cantilo noted that assumed claims coverage didn't need to be removed because while only three states had adopted the 2009 changes, what wasn't heard was that a lot of other states already provided assumed claims coverage prior to those changes and therefore didn't need to adopt the 2009 changes. He said the point is the assumed claims have nothing to do with the IBTs and CDs issue, and the word "coverage neutrality" used by NCIGF is intended to remove such coverage. Cantilo argued that if the Committee adopted his version, coverage would not be lost. He said that the Task Force's proposal takes away such coverage in Section 5G(2) and then puts it back in Section 5G(3).

Baldwin reminded the Committee that while the 2009 changes to the model didn't say anything about being optional, the proposal included that as optional because only three states had adopted such 2009 language. Therefore, the 2009 language was optional in a way without saying it because it wasn't an accreditation requirement. He said the intention of the proposed amendments is to be very clear so that in the future, these sorts of issues are evident to policymakers in each state. Baldwin noted that while some on the Working Group believed that Cantilo's draft could achieve the same objectives, the assessment of the group was that his draft wasn't clear, and the version that was ultimately adopted provided greater clarity.

Bumpus discussed how the issue in his state on this matter was central to a receivership that occurred years ago, but in that situation, making the claim coverage optional was a clear departure from the 2009 language and for that reason, they opposed the proposal from the Task Force.

Birny Birnbaum (Center for Economic Justice) questioned why the assumed claims language would be optional. Superintendent Dwyer noted that currently, not every state has guaranty fund coverage for assumed claims transactions. Baldwin agreed with Superintendent Dwyer and compared the situation to the fact that a number of states have fraternal insurers and other alternative risk mechanisms that are not part of the guaranty fund system. He said that historically, the issue is that these don't pay into the guaranty fund system, and therefore, the basis for many states determining coverage should not be provided.

Baldwin noted this is why the proposed language was crafted the way it was. Birnbaum appreciated the point but noted that as insurance regulators and protectors of consumers, they can take their own position, noting that making it an option suggests it's not a requirement for regulators.

Commissioner Donelon stated that if 47 states have done something together, and three states have done something else, and there is no accreditation standard, it seems to be voluntary. Superintendent Dwyer noted that some of the policies have not paid into the system and asked if states would want to have coverage for something not paid into since that would result in other policyholders paying into the system on their behalf. Stolte provided further specifics on a Virginia company that supported why the coverage for such was supported years ago. White noted that the policies were assessable.

Cantilo asked anyone familiar with all the facts to read each of the two options and draw their own conclusions on which is simpler. He then questioned reversing the 2009 changes and suggested instead to adopt the three-line amendment he had proposed. Cantilo suggested the Committee adopt what is needed to achieve the objective and that it debate the removal of the assumed claims transaction coverage in the future. Superintendent Dwyer noted that Cantilo should have heard quite extensively that other people do not agree. What is before the Committee is the proposed changes from the Task Force. Superintendent Dwyer questioned if the Committee could take something up that wasn't currently before the Committee. She asked if there was a motion.

Commissioner White made a motion to adopt a proposed change to Model #540 that is more simplified and would achieve the same objective but without removing the existing language dealing with assumed claims transactions. No second was made on the motion.

Acting Superintendent Schott made a motion, seconded by Commissioner Fowler, to adopt the proposed changes to Model #540 from the Receivership and Insolvency (E) Task Force (Attachment One-B). The motion passed with Virginia voting no.

3. Received Comments Regarding the Framework for Regulation of Insurers' Investments and Discussed the Future Process for Comment Review

Commissioner Ommen made a motion, seconded by Kaumann, to receive the comments regarding the Framework for Regulation of Insurers' Investment into the record (Attachment One-C). The motion passed unanimously.

Superintendent Dwyer said that the number of comments received was significant. She repeated a statement that was made at the Summer National Meeting, which was that the Committee does not plan on stopping any of the work that is currently underway in this area. Superintendent Dwyer noted that she recognized some of the comments ask the Committee to stop, and the Committee will consider it, but at the moment, the work will continue, including that of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, as well as work of the Valuation of Securities (E) Task Force regarding modeling of collateralized loan obligations (CLOs) and, separately, the filing exemption (FE) process.

Superintendent Dwyer proposed that at the Fall National Meeting, the Committee begin hearing comments and that each party should be given two minutes to provide comments, proceeding in the order of the comments included in this meeting's material. Superintendent Dwyer asked that anyone not wanting to make general comments at the Fall National Meeting notify NAIC staff by Nov. 1. Superintendent Dwyer stated that in 2024, the Committee will look to group the comments by specific recommendations, and the Committee will work through the comments that way as opposed to simply going through each comment letter. There was no opposition to this approach from Committee members.

Having no further business, the Financial Condition (E) Committee adjourned.

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2023-2-Summer/071923 E Minutes.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/2023-2-Summer/071923%20E%20Minutes.docx)

Draft Pending Adoption

Draft: 8/17/23

Financial Condition (E) Committee
Seattle, Washington
August 15, 2023

The Financial Condition (E) Committee met in Seattle, WA, Aug. 15, 2023. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Nathan Houdek, Vice Chair, and Amy Malm (WI); Mark Fowler (AL); Michael Conway (CO); Michael Yaworsky represented by Virginia Christy (FL); Amy L. Beard and Roy Eft (IN); Doug Ommen, Carrie Mears and Kevin Clark (IA); Timothy N. Schott and Vanessa Sullivan (ME); Mike Chaney represented by David Browning (MS); Chlora Lindley-Myers and John Rehagen (MO); Justin Zimmerman (NJ); Adrienne A. Harris represented by John Finston and Bob Kasinow (NY); Michael Wise (SC); Cassie Brown and Jamie Walker (TX); and Scott A. White (VA).

1. Adopted its July 19 and Spring National Meeting Minutes

The Committee met July 19 and took the following action: 1) adopted life risk-based capital (RBC) proposals 2023-09-IRE (Residuals Factor) and 2023-10-IRE (Residual Sensitivity Test Factor for Residuals); 2) adopted the *Mortgage Guaranty Insurance Model Act* (#630); and 3) adopted a new charge for a new group titled the Generator of Economic Scenarios (E/A) Subgroup of the Life Risk-Based Capital (E) Working Group.

Commissioner Houdek made a motion, seconded by Commissioner White, to adopt the Committee's July 19 (Attachment One) and March 24 minutes (*see NAIC Proceedings – Spring 2023, Financial Condition (E) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

Superintendent Dwyer stated that the Committee usually takes one motion to adopt its task force and working group reports that are considered technical, noncontroversial, and not significant by NAIC standards; i.e., they do not include model laws, model regulations, model guidelines, or items considered to be controversial. She reminded Committee members that after the Committee's adoption of its votes, all the technical items included within the reports adopted will be sent to the NAIC Members for review shortly after the conclusion of the Summer National Meeting as part of the Financial Condition (E) Committee Technical Changes report. Pursuant to the technical changes report process previously adopted by the Executive (EX) Committee and Plenary, the Members will have 10 days to comment. Otherwise, the technical changes will be considered adopted by the NAIC and effective immediately. With respect to the task force and working group reports, Superintendent Dwyer asked the Committee: 1) whether there were any items that should be discussed further before being considered for adoption and sent to the Members for consideration as part of the technical changes; and 2) whether there were other issues not up for adoption that are currently being considered by task forces or workings groups reporting to this Committee that require further discussion. The response to both questions was no.

In addition to presenting the reports for adoption, Superintendent Dwyer noted that the Financial Analysis (E) Working Group met Aug. 12, July 20, June 14 and 21, May 24, and May 25 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses and financial results. Additionally, the Valuation Analysis (E) Working Group met Aug 12, July 20, and May 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies. Finally, the National Treatment and Coordination (E) Working Group met in regulator-to-regulator session Aug. 2, July 26, and June 15, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance), to continue work on its goals.

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Walker made a motion, seconded by Acting Superintendent Schott, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Financial Stability (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment Two); Mortgage Guaranty Insurance (E) Working Group (Attachment Three); Restructuring Mechanisms (E) Working Group (Attachment Three and Attachment Four); and Risk-Focused Surveillance (E) Working Group (Attachment Five). The motion passed unanimously.

3. Adopted the Macroprudential Reinsurance Worksheet

Kasinow summarized the work by the Macroprudential (E) Working Group leading up to its adoption of the reinsurance worksheet in June. He emphasized that the worksheet was designed for regulators to assess cross-border reinsurance treaties where there are different regulatory systems involved and is intended to assist in identifying if there are true economic impacts from the reinsurance transaction. He noted that it is not intended to be used for every reinsurance contract and that it should be used in a way to avoid duplicating requested information. It is geared toward life insurance contracts. However, there is no reason to limit the tool to life; it can be used on property/casualty (P/C) reinsurance contracts. The worksheet is an optional tool and will not be included in the *Financial Analysis Handbook*, but it is available on StateNet to be used when deemed appropriate.

Rehagen made a motion, seconded by Commissioner Ommen, to adopt the macroprudential reinsurance worksheet (Attachment Six). The motion passed unanimously.

