

NAIC Bulletin

Highlights of the National Association
of Insurance Commissioners meeting

Summer 2022 update

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The National Association of Insurance Commissioners (NAIC) recently held its 2022 Summer National Meeting in a hybrid format from Portland, Oregon. Our publication highlights key issues that NAIC groups have addressed since the 2022 Spring National Meeting. We hope you find it informative, and we welcome your comments. Please contact your local EY professional for more information.

What you need to know

- ▶ The Statutory Accounting Principles (E) Working Group exposed revisions to the statutory accounting and reporting guidance for investments reported on Schedule D, Part 1 to incorporate the current version of the principles-based bond definition.
- ▶ The NAIC Plenary adopted the *Regulatory Considerations Applicable (But Not Exclusive) to Private Equity Owned Insurers* document detailing the plan to address the list of identified regulatory concerns primarily related to private equity-owned insurers.
- ▶ The NAIC Plenary adopted an actuarial guideline developed to provide uniform guidance and address the risk of complex assets in asset adequacy testing performed by life insurers.
- ▶ The NAIC Plenary adopted the revised version of the Pet Insurance Model Act (Model #633) to establish appropriate regulatory standards for the pet insurance industry.

Statutory accounting and risk-based capital developments

This section summarizes the actions taken by various NAIC groups affecting statutory accounting, annual statement reporting and risk-based capital (RBC) requirements since the 2022 Spring National Meeting.

Statutory Accounting Principles (E) Working Group

Appendix A in this publication summarizes the actions taken by the Statutory Accounting Principles (E) Working Group (SAPWG) to revise the statutory accounting and reporting guidance in the *Accounting Practices and Procedures Manual* (AP&P Manual) since the 2022 Spring National Meeting. It also includes the effective dates for adopted items and the deadlines for comments on exposed items.



Statutory accounting principles

SAPWG adopted revisions to replace the current Exhibit A and Exhibit B in SSAP No. 86, *Derivatives*, with a new Exhibit A that adopts, with modification, the US GAAP guidance for determining hedge effectiveness from Accounting Standards Update (ASU) 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (Ref #2021-20). The revisions also revise the measurement method required for different types of excluded components in hedging instruments (e.g., foreign currency forward points, cross-currency spread basis, non-foreign currency excluded components) and expand the investment schedule reporting and disclosures for derivatives in the annual statement blank.

SAPWG also directed the NAIC staff to draft a blanks proposal to incorporate new electronic-only reporting fields for Schedule DB with templates to data-capture the new disclosures for excluded components detailed in the adopted revisions to SSAP No. 86, effective for 2023 year-end reporting purposes. However, reporting entities that early adopt the revised guidance in their assessment of effective hedge relationships would be required to provide these disclosures in a narrative format for 2022 year-end reporting purposes and report the adoption as a change in accounting principle.

SAPWG exposed revisions to SSAP No. 86 to incorporate key aspects of the US GAAP guidance for portfolio and partial-term hedges from ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method*, and ASU 2017-12 that would apply to fair value hedges of recognized assets (Ref #2022-09). The proposed revisions include criteria for the use of portfolio and partial-term hedges, along with specific hedge assessment guidance addressing the portfolio layer method and guidance for reporting the basis adjustment when a portfolio layer method interest rate hedging relationship is discontinued (or partially discontinued) in a voluntary de-designation or in anticipation of a breach.

SAPWG adopted revisions to SSAP No. 25, *Affiliates and Other Related Parties*, and SSAP No. 43R, *Loan-Backed and Structured Securities*, to clarify the identification and reporting requirements for affiliate transactions and incorporate new reporting codes in the investment schedules of the annual statement blank to identify investments that involve related parties (Ref #2021-21). The new reporting requirements are intended to identify investments acquired through, or in, related parties, regardless of whether they meet the definition of an affiliate in the Insurance Holding Company System Regulatory Act (Model #440) for 2022 year-end reporting.

SAPWG adopted revisions to SSAP No. 4, *Assets and Nonadmitted Assets*, and the Preamble to the AP&P Manual to incorporate updates from Financial Accounting Standards Board (FASB) Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, into the statutory accounting framework (Ref #2022-01). The revisions identify factors to consider when deciding how items should be displayed in the financial statements, without modifying current statutory guidance, and update the definition of an asset as a present right of an entity to an economic benefit. The updated definition is not expected to result in the reclassification of any assets for statutory reporting.

SAPWG also re-exposed revisions to SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*, to incorporate updates from FASB Concepts Statement No. 8 into the statutory accounting framework. The proposed revisions would update the definition of a liability as a present obligation of an entity to transfer an economic benefit. Feedback has been requested from industry representatives on specific circumstances or scenarios where an item would be considered a liability under the updated definition and not reported as such for statutory accounting purposes.

SAPWG adopted revisions to SSAP No. 48, *Joint Ventures, Partnerships and Limited Liability Companies*, to retain audited US tax basis equity as a permissible valuation method to support the admissibility of an investment that meets the US GAAP audit exception, with clarification that the audit must be performed at the investee level (Ref #2022-02).

SAPWG adopted revisions to SSAP No. 24, *Discontinued Operations and Unusual or Infrequent Items*, to incorporate certain disclosures from ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, that require unusual or infrequent government assistance transactions to be identified as such, with a description of the terms and provisions of the assistance received (Ref #2022-04).

SAPWG adopted revisions to SSAP No. 104R, *Share-Based Payments*, to incorporate the practical expedient for the current price input included in ASU 2021-07, *Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*, which is a required component for option-pricing models utilized in the determination of fair value for share-based payments (Ref #2022-06). The practical expedient is available for use when a reporting entity is not able to reasonably estimate the current fair value of its shares.

SAPWG exposed revisions to SSAP No. 26R, *Bonds*, and SSAP No. 43R to incorporate the current version of the principles-based bond definition for use in determining whether an investment (i.e., security) qualifies for reporting as a long-term bond on Schedule D, Part 1 (Bond Project) into statutory accounting guidance (Ref #2019-21). The exposure also includes an issue paper detailing past discussions and concepts in developing the principles-based bond definition, including consideration for the classification and treatment of investments in feeder funds. The proposed revisions would change the name of SSAP No. 43R to “Asset-Backed Securities” while reorganizing and updating its content to address various revisions to authoritative guidance resulting from the Bond Project. NAIC staff acknowledged that this might duplicate the guidance that will be included elsewhere; however, it will eliminate the need for users of the guidance to refer to SSAP No. 26R and improve the clarity and application of the underlying guidance to investments captured within the different SSAPs.

SAPWG also exposed revisions to improve the transparency and granularity of investments reported on Schedule D, Part 1, including a proposal for a new schedule to separate and capture information specific to issuer credit obligations and asset-backed securities with revised reporting lines and instructions for investment classification.

The target effective date for all revisions resulting from the Bond Project continues to be 1 January 2024; however, NAIC staff indicated that it is likely the effective date will be delayed to 1 January 2025.

Interpretations of statutory accounting principles

SAPWG adopted INT 22-01: *Freddie Mac When-Issued K-Deal (WI Trust) Certificates* to clarify that investments in the Freddie Mac When-Issued K-Deal program are captured in the scope of SSAP No. 43R from initial acquisition, as the program is fully guaranteed by Freddie Mac and makes sure that the investor will receive pass-through certificates, backed by mortgage loans held in trust, that are representative of the terms of the investment set at original acquisition (Ref #2022-08).

SAPWG exposed an intent to nullify INT 03-02: *Modification to an Existing Intercompany Pooling Arrangement*, which indicated that assets transferred among affiliates in connection with the execution of a new reinsurance agreement that substantively modify an existing intercompany pooling arrangement should be accounted for at statutory book value. This treatment is inconsistent with the guidance in SSAP No. 25 for the recognition of economic and non-economic transactions between related parties (Ref #2022-12).

Other matters

The NAIC staff indicated it is monitoring developments regarding the enactment of the Inflation Reduction Act of 2022 (IRA) for any items that may impact insurers. The IRA includes various tax provisions (e.g., the introduction of a 15% corporate alternative minimum tax for applicable corporations that exceed the \$1 billion threshold for average annual adjusted financial statement income) that may affect the recognition and admissibility of deferred tax assets by insurance reporting entities. SAPWG will evaluate the implications of these tax provisions and consider the need to issue guidance addressing their application for statutory accounting and reporting purposes in a future period.

