The National Association of Insurance Commissioners (NAIC) recently held its Fall National Meeting in San Francisco. Our publication highlights issues that NAIC groups have addressed since the 2018 Summer 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 Reinsurance (E) Task Force adopted revisions to the reinsurance collateral requirements in the NAIC model law and regulation, which the Executive Committee and Plenary will consider adopting during an interim call on 19 December 2018.
- The Group Capital Calculation (E) Working Group exposed a field testing template and related instructions intended to provide maximum flexibility in testing various options for the requirements of the group capital calculation.
- The Financial Stability (EX) Task Force exposed the scoping criteria (i.e., specified dollar thresholds applicable to certain activities) for identifying insurers or insurance groups that would be subject to a liquidity stress test.
- The NAIC elected its 2019 executive officers: Eric A. Cioppa (Maine) as president, Raymond G. Farmer (South Carolina) as president-elect, Gordon I. Ito (Hawaii) as vice president and Dean L. Cameron (Idaho) as secretary-treasurer.

**Federal income tax reform considerations**

The Life RBC (E) Working Group continued its work on developing a guidance document that would help state insurance regulators and others understand the changes to the calculation of total adjusted capital and required capital resulting from the use of a lower tax rate and interpret how those changes will affect the results of the Life risk-based capital (RBC) calculation for year-end 2018.
The Life Risk-Based Capital (E) Working Group discussed feedback on a report from the American Academy of Actuaries (AAA) that will inform the development of the guidance document. The report, entitled “Interpretation of 2018 Life Risk-Based Capital Results in Light of the 2017 Tax Cuts and Jobs Act,” indicates that the authorized control level (ACL) RBC for most life insurers is expected to be higher for 2018 than it would have been under the 2017 RBC formula. In turn, this is expected to decrease the amount of total adjusted capital in excess of ACL RBC for 2018. However, an insurer’s mix of assets and liabilities, business profile and tax attributes will ultimately determine the effect of the Tax Cuts and Jobs Act on its RBC calculation. The Life RBC (E) Working Group will continue to discuss the information included in the AAA report on an interim call scheduled for 13 December 2018 and consider whether to include example information (i.e., references to general expectations about the effect on the Life RBC ratio under different scenarios) in the next draft of the guidance document.

The Blanks (E) Working Group (BWG) exposed changes to the asset valuation reserve (AVR) factors to conform the tax factors used in the AVR calculation to the factors in the 2018 Life RBC calculation. The changes would be effective 31 December 2019 (Ref #2018-24BWG).

Covered agreement on reinsurance collateral

The Reinsurance (E) Task Force adopted revisions to the reinsurance collateral requirements in the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786). The revisions incorporate the provisions of the bilateral agreement between the US and European Union (EU) prudential measures regarding insurance and reinsurance (US-EU Covered Agreement) for qualifying entities domiciled in the EU. The adopted revisions also provide similar treatment for reinsurers domiciled in a jurisdiction endorsed by the NAIC as a reciprocal jurisdiction. The NAIC’s legal staff will address various technical edits and resolve internal inconsistencies in the adopted revisions before the final revisions to Model #785 and Model #786 are presented to the Executive Committee and Plenary for adoption on an interim call scheduled for 19 December 2018.

Qualified jurisdictions (as designated by the NAIC) are captured in the definition of a reciprocal jurisdiction in the revised NAIC models. Current non-EU qualified jurisdictions include Bermuda, Japan and Switzerland. To be endorsed as a reciprocal jurisdiction, the qualified jurisdiction must recognize the US system of state-based insurance regulation, including its approach to group supervision and group capital, and provide reciprocal treatment to US insurers and reinsurers as provided under the provisions of the US-EU Covered Agreement.

The Qualified Jurisdiction (E) Working Group will begin the process to renew the status of qualified jurisdictions in 2019 and will consider the updated requirements of Model #785 and Model #786 to determine compliance. The review process is expected to focus on key areas such as group capital, group supervision and an increased level of information sharing with regulators for the lead state identified for the qualified jurisdiction.

Principle-based reserving

The Life Actuarial (A) Task Force (LATF) continued its work to update the Valuation Manual and address issues related to principle-based reserving (PBR) implementation.