4. Adopted INT 23-01: Net Negative (Disallowed) IMR

Dale Bruggeman (OH), Chair of the Statutory Accounting Principles (E) Working Group, summarized Interpretation (INT) 23-01: Net Negative (Disallowed) IMR. Bruggeman started with a timeline of the work. He noted that the Working Group exposed the idea of an initial project as a short-term Interpretation at the 2022 Fall National Meeting, and it heard comments at the 2023 Spring National Meeting. At that meeting, the Working Group gave NAIC staff directions for a proposed interpretation to be exposed. The Working Group heard comments on that exposure at a meeting in June and re-exposed a revised interpretation at that time. On Aug. 13, the Working Group adopted INT 23-01. Bruggeman noted the adopted interpretation is effective immediately and through year-end 2025, which gives industry, regulators, and others a few years to develop a long-term approach. The adopted INT reflects the following:

- The requirement for RBC to be over 300% authorized control level (ACL) RBC after adjustment to remove admitted positive goodwill, EDP equipment and operating system software, deferred tax assets (DTAs), and admitted negative interest maintenance reserve (IMR) (referred to as softer assets).
- Allowance to admit up to 10% of adjusted capital and surplus (excluding those softer assets), first in the general account, and then if all disallowed IMR in the general account is admitted and the percentage limit is not reached, then to the separate account proportionately between insulated and non-insulated accounts—those that have assets at book value. (The adjustments are the same that occur for the RBC adjustment and reduce capital and surplus before applying the 10% percentage limit.)
- Application guidance for admitting/recognizing IMR in both the general and separate accounts, including a specific name to use in each. Also, reporting entities shall allocate an amount equal to the general account admitted net negative (disallowed) IMR from unassigned funds to an aggregate write-in for special surplus funds (line 34) (named as “Admitted Disallowed IMR”). Although dividends are contingent on state-specific statutes and laws, the intent of this reporting is to provide transparency and preclude the ability for admitted negative IMR to be reported as funds available to dividend.

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- No exclusion for derivatives losses included in negative IMR if the reporting entity can demonstrate historical practice in which realized gains from derivatives were also reversed to IMR (as liabilities) and amortized.
- Inclusion of a new reporting entity attestation, which continues the existing practice that losses cannot be deferred as a result of a forced sale due to liquidity issues, along with commentary that assets were sold as part of prudent asset management, following documented investment or liability management policies.

Bruggeman said that it was important to note that this interpretation does not place key reliance on asset adequacy testing (AAT) as requested by the Life Actuarial (A) Task Force. AAT performed by actuaries will still use the IMR as a natural liability or as an admitted asset. He said it is important to note that the larger the admitted asset within AAT, the greater the chance of having an additional AAT reserve requirement. Bruggeman also noted that the Working Group started the longer-term project through exposure of agenda item 2023-14. The Working Group also exposed some blanks instructional provisions for when interest related realized gains/losses go through IMR (that is deferred from the income statement) and when the result goes through the asset valuation reserve (AVR) calculation and thus through the income statement. There were some holes in how the instructions read. The Working Group intends to use an ad hoc technical group, and with any required approvals from the parent groups, to nail down the issues and get any needed help from the Life Actuarial (A) Task Force and/or the American Academy of Actuaries (Academy).

Commissioner Houdek made a motion, seconded by Acting Superintendent Schott, to adopt INT 23-01 (Attachment Seven). The motion passed with New York abstaining.

5. Heard a Presentation from the OFSI on the Use of AI

Jacqueline Friedland (Office of the Superintendent of Financial Institutions—OFSI) provided an overview of some of the work that OFSI had conducted relative to data analytics, including its use of artificial intelligence (AI) (Attachment Eight). Friedland emphasized a number of areas during her presentation, including that her presentation and her approach to things were influenced by her background as an actuary, where data is a powerful source of information that can enhance efficiency and effectiveness. She discussed Canada's financial condition testing (FCT) report that is required annually of insurers and how it is the single most important report used for prudential regulation in Canada. She described her past experience, starting with Canada and the expectations she set out for her staff in using the reports, and how using natural language generation AI can increase efficiencies and effectiveness in such reviews by her staff.

Friedland also discussed her work and that of her staff in retooling the reports for their use with International Financial Reporting Standard (IFRS) 17 *Insurance Contracts*. Her greatest emphasis was placed on the next topic, the Risk Assessment Data Analytics Report (RADAR), which is an interactive dashboard of common financial risk indicators across insurance and banking. At its core, the report pulls in various data elements and color codes the area of data to indicate, based upon industry data, whether the area being reviewed by the regulator is an area of concern or where follow-up is needed. The system uses a comprehensive and interactive training program that was developed using various inputs, including the NAIC's Insurance Regulatory Information System (IRIS) ratios manual.

Additionally, Friedland discussed OFSI's use of the Meltwater media monitoring tool, which allows insurance supervisors to monitor media and social media across companies, industries, and topics. It is particularly helpful for parent company monitoring. Finally, Friedland discussed the use of natural language processing (NLP) for reinsurance. OFSI is seeking more details about the use of reinsurance across the industry, in terms of attachment points, participation, limits, etc. NLP allows OFSI to extract unstructured data that lacks consistency from actuarial reports to where it is more usable.

Draft Pending Adoption

6. Exposed the Framework for Regulation of Insurer Investments

Superintendent Dwyer reminded meeting participants that included with the materials for the meeting was a draft *Framework for Regulation of Insurer Investments*. She explained that the purposes of this document are to: 1) provide a holistic overview of what various working groups and task forces are doing in this area; and 2) state that this work is under the purview of the commissioners and other regulators making up the Committee. Superintendent Dwyer said she intends to hear from all interested parties as the Committee finalizes this document, but the Committee does not plan to stop any of the work that is currently underway related to this project. The three main pieces of that work that are underway are: 1) work at the Risk-Based Capital Investment Risk and Evaluation (E) Working Group to modify the life RBC formula; 2) work at the Valuation of Securities (E) Task Force that authorized the Structured Securities Group (SSG) to begin financially modeling collateralized loan obligations (CLOs) beginning December 2024; and 3) work at the Valuation of Securities (E) Task Force that proposes to establish processes and procedures by which the Securities Valuation Office (SVO) would be authorized to challenge the credit rating for a filing exempt (FE) security. Superintendent Dwyer noted that during this meeting, she wanted to hear comments from regulators.

Rehagen noted that the document is good, especially the enhancements and the different regulatory initiatives regulators are undertaking because they need this type of ability with the increasing complexity of investments—specifically, having services that assist regulators in determining how risky a security it is. Superintendent Dwyer noted that it was drafted by a small ad hoc group of committee members and that having everyone's input on it will be helpful.

Mears noted the document would have a major impact on the Valuation of Securities (E) Task Force. She said that speaking for Iowa, she supports the framework and wanted to reiterate that none of the existing work will be pausing. Mears said the Valuation of Securities (E) Task Force, which she chairs, will continue its deliberative process, and take into account all the feedback received from interested parties, but the Task Force will still be moving forward in that direction. Mears noted that the framework, if supported, provides a future vision of what centralized investment expertise is available to U.S. regulators. She said that it is understandable that many of these initiatives will be costly and will take some time as issues arise. She said that whether it is with the Valuation of Securities (E) Task Force or the Risk-Based Capital Investment Risk and Evaluation (E) Working Group, the framework looks beyond the different economic cycles or stresses that could be in place and allows regulators to be thoughtful and deliberative. Mears said this is an opportune time for the document given the work ahead.

Commissioner Beard thanked Superintendent Dwyer for her leadership on this document. She noted the Committee took a measured approach and was able to expedite this important issue in discussions. Commissioner Beard stated appreciation for the non-prescriptive approach that the framework will allow the regulators to take. She said it gives peace of mind knowing that the Committee participates in the process and that the Committee will be able to rely on the subject matter experts (SMEs) for their expertise.

Commissioner White made a motion, seconded by Commissioner Houdek, to expose the framework draft for a 45-day public comment period ending Oct. 2. The motion passed unanimously.

Having no further business, the Financial Condition (E) Committee adjourned.

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2023 Fall National Meeting

Orlando, Florida

ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

Saturday, December 2, 2023

11:30 AM - 12:00 PM ET

Meeting Summary Report

The Accounting Practices and Procedures (E) Task Force met Dec. 2, 2023. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.
2. Adopted the Report of the Statutory Accounting Principles (E) Working Group, which met Dec. 1. During this meeting, the Working Group:
 - A. Adopted its Oct. 31 (e-vote), Oct. 24 (e-vote), Oct. 23, Sept. 21, and Summer National Meeting minutes.
 - B. Adopted the following clarifications and new concepts to statutory accounting guidance:
 - i. Adopted new statutory accounting principle (SAP) concept revisions to further restrict the investments 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)
 - ii. Adopted revisions clarifying that investments in substance residual interests shall be reported on Schedule BA on the dedicated reporting line for residuals, effective year-end 2023. (Ref #2023-23)
 - iii. Adopted 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 [AG 51]*) are both required if indicated. (Ref #2023-22)
 - iv. Adopted *Annual Statement Instructions* revisions to 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)
 - C. Exposed the following SAP concepts and clarifications to statutory accounting guidance until Feb. 9, 2024, except for agenda items 2019-21, 2023-16, and 2023-28, which have a public comment deadline of Jan. 22, 2024, and Interpretation (INT) 23-04, which has a public comment deadline of Dec. 29, 2023:

- i. Exposed revisions to *Statement of Statutory Accounting Principles (SSAP) No. 21R—Other Admitted Assets* to incorporate a new measurement method for residual interests. The revisions incorporate industry’s proposal of an “effective yield with a cap” method, as well as a practical expedient to allow the “cost recovery” method. (Ref #2019-21)
- ii. Exposed revisions to expand the transparency of reporting for collateral loans on Schedule BA to enable state insurance regulators to quickly identify the type of collateral that supports admittance of collateral loans. (Ref #2023-28)
- iii. Exposed revisions update the proposed guidance for investments in tax credits, as well as acquired tax credits in response to the comments received. The exposure also requests comments on updated annual statement reporting categories for tax credit investment risk-based capital (RBC). (Ref #2022-14)
- iv. Exposed revisions to *SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies* to further define for consistency purposes that the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies (LLCs), or residual interests be reported based on the underlying characteristics of assets. (Ref #2023-16)
- v. Exposed intent to review the revisions to the *Mortgage Guaranty Insurance Model Act (#630)* for incorporation as applicable. The exposure requests input on an effective date. (Ref #2023-31)
- vi. Exposed consistency revisions to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* to update the language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. (Ref #2023-30)
- vii. Exposed revisions to reject current expected credit loss *Accounting Standards Update (ASU) 2016-13 Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments and Other Related ASUs (CECL)* within *INT 06-07: Definition of Phrase “Other Than Temporary”* and 15 applicable SSAPs. (Ref #2023-24)
- viii. Exposed *Annual Statement Instructions* revisions to clarify that realized gains and losses on perpetual preferred stock shall not be added to the IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to the asset valuation reserve (AVR). (Ref #2023-29)
- ix. *INT 23-04T: Life Reinsurance Liquidation Questions*: Exposed revisions to INT 23-04 provide accounting and reporting guidance for ceding entities with the life reinsurance counterparty, Scottish Re, in liquidation. This requires following existing life reinsurance guidance and requires nonadmission of unpaid claims and other amounts that are either in dispute or not collateralized by an A-785 compliant trust. It allows admission of undisputed claims incurred

- before contract cancellation and paid before the reporting period, and undisputed amounts secured by an A-785-compliant trust.
- x. The following U.S. generally accepted accounting (GAAP) standards were exposed with revisions to reject, as they are not applicable to statutory accounting:
 - a. *ASU 2023-03, Amendments to SEC Paragraphs* (Ref #2023-25)
 - b. *ASU 2023-04, Amendments to SEC Paragraphs—Cryptocurrency* (Ref #2023-27)
- D. Moved the following items to the disposed listing without statutory revisions:
- i. Agenda item 2023-03: *C-2 Mortality Risk Note*, was moved to disposed, noting a replacement general interrogatory blanks proposal was exposed.
 - ii. Agenda item 2016-20: *ASU 2026-20 – Credit Losses*, which originally started to address CECL, was moved to disposed, noting a replacement agenda item 2023-24 was exposed.
- E. Directed NAIC staff on the following items:
- i. The Working Group established a long-term project to incorporate accounting guidance for AVR and IMR. (Ref #2023-14)
 - ii. *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement*: The Working Group deferred action and directed NAIC staff to continue working with interested parties on the proposal. (Ref #2022-12)
 - iii. *ASU 2023-06, Codification Amendments in Response to the SEC’s Disclosure Update*: The Working Group deferred action on pending agenda Item 2023-26.
- F. Received updates on the following:
- i. U.S. GAAP exposures, noting that pending items will be addressed during the normal maintenance process.
 - ii. Life Actuarial (A) Task Force coordination memorandum noting that no Working Group action is required.
 - iii. NAIC staff monitoring of International Association of Insurance Supervisors (IAIS) Audit and Accounting Working Group activities.
- G. During its Oct. 31 e-vote, the Working Group exposed revisions to *SSAP No. 30R—Unaffiliated Common Stock* and *SSAP No. 32R—Preferred Stock* to clarify that investments that are in substance residual interests are to be reported on Schedule BA on the dedicated reporting line for residuals for a public comment period that ended Nov. 15. (Ref #2023-23)

- H. During its Oct. 24 e-vote, the Working Group exposed *INT 23-04T: Life Reinsurance Liquidation Questions*, which provides accounting and reporting guidance for ceding entities with a life reinsurance counterparty in liquidation, for a public comment period ending Nov. 15.
- I. During its Oct. 23 meeting, the Working Group:
 - i. Adopted with modification in several SSAPs certain aspects of *ASU 2016-19—Technical Corrections and Improvements* and revisions to *SSAP No. 92—Postretirement Benefits Other Than Pensions* to change the term “insurance contracts” to “insurance annuities” consistent with *SSAP No. 102—Pensions*. (Ref #2023-18)
 - ii. Adopted revisions to *SSAP No. 20—Nonadmitted Assets* and *SSAP No. 21R* that 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, LLCs, or joint ventures. (Ref #2022-11)
 - iii. Adopted revisions to *SSAP No. 92* and *SSAP No. 102* to remove the transition guidance, as the 10-year applicable transition period has ended. (Ref #2023-21)
 - iv. Rejected *ASU 2018-09—Codification Improvements* (Ref #2023-19) and *ASU 2020-10—Codification Improvements* (Ref #2023-20) through Appendix D as not applicable for statutory accounting.
- J. During its Sept. 21 meeting, the Working Group:
 - i. Adopted revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to clarify the scope and reporting for investment structures that represent residual interests. (Ref #2023-12)
 - ii. Adopted *INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax*, which recommends for third-quarter 2023 that reporting entities should disclose whatever information is available regarding their applicable reporting entity status.
 - iii. Adopted *INT 23-03: Corporate Alternative Minimum Tax Guidance*, which provides guidance effective beginning year-end 2023 reporting of the corporate alternative minimum tax, which applies *SSAP No. 101—Income Taxes* with modification and provides disclosures. (Ref #2023-04)
- 3. Adopted the Report of the Blanks (E) Working Group, which met Nov. 7 and took the following action:
 - A. Adopted its July 27 minutes, which included the following action:
 - i. Adopted its May 31 minutes.

- ii. Re-exposed proposal 2023-06BWG for a 75-day public comment period ending Oct. 12.
 - iii. Deferred proposals 2023-05BWG, 2023-07BWG, and 2023-09BWG.
 - iv. Adopted its editorial listing.
- B. Re-exposed the following proposal for an additional public comment period:
- i. 2023-05BWG Modified – Changes to the cybersecurity supplement to remove the reference to identity theft insurance from the General Instructions; remove the interrogatory questions from Part 1 that pertain to identity theft insurance; and remove the column for identity theft insurance from Part 2 and Part 3. Remove claims-made and occurrence breakdown from data collection, and remove the question in the interrogatories regarding tail policies.
 - ii. 2023-12BWG Modified – Categorize debt securities on Schedule BA that do not qualify as bonds under *Statement of Statutory Accounting Principles (SSAP) No. 26R—Bonds* or SSAP No. 43R and are captured in the scope of *SSAP No. 21R—Other Admitted Assets*.
- C. Adopted the following proposals:
- i. 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.
 - ii. 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.
- D. Exposed three new items for a 75-day public comment period ending Jan. 22, 2024.
- E. Received memorandums from the Statutory Accounting Principles (E) Working Group.
- i. SAPWG INT 23-01: Net Negative (Disallowed) Interest Maintenance Reserve (IMR)
 - ii. Statutory Accounting Principles (E) Working Group Year-end updates:
 - a. Ref #2023-13: (Payment in Kind) PIK Interest Disclosure Clarification
 - b. INT 23-02: Third Quarter 2023 Inflation Reduction Act – Corporate Alternative Minimum Tax (effective the third quarter of 2023 only)
 - c. Ref #2023-04; INT 23-03: Inflation Reduction Act – Corporate Alternative Minimum Tax (effective for year-end 2023 reporting and thereafter)
 - d. Ref # 2023-12: Residuals in SSAP No. 48
 - e. Ref #2023-2: Removal of transition guidance from SSAP No. 92 and SSAP No. 102
- F. Adopted its editorial listing.
- G. Approved the state filing checklist templates.

2023 Fall National Meeting

Orlando, Florida

CAPITAL ADEQUACY (E) TASK FORCE

Saturday, December 2, 2023

1:45 – 2:45 p.m.

Meeting Summary Report

The Capital Adequacy (E) Task Force met Dec. 2, 2023. During this meeting, the Task Force:

1. Adopted its Oct. 11 and Sept. 18 minutes, which included the following action:
 - A. Adopted its Summer National Meeting minutes.
 - B. Adopted its 2024 proposed charges, which the Task Force exposed for a 30-day public comment period that ended Sept. 13.
 - C. Adopted its revised procedures document, which the Task Force exposed for a 30-day public comment period that ended Sept. 13.
 - D. Adopted 2023 newsletters.
 - E. Received a status update from its Risk Evaluation Ad Hoc Subgroups.
 - F. Discussed a referral from the Statutory Accounting Principles (E) Working Group regarding the Schedule BA proposal for non-bond debt securities.
 - G. Exposed proposal 2023-12-CA for a 33-day public comment period that ended Nov. 13.
 - H. Discussed editorial changes in the affiliated investments.
 - I. Discussed the risk-based capital (RBC) charge for companies reported as Blank Affiliate types in the Details for Affiliated Stock page.
2. Adopted the report of the Health Risk-Based Capital (E) Working Group, which met Nov. 8. During this meeting, the Working Group took the following action:
 - A. Adopted its July 25 minutes and noted the Working Group met Oct. 2 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, which included the following action:
 - i. Adopted its May 17 and April 17 minutes.
 - ii. Adopted its 2023 health RBC newsletter.
 - iii. Adopted its 2022 health RBC statistics.
 - iv. Exposed proposal 2023-11-H.
 - v. Referred the health test proposal to the Blanks (E) Working Group.
 - vi. Received an update from the American Academy of Actuaries (Academy) on the health care receivables and H2-underwriting risk review projects.
 - vii. Adopted its updated working agenda.
 - viii. Received an update on the Excessive Growth Charge Ad hoc Group.
 - ix. Discussed pandemic risk.
 - B. Adopted proposal 2023-11-H for page XR014, Fee for Service and Other Risk Revenue for Medicare and Medicaid.