Blanks (E) Working Group

The Blanks (E) Working Group (BWG) received a memorandum from the Property and Casualty (P&C) RBC (E) Working Group requesting the reinsurer designation-equivalent rating factors on Schedule F, Part 3 of the P&C annual statement blank be modified in response to actions taken by the Capital Adequacy (E) Task Force (CATF) to remove the embedded 2% operational risk charge from the R3 credit risk component of the P&C RBC formula (Ref #2021-14-P).

Appendix B summarizes the actions taken by BWG since the 2022 Spring National Meeting.

Capital Adequacy (E) Task Force

CATF exposed revisions to the calculation of the RBC requirement for affiliated investments that were developed by the Life RBC (E) Working Group, Health RBC (E) Working Group and P&C RBC (E) Working Group for use in the respective RBC formulas (Ref #2022-09-CA). The proposed revisions are intended to improve the calculation and provide consistency in the treatment of affiliate investments across insurance sectors. Comments are due by 10 October 2022.

The Life RBC (E) Working Group received a comment on the revisions developed for the Life RBC formula indicating that the instructions would require insurance reporting entities to include the carrying value and RBC requirement for all investments in directly owned insurance affiliates/subsidiaries even if the investment is nonadmitted, and it does not seem reasonable to classify these investments as nonadmitted if they are included in the RBC calculation. This comment was referred to CATF for further consideration.

Appendix C summarizes the developments affecting RBC requirements for each of the insurance sectors based on actions taken by CATF and the various NAIC groups that report to it since the 2022 Spring National Meeting.

Life RBC (E) Working Group

The Life RBC (E) Working Group revised the mortality factors used in the calculation of the insurance risk (i.e., C2) component of the Life RBC formula for 2022 year-end reporting (Ref #2022-03-L and #2022-06-L). The revisions implement the updated factors developed by the American Academy of Actuaries (Academy) to address the assumed current mortality rate risk exposure period over the remaining lifetime of an in-force block of business. The RBC requirement is calculated as a percentage of the net amount at risk across different size bands applicable to the total amounts for individual and industrial life products (with and without pricing flexibility) and group term and credit life products (with remaining rate terms that are greater than or less than/equal to 36 months).

Health RBC (E) Working Group

The Health RBC (E) Working Group exposed a letter from the Academy providing a timeline for the analysis and comprehensive review of the underwriting risk (i.e., H2) component and managed care credit calculation in the Health RBC formula. The Academy's project plan has been designed to address a targeted set of recommendations for improving the underwriting risk factors. The recommendations include:

- ▶ Refresh the factors based on updated insurer data
- ▶ Develop factors at a more granular product level
- ▶ Develop factors specific to more relevant block sizes and consider an indexing factor for cut points to change over time
- ▶ Model risk factors over an NAIC-defined prospective time horizon with a defined safety level that can be refreshed regularly
- ▶ Refresh the managed care credit formula and factors to be more relevant and representative of common contracting approaches and other risk factors associated with these contracting approaches
- ▶ Analyze long-term care (LTC) insurance underwriting performance to create a more nuanced set of risk factors that consider pricing changes over time

The Academy plans to proceed with an analysis to support the first five recommendations across three work tracks (e.g., redesign pages XR013/XR014 for experience fluctuation risk, develop tiered RBC factors, redesign pages XR018/XR019 for managed care credit) that will take between 18 and 28 weeks to complete, given the complexity of the redesign and the time needed for data collection and analysis. For the sixth recommendation, the Academy suggested that the Working Group discuss any potential changes to the LTC insurance risk factors with the Life RBC (E) Working Group, since most LTC insurance premiums are written by life insurance companies.

Catastrophe Risk (E) Subgroup

The Catastrophe Risk (E) Subgroup exposed revisions to clarify the instructions and requirements for companies to obtain permission to use their own models in the calculation of the catastrophe risk charge in the Rcat component of the P&C RBC formula (Ref #2022-08-CR). Comments are due by 8 September 2022.

The Subgroup continued its discussion of the potential inclusion of other catastrophe risks in the Rcat component of the P&C RBC formula. The Subgroup indicated that the inclusion of a flood peril is not warranted at this time due to the lack of materiality of the flood peril to the industry. The Subgroup also indicated that it would consider the inclusion of a convective storm peril in the Rcat component for informational purposes only. Further discussion is planned at a future meeting to be scheduled by the Subgroup.

RBC Investment Risk and Evaluation (E) Working Group

The RBC Investment Risk and Evaluation (E) Working Group received updates from SAPWG and the Valuation of Securities (E) Task Force (VOSTF) regarding its investment-related projects. Specifically, SAPWG provided an update on the status of the Bond Project, and VOSTF addressed its project to modernize the treatment of collateralized loan obligations (CLOs) through an updated modeling process. Both projects will require the RBC factors to be reviewed for reasonableness of their application to the perceived risk of the underlying investments.

The Working Group discussed its next steps on potential projects that would support the initiatives of the Financial Condition (E) Committee (E Committee), including the development of an RBC scheme to address CLO tranches and eliminate potential arbitrage opportunities through CLO structures if they exist, and the establishment of appropriate RBC charges for residual tranches of all types of securitizations (i.e., CxOs).

Requirements for principle-based reserving

The NAIC Plenary adopted nine amendments to the *Valuation Manual* that were developed by the Life Actuarial (A) Task Force (LATF). These amendments range from editorial clarifications to substantive technical revisions to the guidance in VM-20: *Requirements for Principle-Based Reserves for Life Products* and VM-21: *Requirements for Principle-Based Reserves for Variable Annuities*. LATF also continued its work to update the *Valuation Manual* and address issues related to the implementation of the principle-based reserving (PBR) framework for life and annuity products.

Life and variable annuity products

Valuation Manual amendments

LATF adopted the following amendments to the 1 January 2023 version of the *Valuation Manual* to:

- ▶ Revise the hedge modeling requirements to only require a clearly defined hedging strategy if modeling future hedging reduces the reserves under VM-20 or the total asset requirement under VM-21
- ▶ Update the prescribed guidance for swap spreads in VM-20 to facilitate the transition to the Secured Overnight Financing Rate (SOFR) from the London Interbank Offered Rate (LIBOR)

Non-variable annuity products

The VM-22 (A) Subgroup continued its discussion of the feedback received on the draft PBR framework for non-variable annuity products, which has been organized into the following four tiers based on importance:

- ▶ Tier 1: Foundational and critical issues, which include the structure of definitions and scope of requirements, the inclusion of a reinvestment guardrail on the mix of credit qualities, the selection of one of two reserve category definitions for product aggregation, and whether to develop a small company exemption (analogous to the Life PBR Exemption in VM-20)
- ▶ Tier 2: Highly substantive comments on topics such as longevity reinsurance, transition period and scope of the exclusion test
- ▶ Tier 3: Moderately substantive comments on highly technical topics
- ▶ Tier 4: All other comments deemed to be editorial, nonsubstantive or noncontroversial

Specific items addressed by the Subgroup include the aggregation of payout and accumulation reserves, development of a small company exemption consistent with the Life PBR exemption in VM-20, parameters for an exclusion test applicable to specific products, use of prescribed tables for pension risk transfer and longevity reinsurance mortality with limited or no company experience, and the exposure of a proposal to treat longevity reinsurance as a third reserving category.

A modified draft of VM-22 will be re-exposed once all of the relevant feedback for the above tiers has been evaluated. Once re-exposed, the Subgroup will transition to addressing the development of the standard projection amount. The Subgroup indicated that it would recommend a standard projection amount to LATF but has not decided on whether the amount will be considered a disclosure-only item or a minimum floor in the reserve calculation. Two drafting groups are currently working on the mortality and policyholder behavior assumptions to be used in the determination of the standard projection amount, with discussion targeted for fall 2022.

The Subgroup is also targeting a VM-22 field test to begin in spring 2023, which will be led jointly by the Academy, the American Council of Life Insurers (ACLI) and the NAIC. This timing may result in a delayed effective date of 1 January 2025, with a three-year transition period for implementation.

Macroprudential activities

Various NAIC groups continued their work on areas of the NAIC's Macroprudential Initiative to improve the ability of state insurance regulators to monitor and respond to financial and economic risks affecting the US insurance industry as a whole and individual insurance reporting entities.