LATF discussed the report prepared by the Valuation Analysis (E) Working Group (VAWG) that summarizes the results of VAWG’s review of information reported by insurers to support their 2017 PBR valuations. VAWG provided 36 recommendations for amendments to the Valuation Manual to address the issues identified in its review and improve insurer reporting of the required information. LATF will review the recommendations and determine how best to incorporate them into the Valuation Manual requirements without creating a substantive burden on insurers and regulators.

LATF exposed a proposal from the Experience Reporting (A) Subgroup to add plan-type subcategories to the requirements of VM-51: Experience Reporting Formats. The proposal would allow relevant product features to be identified in the data submission and add key indicators for the mortality experience analysis. Comments are due by 31 January 2019.
LATF received an update from the AAA on a potential methodology to allocate reinsurance reserve credits (at the product or treaty level) in the modeled reserve calculations. The methodology would attempt to resolve issues where the modeled reserves for a product grouping are affected but not subject to reinsurance. It would also apply when business is assumed (i.e., growth in reserves for specific products might result in an increased reserve for unrelated products). The informal VM review group will review the methodology and provide its observations to LATF for consideration at a future meeting.

Valuation Manual amendments
LATF’s Valuation Manual Maintenance Agenda contains the complete list of submitted proposals for amendments to the Valuation Manual that are currently under consideration.

LATF adopted various amendments to the Valuation Manual for implementation in 2020. Among other things, the amendments:

- Remove the 450% RBC requirement from the life PBR exemption and clarify that joint life policies are considered individual life, and guaranteed issue premiums should be excluded from the related premium thresholds
- Require insurers to disclose information about their modeling systems
- Establish guidelines for the submission of the PBR Actuarial Report
- Require a detailed breakdown of the reserves for universal life policies with secondary guarantees in the PBR report filed in accordance with VM-31: PBR Actuarial Report Requirements for Business Subject to a Principle-Based Valuation
- Provide for increased mortality rate assumptions in the net premium reserve (NPR) calculation when policies are issued on a substandard basis

LATF also revised VM-20: Requirements for Principle-Based Reserves for Life Products, to clarify the aggregation of mortality segments for the purpose of determining the level of credibility. The revisions are intended to eliminate the existing interpretations of the application of the VM-20 requirements for aggregation, since the level of credibility affects the size of the margin for the identified mortality segment. The objective is to provide sufficient flexibility to allow innovation, while still requiring additional reporting to facilitate regulatory oversight and the application of additional margins to address any increased uncertainty as a result of aggregation determinations.

LATF also exposed various revisions to VM-20 that would:

- Adjust company experience mortality rates when company experience is higher than the rates prescribed in the applicable industry table
- Clarify the application of shock lapses in the NPR calculation for reinsurance assumed on a yearly renewable term basis, term riders and paid-up riders
- Modify the crediting rate for indexed universal life contracts in the calculation of the deterministic reserve (comments are due by 3 January 2019)
- Clarify that the weighted average lifetime of assets included in the alternative investment strategy used to perform the modeled reserve valuations strategy should be comparable to those in the company’s actual investment strategy (comments are due by 3 January 2019)
- Allow a negative reserve credit in the calculation of modeled reserves (comments are due by 31 January 2019)
- Clarify the appropriate treatment of non-guaranteed yearly renewable term reinsurance premiums by the ceding company (comments are due 31 January 2019)

LATF also exposed revisions to VM-20 and VM-31 that would allow adjustments to the Commissioners Standard Ordinary (CSO) table when anticipated mortality experience exceeds the amounts prescribed. The resulting application of these adjustments must not cause the NPR calculation to be lower than the NPR calculated without adjustments to the CSO mortality rates. Comments are due by 3 January 2019.
Variable annuity framework

The following NAIC groups continued their work on developing implementation guidance to incorporate the 28 recommended changes to different aspects of the NAIC statutory framework (i.e., statutory accounting, reserving and regulatory capital requirements) for variable annuities that were previously adopted by the Variable Annuities Issues (E) Working Group:

- LATF – evaluate and provide recommendations on the use of the standard scenario in VM-21: *Requirements for Principle-Based Reserves for Variable Annuities and Actuarial Guideline XLIII – CARVM for Variable Annuities* (AG 43), which may include continuing as a required floor reserve or providing the results of the calculation as a disclosure (to be completed during the three years after implementation of the variable annuity framework)
- Joint C-3 Phase II/AG 43 (E/A) Subgroup – develop and recommend changes to the C-3 Phase II component of the Life RBC formula, AG 43 and VM-21 to implement the variable annuities framework
- Statutory Accounting Principles (E) Working Group (SAPWG) – develop guidance for narrowly defined statutory language that states may use to remove the existing limitations in their investment statutes that may otherwise limit the extent to which an insurer may use hedges in its risk management strategy

Unlike PBR, all in-force business will be subject to the requirements of the revised variable annuity framework upon its adoption. An effective date of 1 January 2020 (with a three-year phase-in period) has been targeted, with the potential for early adoption. However, the regulators will determine the effective date after the implementation guidance is finalized.

Reserve valuation

The Joint C-3 Phase II/AG 43 (E/A) Subgroup exposed revisions to AG 43 that would require insurers to follow VM-21 for reserve valuations on or after 1 January 2020.

The Joint C-3 Phase II/AG 43 (E/A) Subgroup also exposed revisions to various sections of VM-21 that address the background, methodology and liability assumptions for the reserve valuation. Additional revisions to address the specific requirements for the reserve valuation (e.g., hedge modeling and scenario generation) are currently under development.

Special accounting treatment for derivatives

SAPWG adopted SSAP No. 108, *Derivatives Hedging Variable Annuity Guarantees*, to provide accounting and reporting guidance for derivatives that hedge interest rate risk of variable annuity guarantees. The guidance specifies the requirements for applying the special accounting treatment for derivative transactions hedging variable annuity guarantee benefits that are subject to fluctuations as a result of interest rate risk. The guidance is effective on 1 January 2020, with early adoption permitted as of 1 January 2019 (Ref #2016-03).

The provisions of SSAP No. 108 are separate and distinct from the statutory guidance in SSAP No. 86, *Derivatives*, since the derivative contracts that would qualify for the special accounting treatment would not qualify for hedge effectiveness under SSAP No. 86. Application of the adopted guidance is limited to the derivative transactions specified in SSAP No. 108 and permitted only if all of the requirements for the special accounting treatment are met.

The majority of the issues raised in the feedback provided during the exposure period for SSAP No. 108 (and its corresponding issue paper) were addressed in the adopted guidance. However, the standard scenario will be referenced in SSAP No. 108 until a final determination is made about whether it will continue to be required as a floor reserve. This may result in a technical correction once the requirements for the reserve valuation are finalized in VM-21.

Long-term care insurance regulation

The Health Insurance and Managed Care (B) Committee adopted the *Limited Long-Term Care Insurance Model Act* (#640) and the *Limited Long-Term Care Insurance Model Regulation* (#641), which are new NAIC models developed to address long-term care (LTC) insurance policies that provide coverage for less than 12 consecutive months.
The Financial Condition (E) Committee adopted the proposed changes to the Guideline for Notice of Protection by (State) Life and Health Insurance Guaranty Association (#1525) that conform the guideline to the revised Life and Health Insurance Guaranty Association Model Act (#520). The adopted changes include referencing the incorporation of health maintenance organizations into the guaranty fund membership, the definition of health benefit plans to include LTC insurance and the act of informing providers that they will have the same benefits included as riders in life insurance policies or annuity contracts.

Various other NAIC groups continued their work on initiatives to address issues in LTC insurance regulation. Developments from these groups include the following:

- The Long-Term Care Actuarial (B) Working Group heard a summary of the AAA’s issue brief published in October 2018. The issue brief discusses the actuarial consideration of past losses in LTC insurance rate increase requests, including the evolution of pricing and regulatory guidelines throughout the product’s history.

- The Long-Term Care Actuarial (B) Working Group discussed a potential requirement for insurers to prepare sensitivity analysis of the major assumptions used in the pricing of LTC insurance products. The purpose of the analysis would be to educate regulators on the effect each major assumption has on pricing, and assist the regulators in evaluating new product rate filings and rate increase requests.

- The Long-Term Care Pricing (B) Subgroup finalized a resource document that explains and compares different LTC insurance rate increase review methodologies. The document establishes a framework, rather than a uniform requirement, to achieve greater transparency and predictability in the regulatory review and approval of requested rate increases.