- C. Received an update from the Academy on the health care receivables and H2-underwriting risk review projects. The Working Group agreed to expose the Academy's Health Care Receivable presentation for a 61-day public comment period ending Jan. 8, 2024.
 - D. Discussed pandemic risk and received a presentation from the Texas Department of Insurance (TDI).
 - E. Received an overview of the Risk Evaluation Ad Hoc group.
 - F. Discussed questions on the 2022 health RBC statistics.
3. Adopted the report of the Risk-Based Capital Investment and Evaluation (E) Working Group, which met Dec. 2. During this meeting, the Working Group took the following action:
- A. Adopted its Summer National Meeting minutes.
 - B. Adopted its Oct. 17 minutes, which included the following action:
 - i. Continued discussion of the Academy candidate principles for structured securities RBC.
 - C. Received updates from the Valuation of Securities (E) Task Force and the Statutory Accounting Principles (E) Working Group.
 - D. Heard a presentation from the Academy on updates to its candidate principles for structured securities RBC.
4. Adopted the report of the Life Risk-Based Capital (E) Working Group, which met Dec. 2. During this meeting, the Working Group took the following action:
- A. Adopted its Oct. 4 minutes, which included the following action:
 - i. Discussed C-2 mortality risk.
 - B. Adopted its Summer National Meeting minutes.
 - C. Discussed repurchase agreements.
 - D. Exposed a C-2 mortality risk memorandum for a 10-day public comment period ending Dec. 15.
 - E. Discussed its subgroups, working agenda, and 2024 priorities.
5. Adopted the report of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup, which met Dec. 2. During this meeting, the Working Group and Subgroup took the following action:
- A. Adopted their Nov. 16 minutes, which included the following action:
 - i. Exposed proposal 2023-16-CR for a seven-day public comment period that ended Nov. 23.
 - ii. Heard a presentation from the Academy on the report *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors*.
 - B. Adopted the Property and Casualty Risk-Based Capital (E) Working Group's July 27 minutes, which included the following action:
 - i. Adopted its June 26 and April 24 minutes, which included the following action:
 - a. Adopted its Spring National Meeting minutes.
 - b. Adopted proposal 2023-02-P, which provided a routine annual update to the line 1 premium and reserve industry underwriting factors in the property/casualty (P/C) RBC formula.
 - c. Adopted proposal 2023-02-P-MOD, which updated the homeowners/farmowners (H/F), workers' compensation, and commercial multiple peril (CMP) reserve factors due to an incorrect calculation.
 - ii. Adopted the report of the Catastrophe Risk (E) Subgroup.

- iii. Adopted the 2023 P/C RBC newsletter.
 - iv. Discussed 2022 RBC statistics.
 - v. Discussed its working agenda.
 - vi. Discussed the possibility of reviewing and analyzing the P/C RBC charges that have not been reviewed since developed.
 - vii. Heard updates on current P/C RBC projects from the Academy.
- C. Adopted the Catastrophe Risk (E) Subgroup's July 18 minutes, which included the following action:
 - i. Adopted Spring National Meeting minutes.
 - ii. Discussed its working agenda.
 - iii. Received an update from its Catastrophe Model Technical Review Ad Hoc Group.
 - iv. Discussed wildfire peril impact analysis.
 - v. Heard a presentation from Verisk on a severe convective storms model update and technical review.
 - vi. Discussed the flood insurance market.
 - D. Adopted Proposal 2023-16-CR (2023 Cat Event List).
 - E. Adopted the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup's working agendas.
 - F. Exposed proposal 2023-14-P (Pet Insurance) for a 60-day public comment period ending Jan. 30.
 - G. Exposed proposal 2023-15-CR (Convective Storm for Informational Purposes Only Structure) for a 60-day public comment period ending Jan. 30.
 - H. Discussed the wildfire peril impact analysis.
 - I. Exposed proposal 2023-13-CR (Disclosure for Catastrophe Reinsurance Program) for a 60-day public comment period ending Jan. 30.
 - J. Received updates from the Convective Storm Model Review Ad Hoc Group on the convective storm technical review.
 - K. Discussed the report from the Academy on an *Update to Property and Casualty Risk-Based Capital Underwriting Factors and Investment Income Adjustment Factors*.
 - L. Discussed the Florida Commission on Hurricane Loss Projection Methodology.
- 6. Received updates from its: a) RBC Purposes & Guidelines Ad Hoc Subgroup; b) Asset Concentration Ad Hoc Subgroup; and c) Geographic Concentration Ad Hoc Subgroup.
 - 7. Adopted Proposal 2023-11-H (Line 4 & 10 XR014 Medicare & Medicaid).
 - 8. Adopted Proposal 2023-12-CA (Market Value Excess Affiliated Stock).
 - 9. Adopted Proposal 2023-16-CR (2023 Cat Event List).
 - 10. Adopted its working agenda.
 - 11. Discussed a Referral from the Statutory Accounting Principles (E) Working Group regarding the Schedule BA proposal for non-bond debt securities. Forwarded a comment letter from the American Council of Life Insurers (ACLI) to the Risk-Based Capital Investment Risk and Evaluation (E) Working Group.

12. Discussed the possible structure changes in the Bond page to reflect the split of the Annual Statement, Schedule D, Part 1 into two sections.
13. Discussed the RBC charge for blank affiliates reported in the Details for Affiliated Stock page.
14. Discussed the “Framework for Regulation of Insurer Investments—A Holistic Review” document.
15. Heard update on negative Interest Maintenance Reserve (IMR).

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Draft: 11/20/23

Examination Oversight (E) Task Force
Virtual meeting (*in lieu of meeting at the 2023 Fall National Meeting*)
November 15, 2023

The Examination Oversight (E) Task Force met Nov. 15, 2023. The following Task Force members participated: Judith L. French, Chair, represented by Dwight Radel (OH); Karima M. Woods, Vice Chair, represented by N. Kevin Brown (DC); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler represented by Blase Abreo (AL); Ricardo Lara represented by Laura Clements (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by William Arfanis (CT); Trinidad Navarro represented by Adrienne Lupo (DE); Michael Yaworsky represented by Chad Mason (FL); Doug Ommen represented by Daniel Mathis (IA); Dean L. Cameron represented by Eric Fletcher (ID); Amy L. Beard represented by Jerry Ehlers (IN); Vicki Schmidt represented by Levi Nwasoria (KS); Sharon P. Clark represented by Jeff Gaither (KY); Gary D. Anderson represented by John Turchi (MA); Anita G. Fox represented by Bob Lamberjack (MI); Grace Arnold represented by Kathleen Orth (MN); Chlora Lindley-Myers represented by Shannon Schmoeger (MO); Mike Chaney represented by Mark Cooley (MS); Troy Downing represented by Kari Leonard (MT); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Tadd Wegner (NE); D.J. Bettencourt represented by Colin Wilkins (NH); Justin Zimmerman represented by David Wolf (NJ); Glen Mulready represented by Eli Snowbarger (OK); Elizabeth Kelleher Dwyer represented by John Tudino (RI); Cassie Brown represented by Shawn Frederick (TX); Scott A. White represented by Greg Chew (VA); Mike Kreidler represented by Tarik Subbagh (WA); and Nathan Houdek represented by Amy Malm (WI).

1. Adopted its Sept. 22 and Summer National Meeting Minutes

Radel said the Task Force conducted an e-vote that concluded Sept. 22 to adopt its 2024 proposed charges, which included revisions to charges for the Financial Analysis Solvency Tools (E) Working Group, the Financial Examiners Handbook (E) Technical Group, and the Information Technology (IT) Examination (E) Working Group.

The Task Force also met Nov. 15 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss open exams that are past the 22-month deadline.

Malm made a motion, seconded by Kaumann, to adopt the Task Force's Sept. 22 (Attachment One) and July 24 (*see NAIC Proceedings – Summer 2023, Examination Oversight (E) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Reports of its Working Groups

A. Electronic Workpaper (E) Working Group

Bailey Henning (NAIC) provided the report of the Electronic Workpaper (E) Working Group. She stated that the Working Group has not met in open session this year. She said the Working Group has held informal monthly meetings to discuss the progress of TeamMate+ Transition and plans to continue such meetings through the first quarter of 2024.

B. Financial Analysis Solvency Tools (E) Working Group

Chew provided the report of the Financial Analysis Solvency Tools (E) Working Group. He stated that the Working Group met Oct. 2 and Aug. 9 to adopt revisions to the *Financial Analysis Handbook* on the following topics:

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- Revisions in response to a referral from the Climate and Resilience (EX) Task Force to address invested asset exposure to climate change and energy transition risk within the credit, market, and liquidity branded risk categories for all three statement types (P&C, Life, and Health).
- Revisions in response to a referral from the Risk Retention Group (E) Task Force to expand upon existing guidance for exempting groups from the group capital calculation to include special considerations for risk retention groups.
- Revisions in response to a referral received from the Ad Hoc (E/F) Group to generate efficiencies in quarterly and annual risk assessment documentation by allowing existing analysis documentation available in other areas of the analysis file to be cross-referenced as opposed to requiring it to be duplicated in the risk assessment worksheet.
- Revisions in response to a referral from the Risk-Focused Surveillance (E) Working Group to clarify the role and expectations of the department analyst during the exam process.
- Revisions in response to a referral from the Receivership Law (E) Working Group to add a reference to the memorandum of understanding, an optional tool for sharing information with guaranty funds in pre-receivership situations for a property and casualty insurer.
- Revisions to add a footnote reference and a placeholder to the Receiver's Handbook for Insurance Company Insolvencies and the Troubled Insurance Company Handbook that refers to the guidance that aims to provide states with a template that describes the U.S. receivership system and then allows consistent messaging to international regulators. These revisions were subject to adoption by the Receivership and Insolvency Task Force.
- Revisions to change two Life IRIS Ratios in response to changes made to the Life Annual 2023 blank.