Liquidity assessment and capital stress testing

The Financial Stability (E) Task Force received an update from the Liquidity Stress Test (LST) study group on its work to determine potential modifications to the LST framework, including providing more consistency in certain stress test assumptions. The LST study group is currently reviewing the 2021 year-end data submitted by insurance groups in their 2021 LST filings against the 2021 LST scope criteria and will use the results as a basis for future Task Force deliberations on whether and how to modify the 2022 LST scope criteria. The Task Force also formed the LST separate accounts study group to evaluate issues specific to non-insulated separate account sales, liquidity risk for insulated separate accounts and the potential macroprudential impacts to the broader financial markets. The Task Force will incorporate feedback from this study group into the LST framework.

The Group Capital Calculation (E) Working Group adopted the revised 2022 group capital calculation template and related instructions, including an editorial revision to the instructions to prevent the preparer from double-counting the operational risk charge within the calculation when inputting amounts for each of the US insurers in their group. The revised template and related instructions address the following topics:

- ▶ Elimination of the stress scenario included in the 2021 trial implementation
- ▶ Retention of the aggregate debt allowance at 75% of available capital, excluding debt, with no increase to account for procyclicality
- ▶ Elimination of the sensitivity test related to "other debt"
- ▶ Inclusion of a 50% non-risk-sensitive factor to be applied to capital from foreign jurisdictions
- ▶ Retention of the existing structure addressing the information to be reported for entities included in Schedule 1 and the treatment of asset managers as financial entities within the template

NAIC staff indicated that training will be developed and made available to both the industry and regulators in advance of the initial filing of the group capital calculation in most states.

Recovery and resolution

The Financial Regulation Standards and Accreditation (F) Committee (F Committee) adopted the recommendation developed by the Receivership and Insolvency (E) Task Force for the 2021 revisions to Model #440 and the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions (Model #450) specific to the receivership process to be considered acceptable, but not required, for accreditation purposes. These revisions address the continuation of essential services through affiliated intercompany agreements when an insurer is placed into receivership.

The Receivership and Insolvency (E) Task Force adopted revisions to the first two chapters (“Commencement of the Proceedings” and “Information Systems”) of the *Receiver’s Handbook for Insurance Company Insolvencies*. The Receiver’s Handbook (E) Subgroup is reviewing the feedback received on the next three chapters and will develop revisions for consideration by the Task Force at a future meeting.

The Receivership Law (E) Working Group discussed options for improving pre-receivership communication and information-sharing between receivers and guaranty funds, including possible amendments to NAIC model laws, a draft memorandum of understanding (MoU) and improved regulatory guidance. The Working Group exposed a draft MoU that can be used to facilitate traditional planning and preparation activities, starting when a troubled P&C insurer faces a material risk of being liquidated as insolvent.

Private equity and other matters

The NAIC Plenary adopted the *Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers* document developed by the Macroprudential (E) Working Group. The document outlines a plan to address identified regulatory concerns primarily related to private equity-owned insurers. The responses developed for each of these regulatory concerns include referrals to other NAIC groups requesting consideration of the underlying risks, an evaluation of existing measures to address the risks and determination of whether additional action needs to be taken in response to the identified risks.

The Working Group provided an update on the current status of each of the 13 items in the list, which has been summarized below:

- ▶ Regulators may not be obtaining clear pictures of risk due to holding companies structuring contractual agreements in a manner to avoid regulatory disclosures and requirements. Additionally, affiliated or related party agreements impacting the insurer’s risks may be structured to avoid disclosure (i.e., not including the insurer as a party to the agreement). The Working Group referred this item to the Group Solvency Issues (E) Working Group.
- ▶ Control is presumed to exist where ownership is greater than or equal to 10%, but control and conflict of interest considerations may exist with less than 10% ownership. The Working Group referred this item to the Group Solvency Issues (E) Working Group.
- ▶ Regulators should understand the material terms of investment management agreements and whether they are arm’s length or could result in conflicts of interest, including the amount and types of investment management fees paid by the insurer; the termination provisions (i.e., how difficult or costly it would be for the insurer to terminate the agreement); and the degree of discretion or control of the investment manager over investment guidelines, allocation and decisions. The Working Group referred various aspects of this item to the Risk-Focused Surveillance (E) Working Group and VOSTF.
- ▶ Owners of insurers, regardless of type and structure, may be focused on short-term results, which may not align with the long-term nature of liabilities in life products. The Working Group referred various aspects of this item to the Risk-Focused Surveillance (E) Working Group and LATF.
- ▶ Operational, governance and market conduct practices may be impacted by the different priorities and level of insurance experience possessed by entrants into the insurance market without prior insurance experience, including, but not limited to, PE owners. The Working Group will retain this item and determine the necessary actions to take in response to the identified risks.
- ▶ No uniform or widely accepted definition of PE exists, and there are challenges in maintaining a complete list of insurers’ material relationships with PE firms. Regulators do not believe a PE definition is necessary, as the considerations are activity-based and apply beyond PE owners.
- ▶ The lack of identification of investments (including structured securities) originated by related parties may create potential conflicts of interest and excessive and/or hidden fees in the portfolio structure, as assets created and managed by affiliates may include fees at different levels of the value chain. The Working Group referred this item to SAPWG.
- ▶ Though the blanks include affiliated investment disclosures, it is not easy to identify underlying affiliated investments and/or collateral within structured security investments. Additionally, transactions may be excluded from affiliated reporting due to nuanced technicalities. Regulatory disclosures may be required to identify underlying related party investments and/or collateral within structured security investments. The Working Group referred various aspects of this item to SAPWG and the Examination Oversight (E) Task Force.

- ▶ Broader considerations exist around asset manager affiliates (not just PE owners) and disclaimers of affiliation avoiding current affiliate investment disclosures. The Working Group referred this item to SAPWG.
- ▶ The material increases in privately structured securities (both by affiliated and nonaffiliated asset managers) introduce other sources of risk or increase traditional credit risk, such as complexity risk and illiquidity risk, and involve a lack of transparency. The Working Group referred various aspects of this item to LATF, VOSTF and the RBC Investment Risk and Evaluation (E) Working Group.
- ▶ The level of reliance on rating agency ratings and their appropriateness for regulatory purposes (e.g., accuracy, consistency, comparability, applicability, interchangeability and transparency). The Working Group referred this item to VOSTF.
- ▶ The trend of life insurers in pension risk transfer (PRT) business and supporting such business with complex investments. Considerations have also been raised regarding the RBC treatment of PRT business. The Working Group referred various aspects of this item to LATF, SAPWG and the Longevity Risk (E/A) Subgroup. Additionally, the Working Group requested that NAIC staff further research the applicability of Department of Labor (DOL) protections for pension beneficiaries in a PRT transaction and may engage with DOL representatives in response to the identified risks.
- ▶ Insurers' use of offshore reinsurers, including captives, and complex affiliated sidecar vehicles to maximize capital efficiency, reduce reserves, increase investment risk and introduce complexities into the group structure. The Working Group will continue to engage with industry representatives using these transactions to gain insights that will inform the development of a response to the identified risks. The Working Group also expressed a desire to meet with industry representatives to discuss the incentives behind PE ownership of insurers and the concerns other industry members may have with such ownership.

The work to be performed by the other NAIC groups referred to in the above items includes in-process projects (e.g., SAPWG Bond Project, VOSTF project to evaluate the use of rating agency ratings in the assignment of NAIC designations, LATF project to develop an actuarial guideline to address asset adequacy testing for complex assets) and other actions that have yet to be determined.

Innovation, Cybersecurity, and Technology

The Executive (EX) Committee (EX Committee) adopted the request from the Privacy Protections (H) Working Group to draft a new NAIC model law addressing data privacy protections for insurance consumers. The new model law would enhance consumer protections and the corresponding obligations of entities licensed by state insurance departments. It was deemed necessary when considering the extensive innovations that have been made in communications and technology since the NAIC Insurance Information and Privacy Protection Model Act (Model #670) and Privacy of Consumer Financial and Health Information Regulation (Model #672) were adopted several decades ago. This new model law would supersede these two existing NAIC models.

The actions taken by various NAIC groups that report to the Innovation, Cybersecurity, and Technology (H) Committee (H Committee) since the 2022 Spring National Meeting are summarized below.