- The Long-Term Care Valuation (B) Subgroup published new regulatory guidance as a supplement to Actuarial Guideline LI – The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) for 2018 reporting. The information that will be requested is similar to the previous year (e.g., in-force statistics, justification of morbidity assumptions), with additional requests for insurers to provide several sample calculations that will allow regulators to understand the sensitivity of the morbidity assumptions that support the reserve adequacy for a company’s LTC block of contracts.

**Statutory Accounting Principles (E) Working Group**

Appendix A in this publication summarizes the actions taken by SAPWG to revise statutory accounting and reporting guidance since the 2018 Summer National Meeting, along with the effective date for adopted items and the deadline for comments to be submitted on exposed items.

SAPWG adopted revisions to SSAP No. 30, Unaffiliated Common Stock, and related Issue Paper No. 158, Unaffiliated Common Stock, to improve the common stock definition and include Securities and Exchange Commission (SEC) registered closed-end funds and unit-investment trusts in its scope (Ref #2017-32). SAPWG then exposed revisions to SSAP No. 30R to explicitly include foreign open-end mutual funds within its scope (Ref #2018-34) and clarify that assets pledged to a Federal Home Loan Bank (FHLB) by an insurance entity on behalf of an affiliate would be nonadmitted (Ref #2018-33).

SAPWG adopted revisions to SSAP No. 21, Other Admitted Assets, to specify that periodic-certain structured settlements acquired in accordance with state and federal laws are admitted assets. SAPWG also clarified that assets related to life-contingent structured settlements and periodic-certain structured settlements not acquired in accordance with state and federal laws would be nonadmitted for statutory reporting purposes (Ref #2018-17). SAPWG will develop an annual statement blanks proposal to clarify that each structured settlement should be reported as an “any other class of asset” on Schedule BA.

SAPWG adopted revisions to SSAP No. 62R, Property and Casualty Reinsurance, to incorporate additional guidance from the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB), EITF No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises, and its related interpretation EITF D-035, FASB Staff Views on Issue No. 93-6, Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises, and clarify that the statutory accounting requirements for multiple-year retrospectively rated contracts are consistent with US GAAP. The revised guidance will help prevent the ceding company from reporting a credit for reinsurance that is greater than the amount of risk ceded (Ref #2017-28).
SAPWG adopted revisions to SSAP No. 68, Business Combinations and Goodwill, to clarify that when the ownership equity of an investment in a subsidiary, controlled or affiliated (SCA) entity is canceled, with the parent insurance company directly reporting the SCA’s assets and liabilities in its statutory-basis financial statements, the transaction should be accounted for as a statutory merger (Ref #2018-23).

SAPWG adopted revisions to SSAP No. 51R, Life Contracts, SSAP No. 52, Deposit-Type Contracts, and SSAP No. 61R, Life, Deposit-Type and Accident and Health Reinsurance, to enhance the existing disclosures for annuity actuarial reserves and deposit-type liabilities by withdrawal characteristics and assist regulators in monitoring the liquidity position of life insurers (Ref #2018-28).

SAWPG adopted revisions to Appendix A-820, Minimum Life and Annuity Reserve Standards, to remove the phrase “good and sufficient reserve” to be more consistent with the language in the Standard Valuation Law (#820) as currently adopted by the NAIC (Ref #2018-29).

SAPWG adopted revisions to SSAP No. 86 to incorporate the hedge documentation and assessment efficiencies from Accounting Standards Update (ASU) 2017-12, Targeted Improvements to Accounting for Hedging Activities (Ref #2018-30). The revisions allow companies to perform subsequent assessments of hedge effectiveness qualitatively if certain conditions are met, allow companies more time to perform the initial quantitative hedge effectiveness assessment and clarify that companies may apply the “criterial terms match” method for a group of forecasted transactions if they meet the requirements. Early adoption is permitted for year-end 2018. However, if the reporting entity is also subject to US GAAP reporting requirements, early adoption can only be elected if it has also elected early adoption of ASU 2017-12 for year-end 2018.