C. Financial Examiners Coordination (E) Working Group

Radel provided the report of the Financial Examiners Coordination (E) Working Group. He stated that the Working Group met Aug. 13 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss reports on group coordination.

D. Financial Examiners Handbook (E) Technical Group

Snowbarger provided the report of the Financial Examiners Handbook (E) Technical Group. He stated that the Technical Group met Nov. 13 and Aug. 24 to adopt revisions to the *Financial Condition Examiners Handbook* (Handbook) on the following topics:

- Revisions to Exhibit G – The Consideration of Fraud and corresponding guidance throughout the Handbook to align the guidance with the risk-focused exam approach.
- Revisions to Section 1-3 in response to a referral from the Receivership Law (E) Working Group to add a reference to a memorandum of understanding, which is an optional tool for regulators that can be used to facilitate transitional planning and preparation, communication and information sharing in a pre-liquidation situation.
- Revisions to various sections of the Handbook to provide further guidance to regulators on reviewing affiliated service agreements in response to a referral received from the Risk-Focused Surveillance (E) Working Group
- Revisions to Exhibit D and Section 1-10 of the Handbook to incorporate takeaways from the examination peer review
- Revisions to various areas of the Handbook in response to a referral from the Climate and Resiliency (EX) Task Force to integrate climate-related risks into the examination process.

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- Revisions to the Capital and Surplus Repository, Underwriting Repository, and Exhibit V related to strategic and operational risks faced by health insurers in response to a referral from the Financial Analysis (E) Working Group.

Cooley made a motion, seconded by Phifer, to adopt reports of the Electronic Workpaper (E) Working Group, the Financial Analysis Solvency Tools (E) Working Group (Attachment Two), the Financial Examiners Coordination (E) Working Group, and the Financial Examiners Handbook (E) Technical Group (Attachment Three). The motion passed unanimously.

Having no further business, the Examination Oversight (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E Committee/2023-3-Fall/EOTF

2023 Fall National Meeting

Orlando, Florida

**JOINT MEETING OF THE FINANCIAL STABILITY (E) TASK FORCE
AND THE MACROPRUDENTIAL (E) WORKING GROUP**

Friday, December 1, 2023

12:00 – 1:00 p.m.

Meeting Summary Report

The Financial Stability (E) Task Force met Dec. 1, 2023, in joint session with the Macroprudential (E) Working Group. During this meeting, the Task Force and Working Group:

1. Adopted the Task Force’s Summer National Meeting minutes.
2. Heard an update on Financial Stability Oversight Council (FSOC) developments.
3. Adopted the proposed 2023 Liquidity Stress Testing Framework (LST Framework).
4. Received a Working Group update.
5. Received a Valuation Analysis (E) Working Group update.
6. Heard an international update, which included an update on the International Association of Insurance Supervisors (IAIS) Global Monitoring Exercise (GME). The GME includes the individual insurers monitoring exercise and the sector-wide monitoring exercise with three more additional topics of interest: credit risk; interest rate risk; and structural changes in life insurance, including reinsurance.

2023 Fall National Meeting

Orlando, Florida

RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

Saturday, December 2, 2023

11:00 a.m.– 12:00 p.m.

Meeting Summary Report

The Receivership and Insolvency (E) Task Force met Dec. 2, 2023. During this meeting, the Task Force:

1. Adopted its Oct. 2 meeting minutes, which included the following actions:
 - A. Adopted its Summer National Meeting minutes.
 - B. Adopted its 2024 proposed charges.
 - C. Adopted a U.S. Resolution Template into the *Receiver's Handbook for Insurance Company Insolvencies* (Receiver's Handbook) and a referral to the Financial Analysis (E) Working Group to include the template in the *Troubled Insurance Company Handbook* (regulator only publication).
 - D. Discussed comments received and adopted amendments to the *Property and Casualty Insurance Guaranty Association Model Act* (#540) that address guaranty fund coverage of policies subject to restructuring mechanisms, specifically, insurance business transfers (IBTs) and corporate divisions (CDs), as well as revisions related to clarifying guaranty fund coverage for cybersecurity insurance.
 - E. Heard an update on the receivership tabletop scheduled for Nov. 29, in Orlando, FL.
2. Adopted the report of the Receivership Financial Analysis (E) Working Group. The Working Group will meet Dec. 2 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss companies in receivership and related topics.
3. Adopted the report of the Receiver's Handbook (E) Subgroup. The Subgroup met Nov. 9, Oct. 5, and Aug. 18, during which the Subgroup took the following actions:
 - A. Exposed revisions to chapters six and eight of the Receiver's Handbook for a 30-day comment period ending Sept. 18.
 - B. Exposed revisions to chapters nine, ten, and eleven, and certain exhibits of the Receiver's Handbook for a 30-day comment period ending Nov. 6.
 - C. Discussed edits to the exposed chapters and adopted revisions to chapters six, seven, eight, nine, ten, and eleven, and certain exhibits of the Receiver's Handbook.

The Subgroup reported it has completed its charges to review and update the Receiver's Handbook and can be disbanded with the adoption of the Receiver's Handbook at this meeting.

4. Adopted revisions to all chapters and certain exhibits of the Receiver's Handbook.

5. Heard an update on international resolution activities. The International Association of Insurance Supervisors (IAIS) Resolution Working Group has nearly completed edits to the application paper on policyholder protection schemes. The Resolution Working Group is also beginning a review of Insurance Core Principles (ICPs) related to recovery and resolution.
6. Heard an update on the Uniform Data Standards (UDS) project. A new 3.0 version of UDS will be rolled out at the support group's meeting on Dec. 12.
7. Heard feedback on the receivership tabletop, which was held Nov. 29 and was attended by over 100 state insurance department regulators and guaranty fund representatives.
8. Heard an update on states' adoption of the 2021 amendments related to receivership in the *Insurance Holding Company System Model Act* (#440). To date, 15 states have adopted the receivership amendments to Model #440. States are encouraged to consider the amendments in upcoming legislative sessions.

Draft Pending Adoption

Draft: 11/27/23

Reinsurance (E) Task Force
Virtual Meeting (*in lieu of meeting at the 2023 Fall National Meeting*)
November 16, 2023

The Reinsurance (E) Task Force met Nov. 16, 2023. The following Task Force members participated: Chlora Lindley-Myers, Chair, represented by John Rehagen (MO); Adrienne A. Harris, Vice Chair, represented by John Finston and Michael Campanelli (NY); Lori K. Wing-Heier represented by David Phifer (AK); Mark Fowler and Todrick Burks (AL); Ricardo Lara represented by Monica Macaluso (CA); Michael Conway represented by Rolf Kaumann (CO); Andrew N. Mais represented by Amy Waldhauer (CT); Trinidad Navarro represented by Rylynn Brown (DE); Michael Yaworsky represented by Jane Nelson (FL); John F. King represented by Patricia Coppel (GA); Michelle B. Santos represented by Alice Cruz (GU); Doug Ommen represented by Kim Cross (IA); Amy L. Beard represented by Roy Eft (IN); Vicki Schmidt represented by Sarah Smith (KS); Sharon P. Clark represented by Russell Coy (KY); James J. Donelon represented by Tom Travis and Stewert Guerin (LA); Gary D. Anderson represented by Christopher Joyce (MA); Kathleen A. Birrane represented by Lynn Beckner (MD); Timothy N. Schott represented by Robert Wake (ME); Grace Arnold represented by Ben Slutsker (MN); Troy Downing represented by Kari Leonard (MT); Mike Causey represented by Jessica Price (NC); Jon Godfread represented by Matt Fischer (ND); Eric Dunning represented by Lindsay Crawford (NE); Justin Zimmerman represented by David Wolf (NJ); Alice T. Kane represented by Patrick Zeller (NM); Judith L. French represented by Dwight Radel and Tracy Snow (OH); Glen Mulready represented by Eli Snowbarger (OK); Michael Wise represented by Geoffrey Bonham (SC); Cassie Brown represented by Chris Miller (TX); Jon Pike represented by Malis Rasmussen (UT); Scott A. White represented by Stephen Thomas (VA); Kevin Gaffney and Sandra Bigglestone (VT); and Nathan Houdek represented by Mark McNabb (WI).

1. Adopted its Summer National Meeting Minutes

Macaluso made a motion, seconded by Executive Deputy Superintendent Finston, to adopt the Task Force's July 24 minutes (*see NAIC Proceedings – Summer 2023, Reinsurance (E) Task Force*). The motion passed unanimously.

2. Adopted the Report of the Reinsurance Financial Analysis (E) Working Group

Kaumann stated that the Working Group meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. He stated that the Working Group met Oct. 26 and Sept. 20 to approve several certified and reciprocal jurisdiction reinsurers for passporting. He noted that the Working Group plans to meet Nov. 27 and Dec. 20.

Kaumann stated that the Working Group has now approved 70 reciprocal jurisdiction reinsurers and 42 certified reinsurers for passporting and that 47 states have passported a reciprocal jurisdiction reinsurer. He noted that the list of passported reinsurers can be found on the Certified and Reciprocal Jurisdiction Reinsurer web page.

Kaumann made a motion, seconded by Phifer, to adopt the report of the Reinsurance Financial Analysis (E) Working Group. The motion passed unanimously.