Big Data and Artificial Intelligence (H) Working Group

The Big Data and Artificial Intelligence (H) Working Group held a Collaboration Forum on Algorithmic Bias, which included presentations covering different perspectives on artificial intelligence risk management and governance and bias detection methods and tools. This forum is intended to serve as a platform for regulators to identify and address issues related to algorithmic bias and develop a common framework responsive to the underlying risks (e.g., manage or mitigate unintended bias and illegal discrimination when developing and using artificial intelligence or machine learning). The information obtained from the forum will inform the work of the NAIC's Special (EX) Committee on Race and Insurance, specifically workstream three, which is charged with considering regulatory approaches to addressing unfair discrimination in the P&C insurance market.

Cybersecurity (H) Working Group

The Cybersecurity (H) Working Group received an update on its revised work plan, which includes developing a state insurance regulator cybersecurity survey; considering the development of a cybersecurity response plan to aid state insurance regulators in situations where cybersecurity events take place within the insurance industry; advising NAIC staff on training that would be beneficial to state insurance regulators; and monitoring state, federal and international cybersecurity efforts.

The Working Group exposed an NAIC staff memorandum summarizing cybersecurity-related regulatory tools available to state insurance regulators. The draft memorandum identifies three key NAIC resources that relate to cybersecurity: the Insurance Data Security Model Law (Model #668), the *Financial Condition Examiners Handbook* and the *Market Regulation Handbook*. It also covers how each tool addresses the topic of cybersecurity and the interrelationship between each tool. The feedback received will be discussed by the Working Group at a future meeting.

Executive Committee

The NAIC Plenary adopted:

- ▶ The Other Health Insurance Market Conduct Annual Statement (MCAS) data call and definitions developed by the MCAS Blanks (D) Working Group
- ▶ Revisions to the MCAS data call and definitions for homeowners insurance, private passenger auto insurance, and life insurance and annuities developed by the MCAS Blanks (D) Working Group

The EX Committee also received an update on model law development efforts for revisions to the following NAIC model acts:

- ▶ The Accident and Sickness Insurance Minimum Standards (B) Subgroup solicited feedback on its proposed changes to the first seven sections of the Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (Model #171) and recently completed its work on revisions to Section 7 of Model #171 related to indemnity products and disability income protection products. The revisions contain various provisions for the regulation of supplementary and short-term health insurance plans, including limited-scope dental and vision plans. The work to revise Model #171 will continue at the Subgroup's future meetings.
- ▶ The Mortgage Guaranty Insurance (E) Working Group has been focused on the development of a capital model, which is currently incorporated as a requirement in the Mortgage Guaranty Insurance Model Act (Model #630). The Working Group received an extension from the E Committee to complete its work by the 2023 Spring National Meeting.
- ▶ The drafting group appointed by the Surplus Lines (C) Task Force solicited feedback on proposed revisions to the Nonadmitted Insurance Model Act (Model #870) and will schedule a meeting to discuss the feedback received.

The actions taken by various NAIC groups that report to the EX Committee since the 2022 Spring National Meeting are summarized below.

Climate and Resiliency (EX) Task Force

The Climate and Resiliency (EX) Task Force (CRTF) heard an update on the work being performed by its various workstreams to identify and address climate-related risk and resiliency issues affecting the insurance sector.

The Solvency workstream referred proposed climate risk enhancements to the Financial Analysis Solvency Tools (E) Working Group, the Financial Examiners Handbook (E) Technical Group, and the Own Risk and Solvency (ORSA) Implementation (E) Subgroup for potential inclusion in the *Financial Analysis Handbook*, the *Financial Condition Examiners Handbook* and the *ORSA Guidance Manual*, respectively. These enhancements would address climate change risks in insurance operations and their effect on insurer solvency. The enhancements are presented as high-level principles for each NAIC group to consider and develop as appropriate for inclusion in the respective publication.

Long-Term Care Insurance (EX) Task Force

The Long-Term Care Insurance (EX) Task Force received an update on the implementation of the *Long-Term Care Insurance Multistate Rate Review Framework*, which is intended to provide a uniform framework for the multistate actuarial review of LTC insurance rates. The Task Force anticipates that the framework will be operational in September 2022, and participation in the review process by both insurers and state insurance regulators will be critical to its success.

The Task Force also received a report on LTC insurance financial solvency and industry trends. Key factors that will be considered in the review of reserve valuations performed in accordance with *Actuarial Guideline LI – The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) include the impact of cost of care inflation, attitudes toward different statuses of care that may impact insurance claim costs in the future, general morbidity assumptions (e.g., frequency of claims and length of claims) and how COVID-19-impacted data will inform these assumptions in the future, and the consistency of assumptions-setting by companies between reserves and rates.

Life Insurance and Annuities

The NAIC Plenary adopted *Actuarial Guideline LIII – Application of the Valuation Manual for Testing the Adequacy of Life Insurer Reserves* (AG 53), which was developed by LATF to address the risk of complex assets in the performance of asset adequacy testing. AG 53 is intended to provide uniform guidance and clarification of the requirements for the appropriate support of certain assumptions for the asset adequacy analysis performed by life insurers. It is effective for the asset adequacy analysis of reserves reported at year-end 2022. AG 53 focuses on the modeling of complex or high-yielding assets in asset adequacy testing and was developed in response to concerns that insurers and reinsurers may be supporting liabilities related to legacy deferred annuity products with high crediting rate guarantees by increasing their exposure to nontraditional assets. LATF has developed and exposed templates that will provide a standardized format for insurers to submit sensitivity testing, attribution and disclosure requests to support their asset adequacy analysis.

The actions taken by various NAIC groups that report to the Life Insurance and Annuities (A) Committee (A Committee) since the 2022 Spring National Meeting are summarized below.

Life Actuarial (A) Task Force

LATF continued its work on the development of economic scenario generator (ESG) baseline scenarios prescribed for use in modeling equity securities, treasuries and corporate bonds for statutory reserve and regulatory capital valuations. Field testing of the ESG models has been performed. The NAIC will confidentially share the field test results with state insurance regulators and various NAIC groups, with aggregated field test results to be discussed at future LATF meetings.

LATF will analyze the results of field testing to determine whether any adjustments to the ESG models are needed, develop the Simplified Corporate Bond model to replace the Conning Corporate Bond model, and finalize its plan for the performance of additional field testing in 2023.

LATF exposed the 2023 Generally Recognized Expense Tables recommended by the Society of Actuaries for use in individual life insurance sales illustrations. This analysis is based on an objective study of expense and expense-related information reported by life insurance companies in their 2020 and 2021 annual statements.

Indexed Universal Life (IUL) Illustration (A) Subgroup

The IUL Illustration (A) Subgroup exposed a set of four options to address the issues identified in the illustration of IUL policies since the 2020 adoption of *Actuarial Guideline XLIX-A – The Application of the Life Illustrations Model Regulation to Policies with Index-Based Interest to Policies Sold on or After December 14, 2020* (AG 49-A). These options included attempting a quick fix to revise AG 49-A to address the current concern of some companies illustrating uncapped volatility-controlled policies better than capped S&P 500 policies to applying a hard cap on various IUL illustration metrics. The Subgroup will discuss the feedback received at a future meeting.

LATF is considering a request to the A Committee for limited, targeted revisions to the Life Insurance Illustrations Model Regulation (Model #582) to address the need for LATF to make continual changes to the guidance in AG 49-A to address product features causing aggressive illustrations.

Index-Linked Variable Annuity (A) Subgroup

The Index-Linked Variable Annuity (A) Subgroup discussed the feedback received on the revised draft actuarial guideline for index-linked variable annuity (ILVA) products to clarify how the Standard Nonforfeiture Law for Individual Deferred Annuities (Model #805) and the Variable Annuity Model Regulation (Model #250) would apply to ILVAs. The feedback received requested clarification of the treatment of market value adjustments for ILVA products as well as a delayed effective date. The actuarial guideline is intended to provide guidance for how ILVA products with contract benefits that vary with the performance of an index can be considered exempt from nonforfeiture requirements and avoid designs where the contract holder is exposed to losses when the index goes down without receiving benefits when the index goes up. The Subgroup will continue to work with industry representatives to develop the requirements for the actuarial guideline.