SAPWG adopted revisions to SSAP No. 43R, Loan-Backed and Structured Securities, to eliminate the modified filing exempt (MFE) process in determining the final NAIC designation for securities rated by an NAIC credit rating provider (CRP) (Ref #2018-19). A reporting entity may elect to early adopt the revised guidance; however, it would need to apply it to all securities that would be subject to the MFE process at year-end 2018. SAPWG also developed an annual statement blanks proposal to eliminate the MFE designation from the reporting instructions.

SAPWG adopted revisions to SSAP No. 15, Debt and Holding Company Obligations, to reference the applicable guidance in SSAP No. 25, Affiliates and Other Related Parties, and SSAP No. 72, Surplus and Quasi-Reorganizations, in accounting for the forgiveness of debt between related parties. SSAP No. 25 was also revised to include a reference to SSAP No. 72 when there has been forgiveness of an amount owed (Ref #2018-20). SAPWG separately adopted revisions to SSAP No. 72 to clarify that, for any event in which unassigned funds are negative or go below zero as a result of a distribution to a parent or stockholder, the distribution is considered a return of capital. A distribution identified as a return of capital is charged directly to gross paid-in and contributed surplus (Ref #2018-21).

SAPWG adopted revisions to SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies, to incorporate disclosures from SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities, for loss tracking when the reporting entity’s share of losses results in a negative equity position (i.e., accumulated losses in excess of its investment) (Ref #2018-27).

SAPWG adopted an interpretation of statutory accounting guidance to allow for an optional temporary 60-day extension of the normal 90-day rule in paragraph 9 of SSAP No. 6, Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers, for policies affected by Hurricane Florence or Hurricane Michael or the related flooding. The nonadmission guidance for premiums receivable from directly affected policies or agents has been extended by 60 days for a total of 150 days, but not past 6 March 2019 (Ref #2018-31).
Executive Committee and Plenary

The Executive Committee and Plenary has scheduled an interim call for 19 December 2018 to discuss the work performed and related actions taken by the various committees that report to it. The items that will be addressed include the adoption of final revisions to Model #785 and Model #786 that incorporate the relevant provisions of the US-EU Covered Agreement.

Financial Stability (EX) Task Force

The Task Force received an update from the Liquidity Assessment (EX) Subgroup on the progress of its work to develop the scope and approach for the performance of a liquidity stress test. The objective of the NAIC’s liquidity stress testing framework is to provide insights to regulators in their assessment of liquidity risk for life insurers based on the insurers’ vulnerability to various economic factors for purposes of macroprudential surveillance.

The Subgroup presented its proposed criteria for identifying insurers subject to the liquidity stress test, which would include any insurer or insurance group that individually or in the aggregate exceeds the specified dollar thresholds in any of the following activities: fixed and indexed annuities, funding agreements and guaranteed investment contracts, notional (i.e., absolute) value of derivatives, securities lending, repurchase agreements or borrowed money. The Task Force exposed the scoping criteria proposed by the Subgroup. Comments are due by 17 December 2018.

The design elements for the performance of the liquidity stress test based on a cash flow approach are expected to be completed by year-end 2018, with field testing expected to occur in 2019. The Task Force indicated that the performance of the liquidity stress test will likely be required on an annual basis.

Big Data (EX) Working Group

The Working Group received an update from the Casualty Actuarial and Statistical (C) Task Force (CASTF) on the progress of its work on (1) drafting proposed changes to the Product Filing Review Handbook to include best practices for the review of predictive models and analytics filed by insurers to justify rates, (2) developing state guidance for rate filings based on complex predictive models and (3) developing training for the sharing of expertise through predictive analytics webinars. The related white paper being developed by CASTF will provide a number of best practices and identify potential sources of data that could be collected to fulfill these best practices.

The NAIC’s legal staff updated the Working Group on its research into the methods and procedures used by states for sharing predictive modeling information related to rate filings while maintaining applicable statutory confidentiality protections. The results of the recent survey sent to the NAIC’s membership will be analyzed to better understand the information that might be shared and the desired mechanism to share this information. The objective is to develop a framework that will allow confidential information to be shared among state insurance regulators while protecting company trade secrets.