3. Received a Status Report on the Reinsurance Activities of the Mutual Recognition of Jurisdictions (E) Working Group

Macaluso stated that the Working Group met Nov. 1, Oct. 11, and Sept. 21 in regulator-to-regulator session pursuant to paragraph 8 (international regulatory matters) of the NAIC Policy Statement on Open Meetings.

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During its Nov. 1 meeting, the Working Group reapproved the status of Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom (UK) as qualified jurisdictions and Bermuda, Japan, and Switzerland as reciprocal jurisdictions. She noted that Bermuda, Japan, and the UK are in the process of making changes to their regulatory systems. She added that NAIC staff are monitoring the implementation of these changes and will report any findings to the Working Group.

4. Adopted the Draft Revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*

Jake Stultz (NAIC) stated that during its Oct. 26 meeting, the Reinsurance Financial Analysis (E) Working Group adopted revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*, which add the alien number and a short question section to guide the users on what information is required to be provided based on the company's specific situation. He stated that the Task Force exposed the revisions on Oct. 27 and that the draft exposure document ([Attachment One](#)) and the comment letter received ([Attachment Two](#)) were included in the meeting materials.

Stultz noted that comments received supported the proposed revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* and included several suggestions on ways that the processes of both the Reinsurance Financial Analysis (E) Working Group and the states to review and approve reciprocal jurisdiction reinsurers could be enhanced to be more efficient for companies during these processes. Stultz suggested that the Task Force take these extra suggestions under advisement and direct NAIC staff to look at any changes that can be implemented. Stultz stated that the NAIC staff recommendation was to adopt the changes to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*.

Karalee Morrell (Reinsurance Association of America—RAA) stated that she agrees with adoption of the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* and recommended that NAIC staff review the processes that were noted in the RAA's comment letter to see if enhancements could be made.

Kaumann made a motion, seconded by Guerin, to adopt the revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers*. The motion passed unanimously.

5. Adopted a Referral to the Property and Casualty Risk-Based Capital (E) Working Group to Add New Disclosures for Catastrophe Reinsurance Programs for P/C RBC

Stultz stated that with the recent catastrophe-related insolvencies in the market and increasing cost of catastrophe reinsurance coverage, state insurance regulators had identified a need to collect additional detail from insurers on the structure of their catastrophe reinsurance program and any changes made from year to year. He noted that such information could be viewed as confidential and proprietary, and as it is closely related to the existing PR027 RCAT charge in property/casualty (P/C) risk-based capital (RBC), the collection of additional information on an insurer's catastrophe reinsurance program is being proposed through a series of questions added to the PR027 Catastrophe Risk Interrogatories included in the RBC blanks.

Stultz stated that the Task Force exposed a draft of the new disclosure ([Attachment Three](#)) on Sept. 21 and that it received two comment letters ([Attachment Four](#)). Stultz noted that because of the comment letters received and discussions with interested parties, NAIC staff created a new working draft of the new disclosures, which reduced the information that was required to be disclosed while still providing valuable information to the state insurance regulators. He also said that the new working draft is included in the referral from the Task Force to the Property and Casualty Risk-Based Capital (E) Working Group ([Attachment Five](#)).

Morrell, speaking on behalf of the RAA, the National Association of Mutual Insurance Companies (NAMIC), and the American Property Casualty Insurance Association (APCIA), stated that she appreciates the changes that have

Draft Pending Adoption

been made from the original draft to the new working draft. She stated that her remaining concerns include that the disclosures are not limited to material perils and that the proposal still does not fully include scoping of companies that are not a concern.

John Huff (Association of Bermuda Insurers and Reinsurers—ABIR) stated that he agrees with Morrell’s comments.

Snow stated that he had concerns with the RBC threshold that was recommended in the RAA comment letter and recommended that sensitivity analysis would be a better alternative.

Macaluso made a motion, seconded by Wolf, to approve the referral from the Task Force to the Property and Casualty Risk-Based Capital (E) Working Group with the updated working draft of the catastrophe reinsurance program disclosures. The motion passed unanimously.

6. Discussed Ongoing Projects at the NAIC that Affect Reinsurance

Stultz stated that the Macroprudential (E) Working Group had created a new reinsurance worksheet, which is an optional tool for state insurance regulators to get a better understanding of reinsurance transactions at the companies that they regulate. He noted that the worksheet will allow for more consistent and thorough reviews of reinsurance, can be used for any type of reinsurance, is not intended to otherwise affect the Task Force’s policies or procedures, and will not be required in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook*. He said that the work completed using the reinsurance worksheet will remain confidential. He stated that the Macroprudential (E) Working Group adopted the reinsurance worksheet during its June 20 meeting and that the Financial Condition (E) Committee adopted it at the Summer National Meeting.

Stultz stated that the Valuation Analysis (E) Working Group is currently completing its first year of reviews of *Actuarial Guideline LIII—Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53). He noted that AG 53 is broad and covers asset adequacy testing (AAT) for life insurers, but he noted that the Task Force’s primary focus in the process has been on the work involved with reinsurance, primarily focused on where this may affect the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” (EU Covered Agreement) or the “Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance” (UK Covered Agreement). He noted that a wide range of people are working on this project, including actuaries from the NAIC and regulators from several states, including actuaries, investment experts, and financial staff. Stultz said that other subject matter experts (SMEs) from the NAIC are brought in when needed and that the work being performed is regulator-only.

6. Received a Status Report on the States’ Implementation of Model #787

Stultz stated that the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) became an accreditation standard on Sept. 1, 2022, with enforcement beginning on Jan. 1, 2023. He noted that as of Nov. 1, 34 jurisdictions have adopted Model #787. He noted that Model #787 mirrors *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48) and that under the accreditation standards, a state may meet the requirements through an administrative practice, such as an actuarial guideline. Stultz stated that 12 states have advised NAIC staff that they will rely on AG 48, either through an insurance bulletin or through simple adoption of the NAIC’s *Accounting Practices and Procedures Manual* (AP&P Manual). He added that if a state adopts Model #787, it also will need to adopt Section 5B(4) of the *Credit for Reinsurance Model Law* (#785). He stated that the map showing the current adoption status for Model #787 was included in the meeting materials (**Attachment Six**).

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Dan Schelp (NAIC) noted that all accredited NAIC jurisdictions are in compliance with the new accreditation standard for Model #787.

Having no further business, the Reinsurance (E) Task Force adjourned.

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Draft: 10/30/23

Risk Retention Group (E) Task Force
E-Vote
October 17, 2023

The Risk Retention Group (E) Task Force conducted an e-vote that concluded Oct. 17, 2023. The following Task Force members participated: Kevin Gaffney, Chair, represented by Sandra Bigglestone (VT); Karima M. Woods, Vice Chair, represented by Sean O'Donnell (DC); Mark Fowler, represented by Todrick Burks (AL); Vicki Schmidt, represented by Tish Becker (KS); Sharon P. Clark (KY); Grace Arnold, represented by Kathleen Orth (MN); Mike Causey, represented by Jackie Obusek (NC); Jon Godfread, represented by Matt Fischer (ND); and Michael Wise, represented by Joseph McDonald (SC).

1. Adopted its 2024 Proposed Charges

The Task Force conducted an e-vote to consider adoption of its 2024 proposed charges (Attachment). The motion passed unanimously.

Having no further business, the Risk Retention Group (E) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/E Cmte/RRGTF/2023-3-Fall\RRGTF E-Vote Minutes 10-17-23

2023 Fall National Meeting

Orlando, Florida

VALUATION OF SECURITIES (E) TASK FORCE

Saturday, December 2, 2023

12:45 – 1:45 p.m.

Meeting Summary Report

The Valuation of Securities (E) Task Force met Dec. 2, 2023. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.
2. Received a staff report on the history of the filing exemption (FE) process.
3. Received a referral from the Statutory Accounting Principles (E) Working Group on its proposal to report debt securities that do not qualify as bonds on Schedule BA. The Task Force agreed with the Securities Valuation Office's (SVO's) staff recommendation to maintain the existing treatment for risk-based capital (RBC) purposes and will communicate that recommendation to the Capital Adequacy (E) Task Force.
4. Exposed an updated *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to update the definition of an NAIC designation for a 55-day public comment period ending Jan. 26, 2024. The Task Force had previously exposed the amendment for a 45-day public comment period that ended June 30.
5. Exposed an updated P&P Manual amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the FE process for a 55-day public comment period ending Jan. 26, 2024. The Task Force had previously exposed the amendment for a 60-day public comment period that ended July 14.
6. Exposed a proposed P&P Manual amendment to add a practical expedient to determine the issue date for private letter (PL) ratings for a 55-day public comment period ending Jan. 26, 2024.
7. Received a staff report on the proposed collateralized loan obligation (CLO) modeling methodology and the CLO Ad Hoc Working Group.
8. Received a staff report on the projects of the Statutory Accounting Principles (E) Working Group.
9. Received notification from the SVO that it will defer the deactivation of PL ratings that missed a required PL rating rationale report until year-end 2024 and requested insurers to submit those reports.

Draft: 10/3/23

NAIC/American Institute of Certified Public Accountants (AICPA) (E) Working Group
Virtual Meeting
September 28, 2023

The NAIC/AICPA (E) Working Group of the Financial Condition (E) Committee met Sept. 28, 2023. The following Working Group members participated: Doug Stolte, Chair (VA); Kim Hudson (CA); Rylenn Brown (DE); Kevin Clark (IA); Judy Weaver (MI); Shannon Schmoeger (MO); Andrea Johnson (NE); Doug Bartlett (NH); Dale Bruggeman (OH); and Johanna Nickelson (SD).