Annuity Suitability (A) Working Group

The Annuity Suitability (A) Working Group continued its work to develop frequently asked questions (FAQs) on the safe harbor and comparable standards provision in the Suitability in Annuity Transactions Model Regulation (Model #275), which was revised in 2020 to add a best interest standard of conduct for insurers and producers. Based on the feedback received, the Working Group will restructure the draft FAQs to provide more targeted and narrower responses to the questions raised on this provision of Model #275.

Health Insurance and Managed Care

The actions taken by various NAIC groups that report to the Health Insurance and Managed Care (B) Committee (B Committee) since the 2022 Spring National Meeting are summarized below.

Health Actuarial (B) Task Force

The Health Actuarial (B) Task Force (HATF) heard an update on the activities of a joint work group of the Academy and Society of Actuaries Research Institute to develop valuation tables that would replace the 2005 Group Term Life Waiver Mortality and Recovery Tables in *Actuarial Guideline XLIV – Group Term Life Waiver of Premium Disabled Life Reserves* (AG 44). The joint work group indicated that it had exposed a proposal for the development of these valuation tables, with the feedback received to be evaluated and discussed with HATF at a future meeting.

Regulatory Framework (B) Task Force

The Regulatory Framework (B) Task Force received an update from the Employee Retirement Income Security Act (ERISA) (B) Working Group, which adopted a summary of *Rutledge v. Pharmaceutical Care Management Association (PCMA)* for inclusion in the *Health and Welfare Plans Under the Employee Retirement Income Security Act: Guidelines for State and Federal Regulation* (ERISA Handbook).

The Task Force also heard a presentation from the Association for Accessible Medicines on the usage of the term “interchangeable biosimilar product” in the Health Carrier Prescription Drug Benefit Management Model Act (Model #22) and its effect on prescription drug substitutions. The Task Force formed an ad hoc group to further study this issue.

Property and Casualty Insurance

The NAIC Plenary adopted the revised version of the Pet Insurance Model Act (Model #633) recommended by the Property and Casualty Insurance (C) Committee (C Committee). Model #633 was developed to establish appropriate regulatory standards for the pet insurance industry. The model act was revised to include required training topics for pet insurance producers and language that allows producer training requirements to be satisfied by substantially similar requirements in another state.

The actions taken by various NAIC groups that report to the C Committee since the 2022 Spring National Meeting are summarized below.

Casualty Actuarial and Statistical (C) Task Force

The Casualty Actuarial and Statistical (C) Task Force (CASTF) adopted revised guidance for the regulatory review of all tree-based models, which are predictive actuarial models that use decision trees. The revised guidance replaces the previous guidance that was only applicable to random forest models. However, the revisions did not substantially change the regulatory review process.

CASTF exposed a draft of the NAIC Loss Cost Multiplier (LCM) form and instructions for all lines of property and casualty insurance. LCM filings provide regulators with information about loss costs (i.e., expected claim costs per exposure unit, exclusive of expenses and profits) for use in determining the final rates that will be charged for the underlying exposure. Comments are due by 23 September 2022.

Catastrophe Insurance (C) Working Group

The Catastrophe Insurance (C) Working Group discussed its project to update the *Catastrophe Computer Modeling Handbook*, which has been modified to be a primer that addresses the basics of catastrophe modeling. The primer document is intended to provide state departments of insurance with a resource to inform new and non-expert staff about the basics of catastrophe modeling. The drafting group working on this project has created an outline for the publication and plans to meet again in 2022 to collaborate on and draft the publication content.

Cannabis Insurance (C) Working Group

The Cannabis Insurance (C) Working Group received a status report on the drafting of the *Understanding the Market for Cannabis Insurance 2.0* white paper, which will cover the following topics:

- ▶ Expansion of states legalizing cannabis
- ▶ Recent federal legislative activities
- ▶ Current regulatory, licensing and educational landscape
- ▶ Evolution of operating and organizational structures for cannabis businesses
- ▶ Insurance needs of the cannabis market and current insurance coverage availability
- ▶ Emerging issues, such as minor cannabinoids and on-site consumption lounges

The goal is to expose the draft white paper before the 2023 Summer National Meeting, with adoption to occur by the end of 2023.

Financial Condition

The EX Committee approved the request from the Receivership and Insolvency (E) Task Force to amend the existing Property and Casualty Insurance Guaranty Association Model Act (Model #540). The request is limited to addressing possible technical gaps within certain definitions that may exist in states that have adopted Model #540 to determine whether there is continuity of guaranty fund coverage after insurance business transfers and corporate division transactions.

The actions taken by various NAIC groups that report to the E Committee since the 2022 Spring National Meeting are summarized below.

Group Solvency Issues (E) Working Group

The Group Solvency Issues (E) Working Group adopted revisions to the *ORSA Guidance Manual* that incorporate elements of the International Association of Insurance Supervisors (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (i.e., ComFrame) deemed appropriate for the US system of state-based insurance regulation. The revisions also enhance the treatment and disclosure of liquidity and business strategies within ORSA filings.

The Working Group also discussed the feedback received on the previously exposed revisions to the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook*, each of which incorporate additional guidelines for the regulatory oversight of internationally active insurance groups. The Working Group referred the proposed revisions to the Financial Examiners Handbook (E) Technical Group and the Financial Analysis Solvency Tools (E) Working Group, respectively, for consideration of adoption.

Mutual Recognition of Jurisdictions (E) Working Group

The NAIC Plenary adopted the *NAIC List of Jurisdictions that Recognize and Accept the Group Capital Calculation* document developed by the Mutual Recognition of Jurisdictions (E) Working Group, which identifies non-US jurisdictions that meet NAIC requirements for recognizing and accepting the NAIC group capital calculation.

Under Model #440, a jurisdiction may meet the standards for its insurance groups to be exempt from the NAIC group capital calculation if it is a reciprocal jurisdiction that recognizes the US state regulatory approach to group supervision and group capital, or it has otherwise been determined that the jurisdiction recognizes and accepts the NAIC group capital calculation by procedures specified in regulation. However, a lead state insurance commissioner can require the completion of the NAIC group capital calculation for the US operations of any non-US-based insurance holding company system domiciled in an exempted jurisdiction if, after consultation with other supervisors or officials, the insurance commissioner deems such a subgroup calculation to be appropriate for prudential oversight and solvency monitoring purposes or for making sure the insurance marketplace is competitive.

National Treatment and Coordination (E) Working Group

The National Treatment and Coordination (E) Working Group received a referral from the members of the NAIC's Chief Financial Regulator Forum regarding Form A (i.e., change in control) applications filed by nontraditional ownership structures seeking to acquire a domestic insurance company. The Working Group sent this referral to an ad hoc group for further discussion and development of a potential response to improve the process to identify the ultimate controlling party for these structures.

Reinsurance (E) Task Force

The Reinsurance (E) Task Force adopted the revisions to the *Uniform Checklist for Reciprocal Jurisdiction Reinsurers* recommended by the Reinsurance Financial Analysis (E) Working Group to provide updated guidance on the process for passporting certified and reciprocal jurisdiction reinsurers. The [list of passported reinsurers](#) is available on the NAIC website.

Valuation of Securities (E) Task Force

VOSTF continued its work to amend the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to clarify the instructions, modify various administrative procedures and improve the compilation function of the NAIC Securities Valuation Office (SVO). VOSTF adopted amendments to the P&P Manual that will:

- ▶ Clarify the role of the NAIC SVO regarding interpreting statutory accounting and reporting guidance, including the NAIC SVO's authority, at its discretion, to notify the appropriate state insurance regulators of any investments that, in its opinion, would not or might not be eligible for reporting on Schedule D or Schedule BA
- ▶ Provide a consistent reference to the "NAIC Designation Category" and the additional price points needed to determine them
- ▶ Update the definition of principal protected securities to address alternate structures that pose similar risks

VOSTF exposed a revised amendment that would update the definition of "other non-payment risks" for securities assigned a subscript "S" and include illustrations of other non-payment risks warranting the assignment of this subscript in the P&P Manual.

VOSTF exposed an NAIC staff memorandum on alternatives to add fixed income analytical risk measures to investments reported on Schedule D, Part 1, including current market yield, market price, purchase yield, weighted average life, spread to average life, option adjusted spread, effective duration and convexity.

VOSTF also exposed the NAIC staff responses to feedback received on the Investment Analysis Office issue paper on the risk assessment of structured securities, specifically CLOs (a type of structured security backed by a pool of debt). The feedback received raised concerns regarding the timeline of the proposal and opportunity to comment, policy arguments, transparency and methodology. VOSTF directed the NAIC staff to draft revisions to the P&P Manual for discussion and exposure at future meetings. VOSTF also referred the matter to the RBC Investment Risk and Evaluation (E) Working Group for contemporaneous consideration of the recommended additional NAIC designation categories and the reasonableness of the RBC factors for residual tranches of CLOs.

Comments on all exposed documents are due by 12 September 2022.

Financial Regulation Standards and Accreditation

The F Committee adopted the recommendation of the Financial Examiners Handbook (E) Technical Group to align the examination coordination accreditation guidelines with the revised guidance included in the *Financial Condition Examiners Handbook* clarifying the roles and responsibilities of each state for examinations of a holding company group with insurers domiciled in multiple states.

The F Committee also adopted revisions to the Preamble of the *Accreditation Program Manual* to reference the requirements of VM-21 in the *Valuation Manual* when addressing captives that reinsure variable annuity business in the accreditation standards.

International Insurance Relations

The International Insurance Relations (G) Committee (G Committee) heard a presentation on the Federal Reserve Board's Insurance Policy Advisory Committee (IPAC) report detailing its analysis of the insurance capital standard (ICS) developed by the IAIS. The presentation described the focus of the assessment undertaken by the IPAC on various components of the ICS, including the interest rate risk charge and the non-default spread risk charge; the potential implications of the ICS on US insurers, policyholders and markets focusing on long-duration life insurance and retirement products; and the IPAC's recommendations for proposed changes to the ICS that should be considered in the forthcoming IAIS comparability assessment of the aggregation method as an outcome equivalent approach for measuring group capital.

The G Committee also received an update on the following activities of the IAIS:

- ▶ Targeted jurisdictional assessments performed as part of the implementation of the IAIS holistic framework for systemic risk are in process. The US is one of the 10 jurisdictions participating in these assessments. The Financial Stability Board will use the results of these assessments to inform its decision on whether to continue with the global systemically important insurer (GSII) designation process for insurance groups.
- ▶ Four potential sustainability issues have been identified as part of the data collection activities for individual insurer and sector-wide monitoring. The outcome of discussions to be held on these issues, and what insurance supervisors are doing to mitigate the underlying risks, will inform what is included in the IAIS global insurance market report to be published by the end of the year.

The G Committee approved the comments that the NAIC submitted to the IAIS on its public consultation document addressing the draft criteria that will be used to assess whether the aggregation method provides comparable outcomes to the ICS. Detailed draft criteria were developed for each high-level principle being evaluated by the IAIS, with the intention to have criteria for a process that neither precludes the aggregation method as an outcome equivalent approach for measuring group capital at the outset nor gives it a free pass. Specifically, the IAIS solicited feedback from industry stakeholders on whether the individual criteria are clear or too restrictive, considering the high-level principle to which it relates. The IAIS is expected to finalize the criteria by the end of the year, with the assessment of the aggregation method scheduled to begin in the third quarter of 2023.

Any new documents released by the IAIS for public consultation will be reviewed by the NAIC staff and discussed at future G Committee meetings before the respective deadlines for submission.

Stay tuned

The NAIC's 2022 Fall National Meeting is scheduled for 12-16 December 2022 in Tampa, Florida. A [schedule of interim NAIC group meetings](#) is available on the NAIC website.

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Appendix A – Statutory Accounting Principles Working Group

This chart summarizes actions taken by SAPWG since the 2022 Spring National Meeting. Comments on exposed items are due by 7 October 2022, unless otherwise noted. [More information on SAPWG exposed items](#) is available on the NAIC website.

Topic/issue	Status	Discussion	Effective date
New SSAP or New SAP Concepts in an Existing SSAP¹			
SSAP No. 26R and SSAP No. 43R – Bond Project (Ref #2019-21)	Exposed	Exposed revisions to SSAP No. 26R and SSAP No. 43R to incorporate the current version of the principles-based bond definition for use in determining whether an investment (i.e., security) qualifies for reporting as a long-term bond on Schedule D, Part 1 into statutory accounting guidance. The exposure also includes an issue paper detailing past discussions and concepts in developing the principles-based bond definition, including consideration for the classification and treatment of investments in feeder funds. Exposed revisions to improve the transparency and granularity of investments reported on Schedule D, Part 1, including a proposal for a new schedule to separate and capture information specific to issuer credit obligations and asset-backed securities with revised reporting lines and instructions for investment classification.	TBD
Derivatives Hedging Fixed Indexed Products (Ref #2020-36)	Deferred*	Previously directed the NAIC staff to send a referral to LATF seeking input on whether it would consider changes to the reserve framework for fixed indexed annuity products. LATF's response and the actions taken by the Index-Linked Variable Annuity (A) Subgroup will influence the development of accounting guidance for derivatives hedging these products.	TBD
SSAP No. 86 – Effective Derivatives (Ref #2021-20)	Adopted Further analysis needed	Adopted revisions to replace the current Exhibit A and Exhibit B in SSAP No. 86 with a new Exhibit A that adopts, with modification, the US GAAP guidance for determining hedge effectiveness from ASU 2017-12. The revisions also revise the measurement method required for different types of excluded components in hedging instruments (e.g., foreign currency forward points, cross-currency spread basis, non-foreign currency excluded components) and expand the investment schedule reporting and disclosures for derivatives in the annual statement blank. Directed the NAIC staff to draft a blanks proposal to incorporate new electronic-only reporting fields for Schedule DB with templates to data capture the new disclosures for excluded components detailed in the adopted revisions to SSAP No. 86, effective for 2023 year-end reporting purposes. However, reporting entities that early adopt the revised guidance in their assessment of effective hedge relationships would be required to provide these disclosures in a narrative format for 2022 year-end reporting purposes and report the adoption as a change in accounting principle.	1 January 2023, with early adoption permitted for 2022 year-end reporting purposes
SSAP No. 86 – ASU 2022-01, Fair Value Hedging – Portfolio Layer Method (Ref #2022-09)	Exposed Further analysis needed	Exposed revisions to SSAP No. 86 to incorporate key aspects of the US GAAP guidance for portfolio and partial-term hedges from ASU 2022-01 and ASU 2017-12 that would apply to fair value hedges of recognized assets. The proposed revisions include criteria for the use of portfolio and partial-term hedges, along with specific hedge assessment guidance addressing the portfolio layer method and guidance for reporting the basis adjustment when a portfolio layer method interest rate hedging relationship is discontinued (or partially discontinued) in a voluntary de-designation or in anticipation of a breach. Directed the NAIC staff to prepare one issue paper to document the extent of all recent and upcoming revisions to the statutory accounting guidance for derivatives.	TBD
SAP Clarification²			
SSAP No. 62R – Retroactive Reinsurance Exception (Ref #2019-49)	Deferred*	Previously received an update on the actions taken by CASTF to evaluate the diversity in practice that currently exists among reporting entities applying the retroactive reinsurance exception, which allows certain reinsurance contracts to be accounted for prospectively in accordance with SSAP No. 62R, <i>Property and Casualty Reinsurance</i> .	TBD

¹ The terms “substantive” and “nonsubstantive” in these headings have been replaced with “New SSAP or New SAP Concepts in an Existing SSAP” or “SAP Clarification,” respectively, when referencing the different types of revisions to statutory accounting guidance. The terms used in previously adopted SSAPs, issue papers and agenda items have been retained, with the new terms to be used prospectively when considering future revisions to statutory accounting guidance.

² Ibid.

* No action was taken on this topic/issue since the 2022 Spring National Meeting.