1. Discussed the Premium Threshold

Stolte said the Working Group is responsible for reviewing the premium threshold amounts contained within the *Annual Financial Reporting Model Regulation (#205)* on an annual basis. Bruce Jenson (NAIC) gave an update on the results of the annual review, noting that as of Dec. 31, 2022, 93% of all direct written premiums and 91% of all gross written premiums would be subject to reporting requirements.

Stolte noted that these results are within the Working Group's expectations, and no action to adjust the threshold is deemed necessary at this time.

2. Heard an Update on Recent Auditing Pronouncements

Dave Osborn (Ernst & Young LLP) provided an overview of recent accounting and auditing pronouncements affecting statutory audits, noting that this guidance should not affect the form or content of the audit opinion or the services the independent auditor can provide.

Osborn stated that *Statement on Auditing Standard (SAS) No. 145—Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* is effective for audits of financial statements for periods ending on or after Dec. 15. SAS No. 145 clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality. It does not fundamentally change the key concepts underpinning audit risk.

Osborn stated that *SAS No. 144—Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources* is also effective for audits of financial statements for periods ending on or after Dec. 15. SAS No. 144 amends several sections of the auditing standards and requires the auditor to take into account the relevance and reliability of information to be used as audit evidence, including its source, as well as enhancing guidance about evaluating the work of the management's specialist.

Osborn stated that *SAS No. 143—Auditing Accounting Estimates and Related Disclosures* is also effective for audits of financial statements for periods ending on or after Dec. 15. SAS No. 143 addresses the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates and related disclosures in an audit of financial statements. This standard enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates.

Osborn stated that *SAS No. 149—Special Considerations — Audits of Group Financial Statements* will be effective for audits of financial statements for periods ending on or after Dec. 15, 2026. The requirements of this new standard supersede guidance that currently exists in the auditing standards, with conforming amendments to

various other auditing standards. The most significant change is that the new standard provides a risk-based approach to planning and performing a group audit. Audit engagement teams are currently required to identify significant components of the group at which to perform audit work. The new standard directs the group auditor to use professional judgment in determining the components at which to perform procedures based on the assessed risks. Investments accounted for using the equity method of accounting are considered components and included in the scope of the new standard, which is consistent with current requirements. However, the new standard identifies procedures the group auditor is required to perform and other matters to consider in determining whether sufficient appropriate audit evidence has been obtained.

Osborn stated that *Statement on Quality Management Standards (SQMS) No. 3—Amendments to QM Sections 10, A Firm’s System of Quality Management, and 20, Engagement Quality Reviews* has also been issued in conjunction with SAS No. 149 to conform certain terms in the existing quality management standards to the language used in the new auditing standard and to provide guidance to audit firms on differentiating between a resource and an information source in the performance of the audit.

Finally, Osborn stated that he understands that state insurance regulators are interested in the Public Company Accounting Oversight Board’s (PCAOB’s) proposed auditing standard that would expand the auditor’s responsibility for considering a company’s noncompliance with all laws and regulations, including those related to fraud, in the performance of the audit. The comment period for the proposed standard recently closed, with approximately 130 comment letters being submitted. Several individuals from the AICPA participated in a Center for Audit Quality Task Force that drafted a comment letter in response to the proposed PCAOB standard. Osborn said a significant majority of the feedback expressed some level of disagreement with aspects of the proposed standard. The PCAOB will be reviewing this feedback to determine the next steps in the process, which could include the re-exposure of a revised proposal.

Osborn said members of the Working Group should be aware that statutory audits of individual legal entity insurers are generally performed in accordance with AICPA generally accepted auditing standards (GAAS), while the U.S. generally accepted accounting principles (GAAP) audit of their parent entities could be performed under PCAOB auditing standards if they are issuers. At this time, the AICPA Auditing Standards Board (ASB) does not have a convergence project with respect to the proposed PCAOB standard, but it will be monitoring its progress.

Nickelson asked whether the guidance outlined in SAS No. 145 could affect the auditor’s review of internal control weaknesses and its responsibility to report on such weaknesses. Osborn stated that the guidance is intended to provide greater clarity for the auditor’s assessment of the risks of material misstatement, and it should not affect the identification of material weaknesses or other control deficiencies that would be reported to state insurance regulators or the Audit Committee.

Stolte thanked Osborn for his overview, and he asked whether AICPA representatives would be willing to present on the proposed PCAOB Auditing Standard once it is finalized. Osborn stated that the AICPA would be happy to provide a presentation at that point.

Having no further business, the NAIC/AICPA (E) Working Group adjourned.

<https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/2023-3-Fall/AICPA/9-28-23 AICPAWGmin.docx>

Draft: 08/24/23

National Treatment and Coordination (E) Working Group
Virtual Meeting
August 22, 2023

The National Treatment and Coordination (E) Working Group of the Financial Condition (E) Committee met Aug. 22, 2023. The following Working Group members participated: Debbie Doggett and Kelly Hopper, Co-Chairs (MO); Cameron Piatt, Co-Chair (OH); Jacline Nguyen (CO); William Mitchell (CT); Alison Sterett (FL); Tangelo Byrd (LA); Kari Leonard (MT); Karen Feather (PA); Amy Garcia and John Carter (TX); Jay Sueoka (UT); Ron Pastuch (WA); Amy Malm (WI); and Doug Melvin (WY).

1. Heard Opening Remarks

Doggett said the Working Group met in regulator-to-regulator session Aug. 2, July 26, and June 15, pursuant to paragraph 6 (consultations with NAIC staff members) of the NAIC Policy Statement on Open Meetings, to discuss uniformity regarding background investigation reports. Further discussion will continue after the results from a brief survey for state input can be discussed.

2. Adopted Proposal 2023-01

Doggett said that proposal 2023-01 (Uniform Consent to Service of Process) includes the final template for the Uniform Consent to Service of Process. Minor allowances were made for the electronic application. Jane Barr (NAIC) explained the data input for the service of process information will be included on the general information screen (application form) but will not be included on the application form template. The consent to service of process will still be on its own template and be separate from the application form. The change was to: 1) remove the state requirements from the form because all requirements will be incorporated into the electronic application; and 2) relabel the resident agent and forwarding address information to Exhibit A.

Melvin made a motion, seconded by Feather, to adopt Proposal 2023-02 (Form 12, Uniform Consent to Service of Process). The motion passed unanimously.

3. Adopted Proposal 2023-02

Piatt explained the modifications to proposal 2023-02 (Holding Company Questionnaire) were to remove the redundant question on the questionnaire, which asks if the applicant company is part of a holding company structure. Barr explained that the holding company questionnaire only appears in the electronic application if the user indicates that they are part of a holding company structure (primary) or provides a group code and identifies an ultimate controlling party (UCP) (redomestication). Only companies that are part of a holding company would need to complete this questionnaire.

Sueoka made a motion, seconded by Pastuch, to adopt proposal 2023-02 (Holding Company Questionnaire). The motion passed unanimously.

4. Discussed Other Matters

Doggett said that the primary application has been piloted for the past seven months, and the redomestication application will be available for piloting Sept. 1. It is anticipated that both electronic applications will be made available Oct. 31. Training sessions for both industry and states will occur toward the middle of October. Dates and registration information will be posted on the Uniform Certificate of Authority Application (UCAA) website.

Training will include the newly redesigned UCAA website, creating a primary application (start-ups only), and redomestication applications (from one jurisdiction to another). Anyone interested in piloting the redomestication application should contact Barr. Doggett added that Phase II will consist of domestic and foreign corporate amendments and an expansion application, and anyone interested in joining the ad hoc group for development should contact Barr. Phase III will include Form A, Form E, and a biographical affidavit database.

Barr said that the redomestication application will be ready for pilot Sept. 1, and training for state and industry will be offered in mid-October with an anticipated release date of Oct. 31. The company licensing forum group will meet in mid-October to discuss various topics and survey results.

Having no further business, the National Treatment and Coordination (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/2023-3-Fall/NTCWG/8_22_ccmin.docx

Draft: 11/14/23

Risk-Focused Surveillance (E) Working Group
Virtual Meeting
November 6, 2023

The Risk-Focused Surveillance (E) Working Group of the Financial Condition (E) Committee held a virtual meeting Nov. 6, 2023. The following Working Group members participated: Amy Malm, Chair (WI); Lindsay Crawford, Vice Chair (NE); Sheila Travis (AL); Laura Clements and Michelle Lo (CA); John Loughran (CT); Ainsley Hurley (FL); Daniel Mathis (IA); Cindy Andersen (IL); Roy Eft (IN); Stewart Guerin (LA); Dmitriy Valekha (MD); Vanessa Sullivan (ME); Judy Weaver (MI); John Rehagen and Shannon Schmoeger (MO); Monique Smith (NC); Pat Gosselin (NH); Paul Lupo (NJ); Mark McLeod (NY); Dwight Radel (OH); Eli Snowbarger (OK); Ted Hurley and John Tudino (RI); Johanna Nickelson (SD); Amy Garcia (TX); Jake Garn (UT); Greg Chew and David Smith (VA); Dan Petterson (VT); and Steve Drutz (WA).

1. Adopted Updated Salary Guidelines for Analysts and Examiners

Malm stated that a recent survey of all state insurance departments was conducted to gather data on compensation for financial analysts and examiners, with responses received from 43 states. NAIC staff were asked to aggregate and analyze the information received, which included adjusting the salary data for localized cost of living rates and then aggregating the data to calculate national averages for the various positions studied. NAIC staff also gathered external market data for comparison, including Robert Half industry information for industry audit positions and financial analysts, as well as other salary information for banking regulators.

Once the survey results were aggregated and industry comparisons identified, NAIC staff met with Working Group leadership to propose adjustments to the pay ranges. The goal was to adjust the ranges for recent market movements and to align more closely with comparable industry positions. Ultimately, this resulted in proposed adjustments to both the upper and lower end of the ranges for each position from between 5% and 10%.

Malm stated there is also a need to update the legacy daily examination rates that are included in the NAIC's *Financial Condition Examiners Handbook* and still utilized in certain states for compensation or exam billing purposes. Historically, the daily rates have been adjusted based on changes in the Consumer Price Index (CPI), year over year.

Bruce Jenson (NAIC) provided an overview of the proposed salary range adjustments, noting that as the last adjustments were approved in 2021, the proposed adjustments represent two years' worth of adjustment. Jenson also stated that the staff recommendation for adjustments to the legacy daily rates was for an across-the-board 3.20% adjustment based on the annual change in the CPI.

Crawford made a motion, seconded by Smith, to adopt the proposed salary range and daily rate adjustments for inclusion in NAIC handbooks (Attachment XXX-A). The motion passed.

2. Received an Update on IMA Drafting Group Efforts

Crawford stated that during its Aug. 14 meeting, the Working Group discussed a referral received from the Macroprudential (E) Working Group in 2022. This referral recommended that additional guidance be developed for NAIC handbooks to assist state insurance regulators in reviewing investment advisory services provided by an affiliate to an insurer. This discussion included a presentation from Ed Toy (Risk & Regulatory Consulting—RRC)

on considerations in evaluating investment advisory services performed by an affiliate, which led the Working Group to agree to form a drafting group to develop proposed guidance for further consideration.

Crawford stated that an Affiliated Investment Management Agreement (IMA) Drafting Group had been formed, consisting of state insurance regulators from Connecticut, Florida, Iowa, Maryland, Michigan, Missouri, Ohio, Oklahoma, Pennsylvania, Texas, and Virginia. The Drafting Group first met Sept. 19 to discuss existing guidance in NAIC handbooks related to investment advisors and investment management agreements. The Drafting Group also discussed the need for enhancements to the existing guidance to more directly address regulatory review and monitoring of investment advisory services provided by an affiliate.

Crawford stated that drafting work is underway, and the Drafting Group hopes to present proposed revisions to the Working Group for its consideration early in 2024.

Having no further business, the Risk-Focused Surveillance (E) Working Group adjourned.

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Minutes.docx

TO: Robert Wake (ME), Chair
Mutual Recognition of Jurisdictions (E) Working Group

FROM: Jake Stultz, Manager II – Accounting Policy
Daniel Schelp, Chief Counsel, Regulatory Affairs

RE: 2023 Due Diligence Review of Qualified Jurisdictions & Reciprocal Jurisdictions

DATE: November 1, 2023

Executive Summary & Recommendation

The Mutual Recognition of Jurisdictions (E) Working Group will perform a yearly review of Qualified Jurisdictions to determine whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions. The Working Group will also perform a yearly review with respect to non-Covered Agreement Reciprocal Jurisdictions. In this regard, NAIC legal and financial regulatory services staff has performed a due diligence review of these jurisdictions, and has the following recommendations for the Working Group’s consideration:

1. The following Qualified Jurisdictions should retain their status on the *NAIC List of Qualified Jurisdictions*:

- Bermuda, Bermuda Monetary Authority (BMA)
- France, Autorité de Contrôle Prudentiel et de Résolution (ACPR)
- Germany, Federal Financial Supervisory Authority (BaFin)
- Ireland, Central Bank of Ireland (Central Bank)
- Japan, Financial Services Agency (FSA)
- Switzerland, Financial Market Supervisory Authority (FINMA)
- United Kingdom, Prudential Regulation Authority of the Bank of England (PRA)

2. The following non-Covered Agreement Reciprocal Jurisdictions should retain their status on the *NAIC List of Reciprocal Jurisdictions*:

- Bermuda, Bermuda Monetary Authority (BMA)
- Japan, Financial Services Agency (FSA)
- Switzerland, Financial Market Supervisory Authority (FINMA)

Process for Periodic Evaluation after Initial Approval

The *Process for Evaluating Qualified and Reciprocal Jurisdictions* (“Process”) provides a process for evaluating both Qualified and Reciprocal Jurisdictions after their initial approval. Pursuant to NAIC policy and procedure, the Working Group, with the assistance of NAIC staff, will perform a yearly review of Qualified Jurisdictions to assess whether there have been any significant changes over the prior year that might affect their status as Qualified Jurisdictions, and that this yearly review shall follow such abbreviated process as may be determined by the Working Group to be appropriate.

For this review, NAIC legal and financial regulatory services (NAIC staff) staff searched for any publicly available information that would potentially impact the jurisdictions’ status as a Qualified Jurisdiction or as a Reciprocal Jurisdiction, including any changes to existing insurance and reinsurance laws and regulations in the jurisdictions. Next, NAIC staff researched whether a new Financial Sector Assessment Program (FSAP) Report prepared by the International Monetary Fund (IMF), or any other externally produced documentation was available, including the Technical Note on Insurance Sector Supervision, and any other information regarding the laws, regulations, practices, and procedures applicable to the jurisdiction’s reinsurance supervisory system. This research also included any public reports from ratings agencies and any other public information that was deemed to be relevant.

Except as otherwise noted in this memorandum, NAIC staff did not engage directly with the Qualified Jurisdictions or Reciprocal Jurisdictions and relied solely on publicly available information. Additionally, NAIC staff considered any information received (if any had been received) directly from state insurance regulators, interested parties or affected U.S. insurance companies that could potentially impact the status of the Qualified Jurisdictions or Reciprocal Jurisdictions.

Life Reinsurance Placed in Qualified or Reciprocal Jurisdictions

During the past two years, there have been several regulator-only discussions regarding the regulatory practices of insurance supervisors and systems from jurisdictions outside of the U.S. focusing on private equity owned life insurers’ offshore reinsurance. There have been ongoing discussions at the Macroprudential (E) Working Group, as well as other NAIC groups regarding the use of offshore reinsurance. These groups are in the preliminary stages of their work and have not provided any feedback to the Mutual Recognition of Jurisdictions (E) Working Group. At this time, NAIC staff does not believe that these activities rise to a level that would impact the status of any Qualified or Reciprocal Jurisdictions, but that it is appropriate that this issue be included in this discussion. NAIC staff will continue to closely monitor this issue and will provide any added information to the Working Group, as appropriate.

Jurisdictions with Upcoming Regulatory Changes

Bermuda

During 2023, the Bermuda Monetary Authority issued two consultation papers discussing proposed enhancements to their regulatory regime, which are planned to be effective in early 2024. The changes have three main areas of focus: 1) updates to the calculation of the Bermuda Solvency Capital Requirement (BSCR), 2) the calculation of technical provisions (risk margin and scenario-based approach), and 3) updates to their supervisory regime (transaction approvals, liquidity risk management, supervision, reporting and disclosure). On Oct. 11, 2023, representatives from the BMA presented a summary of these changes and other helpful information to the Mutual Recognition of Jurisdictions (E) Working Group and

the Reinsurance Financial Analysis (E) Working Group and gave members of those Working Groups an opportunity to ask questions. Currently, the BMA is in the final stages of implementing these revisions, and from preliminary review, these changes appear to address concerns that have been discussed over the past two years at this Working Group and at the Macprudential (E) Working Group. NAIC staff will plan to monitor the implementation of these revisions closely over the next year and will plan to report back any findings to this Working Group. The BMA is not subject to an in-force covered agreement.

United Kingdom

In November 2022, the UK announced that they are moving away from Solvency II to a similar framework to be called Solvency UK. During 2023, there have been two consultation papers issued by the Bank of England, each of which further details the upcoming changes. The expected changes are wide ranging and include matching adjustment reform (MA is a mechanism that allows insurers to recognize, upfront as capital resources, a proportion of the investment return, in excess of the risk-free rate, that they project to earn over the future lifetime on the assets matching their MA liabilities), changes to the way stress testing is performed, and a number of other minor changes that are intended to promote economic growth. The UK is subject to a covered agreement, so there is no action that needs to be taken at this time, but NAIC staff will monitor the changes and implementation of these reforms over the next year.

Japan

In June 2022, the Japan Financial Services Agency (FSA) announced its intention to reform its solvency regulation framework, effective April 1, 2025. The overall intent of these reforms is to make Japan's regulatory regime more similar to the Insurance Capital Standards of the International Association of Insurance Supervisors (IAIS). The changes that are being proposed are significant and will require a thorough review once they have been finalized, so NAIC staff proposes to perform a detailed review next year. Japan is not subject to an in-force covered agreement.

NAIC Staff Overall Findings

Upon review of all publicly available information, NAIC staff has reached the conclusion that the reinsurance supervisory systems of the seven Qualified Jurisdictions listed above continue to achieve a level of effectiveness in financial solvency and reinsurance regulation for purposes of reinsurance collateral reduction, that their demonstrated practices and procedures with respect to reinsurance supervision continue to be consistent with their respective reinsurance supervisory systems, and that their laws and practices satisfy the criteria required of Qualified Jurisdictions as set forth in the Credit for Reinsurance Model Law and Regulation. NAIC staff have reached similar conclusions with respect to the three Reciprocal Jurisdictions listed above that are not subject to an in-force Covered Agreement.

Therefore, it is the recommendation of NAIC staff that the above listed jurisdictions continue to qualify for inclusion on the *NAIC List of Qualified Jurisdictions* and the *NAIC List of Reciprocal Jurisdictions*.