Topic/issue	Status	Discussion	Effective date
SSAP No. 53, SSAP No. 54R and SSAP No. 66 – Premium Refunds and Other Adjustments (Ref #2020-30)	Deferred*	Deferred consideration of this agenda item to provide additional time for the NAIC staff to develop more explicit guidance that would address the recognition of return of premium and other premium adjustments for P&C and accident and health insurance policies based on input received from industry representatives.	TBD
SSAP No. 107 – State ACA Reinsurance Programs (Ref #2021-09)	Deferred*	Previously directed the NAIC staff to continue developing revisions to the statutory accounting guidance in SSAP No. 107, <i>Risk-Sharing Provisions of the Affordable Care Act</i> , to clarify that state-based reinsurance programs being run under Section 1332 waivers should follow the hybrid accounting approach provided by SSAP No. 107 if they operate in a similar manner to the Affordable Care Act transitional reinsurance program. Specifically, revisions are needed to address the diversity in which state-based reinsurance programs operate as identified in feedback received.	TBD
SSAP No. 25 and SSAP No. 43R – Related Party Reporting (Ref #2021-21)	Adopted	Adopted revisions to SSAP No. 25 and SSAP No. 43R to clarify the identification and reporting requirements for affiliate transactions and incorporate new reporting codes in the investment schedules of the annual statement blank to identify investments that involve related parties. The new reporting requirements are intended to identify investments acquired through, or in, related parties, regardless of whether they meet the definition of an affiliate in Model #440 for 2022 year-end reporting.	31 December 2022
SSAP No. 19 and SSAP No. 73 – Leasehold Improvements After Lease Termination (Ref #2021-25)	Exposed	Exposed revisions to SSAP No. 19, <i>Furniture, Fixtures, Equipment and Leasehold Improvements</i> , and SSAP No. 73, <i>Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities</i> , to clarify that the amortization of leasehold improvements will immediately end when a lease is terminated and require that any remaining, unamortized leasehold improvement balance be immediately expensed. The proposed revisions address scenarios where the lease terminates naturally or when the lessee purchases a property it was leasing, with a limited exception provided in SSAP No. 73 that would allow leasehold improvements necessary for the functionality of specific health care delivery assets to be excluded in some cases from the purchased cost of the real estate.	TBD
SSAP No. 4, SSAP No. 5R, Preamble – Conceptual Framework Updates (Ref #2022-01)	Adopted	Adopted revisions to SSAP No. 4 and the Preamble to the AP&P Manual to incorporate updates from FASB Concepts Statement No. 8 into the statutory accounting framework. The revisions identify factors to consider when deciding how items should be displayed in the financial statements, without modifying current statutory guidance, and update the definition of an asset as a present right of an entity to an economic benefit. The updated definition is not expected to result in the reclassification of any assets for statutory reporting. Issue Paper 166, <i>Definition of Assets</i> , documenting the changes in definition of an asset and rationale for why the revisions are considered SAP clarifications in nature, was also adopted.	Immediately
	Re-exposed	Re-exposed revisions to SSAP No. 5R and a related draft issue paper to incorporate updates from FASB Concepts Statement No. 8 into the statutory accounting framework. The proposed revisions would update the definition of a liability as a present obligation of an entity to transfer an economic benefit. Feedback has been requested from industry representatives on specific circumstances or scenarios where an item would be considered a liability under the updated definition and not reported as such for statutory accounting purposes.	TBD
SSAP No. 48 – Alternative Valuation of Minority Ownership Interests (Ref #2022-02)	Adopted	Adopted revisions to SSAP No. 48 to retain audited US tax basis equity as a permissible valuation method to support the admissibility of an investment that meets the US GAAP audit exception, with clarification that the audit must be performed at the investee level.	Immediately
SSAP No. 24 – ASU 2021-10, <i>Government Assistance</i> (Ref #2022-04)	Adopted	Adopted revisions to SSAP No. 24 to incorporate certain disclosures from ASU 2021-10 that require unusual or infrequent government assistance transactions to be identified as such, with a description of the terms and provisions of the assistance received.	Immediately
SSAP No. 104R – ASU 2021-07, <i>Stock Compensation</i> (Ref #2022-06)	Adopted	Adopted revisions to SSAP No. 104R to incorporate the practical expedient for the current price input included in ASU 2021-07, which is a required component for option-pricing models utilized in the determination of fair value for share-based payments. The practical expedient is available for use when a reporting entity is not able to reasonably estimate the current fair value of its shares.	Immediately
INT 22-01: Freddie Mac When-Issued K-Deal (WI Trust) Certificates (Ref #2022-08)	Adopted	Adopted an interpretation of statutory accounting guidance to clarify that investments in the Freddie Mac When-Issued K-Deal program are captured in the scope of SSAP No. 43R from initial acquisition, as the program is fully guaranteed by Freddie Mac and makes sure that the investor will receive pass-through certificates, backed by mortgage loans held in trust, that are representative of the terms of the investment set at original acquisition.	Immediately

Topic/issue	Status	Discussion	Effective date
SSAP No. 21R – Collateral for Loans (Ref #2022-11)	Exposed	Exposed revisions to SSAP No. 21R, <i>Nonadmitted Assets</i> , to clarify that an asset pledged as collateral must qualify as an admitted invested asset in order for a collateral loan to be admitted.	TBD
INT 03-02: Modification to an Existing Intercompany Pooling Arrangement (Ref #2022-12)	Exposed	Exposed an intent to nullify INT 03-02, as it is inconsistent with the guidance in SSAP No. 25 for the recognition of economic and non-economic transactions between related parties.	TBD
SSAP No. 25, SSAP No. 97 – Related Parties – Footnote Updates (Ref #2022-13)	Exposed	Exposed revisions to SSAP No. 25 and SSAP No. 97, <i>Investments in Subsidiary, Controlled and Affiliated Entities</i> , to exempt foreign open-end investment funds governed and authorized in accordance with regulations established by the applicable foreign jurisdiction from the look-through provisions included in SSAP No. 25. The proposed revisions would apply to foreign open-end investment funds in which ownership percentage is not deemed to reflect control unless the reporting entity has control with the power to direct the underlying company.	TBD

US GAAP guidance rejected or exposed for rejection/disposal

Rejected as not applicable to statutory accounting:

- ▶ ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities* (Ref #2022-05)
- ▶ ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (Ref #2022-07)

Exposed to reject as not applicable to statutory accounting:

- ▶ ASU 2022-02, *Financial Instruments – Credit Losses (Topics 326): Troubled Debt Restructurings and Vintage Disclosures* (Ref #2022-10)

SAPWG agenda items from prior years with an extended period of no action taken

Substantive listing:

- ▶ ASU 2016-13, *Credit Losses* (Ref #2016-20)
- ▶ SSAP No. 41R – Amortization and Accretion Surplus Notes (Ref #2017-12)

Nonsubstantive listing:

- ▶ SSAP No. 26R and SSAP No. 43R – Measurement Method for NAIC 5 Designations (Ref #2015-17)
- ▶ Aging and Revenue Recognition of Multi-Peril Crop Policies (Ref #2015-33)
- ▶ Appendix C Introduction (Ref #2016-42)
- ▶ SSAP No. 61R – Reinsurance Credit (Ref #2017-28)
- ▶ SSAP No. 41R – Surplus Note Accounting (Ref #2018-07)
- ▶ SSAP No. 68 and SSAP No. 97 – ASU 2014-17, *Business Combinations – Pushdown Accounting* (Ref #2019-12)
- ▶ SSAP No. 68 and SSAP No. 97 – Attribution of Goodwill (Ref #2019-14)
- ▶ SSAP No. 51R, SSAP No. 53, SSAP No. 54R and SSAP No. 59 – Expand MGA and TPA Disclosures (Ref #2019-36)

Appendix B – Blanks Working Group

This chart summarizes actions taken by BWG since the 2022 Spring National Meeting. Comments on exposed items are due by 14 October 2022, unless otherwise noted. [More information on BWG exposed items](#) is available on the NAIC website.

Adopted items	Statement type(s) ¹	Filing(s)	Effective date
2021-22BWG MOD: Adds new reporting requirements for investment transactions with related parties (e.g., direct loans in related parties, securitizations or similar investments where the related party is a sponsor/originator) to capture investments issued by a related party or acquired through a related-party transaction or arrangement, regardless of whether the specific affiliate definition in Model #440 has been met or if there has been a disclaimer of affiliation or control in response to actions taken by SAPWG (SAPWG #2021-21).	L/F, P/C, H, T	Annual and Quarterly	Annual 2022
2022-01BWG: Adds new questions to Part 1 of the General Interrogatories to determine whether cryptocurrency is accepted for payment of premiums, the types of cryptocurrency that are accepted, and whether cryptocurrencies are held for investment or immediately converted to cash in response to actions taken by SAPWG (SAPWG #2021-24).	L/F, P/C, H, T	Annual	Annual 2022
2022-02BWG: Adds four new electronic-only columns to Schedule D, Part 6 (Prior Year Book/Adjusted Carrying Value, Prior Year Nonadmitted Amount, Prior Year Sub-2 Verified Value, and Prior Year VISION Filing Number) to assist regulators in verifying whether Sub-1 and Sub-2 filings are being submitted by reporting entities and identifying situations where the NAIC-approved value varies significantly from the value reported on Schedule D, Part 6 in response to actions taken by SAPWG (SAPWG #2021-22).	L/F, P/C, H, T	Annual	Annual 2022
2022-03BWG: Disaggregates Line 5 of Part 1 – Loss Experience and Part 2 – Direct Premiums Written of the quarterly statement blank into Line 5.1 – Commercial multiple peril (non-liability portion) and Line 5.2 – Commercial multiple peril (liability portion) to provide consistency with the reporting of this information on the annual statement blank.	P/C	Quarterly	First quarter 2023
2022-04BWG: Adds a new supplement to provide regulators with more granular detail of the premium and losses for lines of business reported on Lines 17.1, 17.2 and 17.3 of the Exhibit of Premiums and Losses of the annual statement blank.	P/C	Annual	Annual 2023
2022-05BWG MOD: Adds line numbers to the status data points in the Schedule T footnote to clarify the information to be reported.	L/F, P/C, H, T	Annual and Quarterly	Annual 2022
2022-06BWG MOD: Modifies the Health Annual Statement Test in the annual statement instructions to clarify the reporting requirements for insurers that predominantly write health business but currently file a different (e.g., Life and Fraternal) annual statement blank to determine whether they should begin filing the Health annual statement blank.	L/F, P/C, H	Annual	Annual 2022
2022-07BWG: Modifies the instructions to the Health annual statement blank and the Health Statement of Actuarial Opinion to clarify the treatment of actuarial assets and liabilities within the scope of the opinion issued by the appointed actuary.	H	Annual	Annual 2022
2022-08BWG: Modifies the instructions to the P&C Statement of Actuarial Opinion in response to actions taken by the Actuarial Opinion (C) Working Group on various topics, including continuing education requirements, qualification documentation and formatting of the actuarial opinion.	P/C	Annual	Annual 2022
2022-09BWG: Modifies the VM-20 Reserves Supplement to the Life and Fraternal annual statement blank by adding a question to disclose the year when the Life PBR Exemption was actively filed, with confirmation of the eligibility criteria in the case of ongoing exemptions, and correcting references to a state “granting” an exemption, with modification to the instructions as appropriate. Adds instructions to the Supplemental Exhibits and Schedules Interrogatories included in the quarterly statement blank to provide guidance on how to respond if the reporting entity is utilizing the ongoing exemption.	L/F	Annual and Quarterly	Annual 2022
2022-10BWG: Modifies the instructions to Schedule T, State Pages and the Accident and Health Policy Experience Exhibit to clarify the guidance for the reporting of premium adjustments by jurisdiction in response to actions taken by SAPWG (SAPWG #2022-03).	L/F, P/C, H	Annual and Quarterly	Annual 2022
2022-11BWG MOD: Modifies the AVR factors to correspond with the after-tax RBC factors applicable to the expanded NAIC designation categories for bonds.	L/F, SA	Annual	Annual 2022
2022-13BWG MOD: Modifies the five-year historical data questions of the Life annual statement blank, specifically questions 68 and 69 to report comprehensive group health and questions 70 and 71 to report all health lines of business other than comprehensive group health, for consistency with how these lines of business are reported on Schedule H.	L/F	Annual	Annual 2022

¹ L/F = Life and Fraternal; P/C = Property and Casualty; H = Health; T = Title; SA = Separate Accounts.

Exposed items	Statement type(s) ³	Filing(s)	Proposed effective date
2022-12BWG: Combines the Health Analysis of Operations by Lines of Business Supplement page and the Health Care Receivable Supplement pages (Exhibits 3 and 3A) into a single filing set for Health annual statement blank pages that are filed as a supplement by Life and Fraternal insurance companies to be consistent with the Life Supplement filed by Health insurance companies.	L/F	Annual	Annual 2023

Deferred items	Statement type(s) ³	Frequency	Effective date
2021-18BWG: Modifies the Life Insurance (State Page) to include the line of business detail currently reported on the Analysis of Operations by Lines of Business pages to provide consistency in the information reported between the two schedules. Creates an Exhibit of Claims Settled During the Current Year and a Policy Exhibit to include detail captured by state on the existing Life Insurance (State Page) that was not previously reported due to space limitations. Adds definitions for life and annuity products to the lines of business definitions in the instructions to the Health annual statement blank.	L/F, H	Annual	Annual 2023

Appendix C – Risk-based capital developments

This chart summarizes developments that affect RBC requirements for each of the insurance sectors based on actions taken by CATF and the various NAIC groups that report to it since the 2022 Spring National Meeting. Additional detail on adopted items for the 2022 RBC calculation can be found in the RBC newsletters that are available on the NAIC website for each of the working groups that report to CATF.

Topic/issue	NAIC group	Status	Discussion	Effective date
All RBC				
Revised Affiliated Investment Structure and Instructions (Ref #2022-09-CA)	Capital Adequacy Task Force	Comments due by 10 October 2022	Exposed revisions to the structure and related instructions for the calculation of the RBC requirement for affiliated investments in each of the RBC formulas to improve the calculation and provide consistency in the treatment of affiliate investments across insurance sectors.	2023
Life RBC				
C2 Mortality Factors Structural Changes (Ref #2022-03-L)	Capital Adequacy Task Force	Adopted	Adopted structural changes to LR025, LR030 and LR031 to facilitate the implementation of updated mortality risk factors and expanded categories in the C2 insurance risk component of the Life RBC formula.	2022
Residual Tranches (Ref #2022-05-L)	Capital Adequacy Task Force	Adopted	Adopted revisions to the Life RBC formula and related instructions for LR008 to incorporate amounts related to residual tranches on Line 49.2 in response to actions taken by BWG to isolate residual tranches on Schedule BA and the AVR schedule of the Life annual statement blank (Ref #2021-23BWG MOD).	2022
C2 Mortality Factors Instructions (Ref #2022-06-L)	Capital Adequacy Task Force	Adopted	Adopted instructional changes and revised factors for LR025 to complete the implementation of the updated mortality risk factors and expanded categories in the C2 insurance risk component of the Life RBC formula.	2022
P&C RBC				
Wildfire Risk Peril Information-Only Reporting Exemption (Ref #2021-17-CR MOD)	Capital Adequacy Task Force	Adopted	Adopted a reporting exemption to PR027C to allow reporting entities to provide other information in lieu of modeled results addressing their exposure to wildfire catastrophe risk during the informational-only period (i.e., 2022 year-end reporting) in situations where the modeling requirements would impose a cost and compliance burden.	2022
Trend Test (Ref #2022-01-P)	Capital Adequacy Task Force	Adopted	Adopted revisions to PR033 to remove the informational-only footnote to the P&C trend test.	2022
Underwriting Risk Line 1 Factors (Ref #2022-02-P)	Capital Adequacy Task Force	Adopted	Adopted the annual update of the industry underwriting factors for premiums and reserves in PR017 and PR018 of the P&C RBC formula.	2022
2013-2021 Wildfire Event Lists (Ref #2022-04-CR)	Capital Adequacy Task Force	Adopted	Adopted the 2013-2021 US and Non-US List of Wildfire Events for use in reporting catastrophe data in PR036 and PR100+ of the P&C RBC formula.	2022
PR035 Line of Business Categories (Ref #2022-07-P)	P&C RBC Working Group	Comments due by 8 September 2022	Exposed revisions to modify the line of business categories in PR035 for consistency with the line of business categories used in the Underwriting and Investment Exhibit, Part 1B of the P&C annual statement blank.	2023
Independent Model Review Instructions (Ref #2022-08-CR)	Catastrophe Risk Subgroup	Comments due by 8 September 2022	Exposed revisions to clarify the instructions for companies to obtain permission to use their own models and the requirements expected from companies that submit their own models for permission to use in the calculation of the catastrophe risk charge on PR027A, PR027B, PR027C, PR027 and PR027INT of the P&C RBC formula.	2023