The Working Group also discussed the market conduct examination standards for life insurance underwriting, with the objective of understanding how data and models are used in the underwriting process. In accordance with the Market Regulation Handbook, state insurance examiners regularly review insurance company practices aimed at preventing unfair discrimination in underwriting, but consumer representatives have questioned whether the use of nontraditional data, complex models or algorithms could be proxies for prohibited discriminatory underwriting practices. Regulators indicated that they will continue to monitor the use of data through the performance of market analysis and market conduct examinations.

Life Insurance and Annuities (A) Committee

The A Committee adopted the 2019 general recognized expense table developed by the Society of Actuaries (SOA).

The A Committee disbanded the Model Law Review (A) Subgroup following the Subgroup’s completion of the NAIC’s model law review initiative. The Subgroup determined that revisions to the Modified Guaranteed Annuity Model Regulation (#255) are not needed at this time. The Subgroup also determined that the Annuity Nonforfeiture Model Regulation (#806) does not need to be retained in its current form (due to a low rate of adoption by states), but it would be useful to convert the model to a guideline. LATF will determine whether Model #806 should be converted.
**Life Actuarial (A) Task Force**

LATF heard an update from the VM-22 (A) Subgroup regarding the development of a model-based reserve methodology for non-variable annuities. The Subgroup intends for the new methodology to be applied to reserve valuations performed on or after 31 December 2022. LATF also approved the request from the Subgroup to draft language to add assumptions and methodologies to the guidance for single premium immediate annuities in VM-22: *Statutory Maximum Valuation Rates for Income Annuities*.

LATF determined that the potential development of an actuarial guideline for guidance in Section 6 of the *Standard Nonforfeiture Law for Individual Deferred Annuities* (#805) will no longer be pursued.

**Annuity Suitability (A) Working Group**

The Working Group adopted revisions to the *Suitability in Annuity Transactions Model Regulation* (#275), which were subsequently exposed by the A Committee. Comments are due by 15 February 2019. In developing the revisions, the Working Group considered the decision by the Fifth Circuit Court of Appeals vacating the fiduciary rule (i.e., best interest standard) issued by the US Department of Labor, and, as a result, avoided including language referring to a “best interest” due to enforcement concerns.

The adopted revisions were designed to address the following topics:

- Establish a framework for a producer or insurer to follow a “best interest” standard, rather than explicitly defining “best interest”
- Require a producer or insurer to have a reasonable basis to believe the product will provide the consumer with a “substantial benefit” without requiring a fiduciary duty
- Require a producer or insurer to make recommendations that are “suitable” for the particular consumer
- Expand required disclosures to include the basis for the producer’s recommendations, material conflicts of interest and a description of compensation received, along with a requirement that insurers maintain reasonable procedures to assess whether a producer has complied with all required disclosures

The A Committee will likely not adopt the revisions until the SEC issues new regulations, which are expected in late 2019 and may require additional revisions to Model #275 for comparability and consistency.

**Annuity Disclosure (A) Working Group**

The Working Group continued its work to develop revisions to the *Annuity Disclosure Model Regulation* (#245) to establish eligibility requirements and mandatory disclosures to illustrate the hypothetical historical return for indexes that have existed for less than 10 years. Since the Working Group has not been able to reach a consensus, it will establish an informal drafting group to further explore the issues identified in the feedback received to date and develop refined language for consideration on an interim call that has not yet been scheduled.

**Longevity Risk (A/E) Subgroup**

The Subgroup heard an update on the status of the AAA field study of the proposed methodology to address the recognition of longevity risk in statutory reserves and/or the RBC calculation, as appropriate. The results of the field study will be used to determine whether there is any correlation between mortality risk (i.e., the C-2 component of the Life RBC formula) and longevity risk, and whether a covariance adjustment is needed to address the overlapping C-2 charge (i.e., the separate C-2 charges for mortality risk and longevity risk). The field study is also expected to assist regulators in assessing whether adjustments to the reserve valuation tables are necessary. After reviewing the results of the AAA field study, the Subgroup is expected to develop a proposed implementation approach in early 2019.
Health Insurance and Managed Care (B) Committee

The B Committee adopted the extension of NAIC model law development requested by the Health Actuarial (B) Task Force (HATF) to provide additional time for the development of amendments to the Health Insurance Reserves Model Regulation (#10) that will address the appropriate reserving standards for LTC insurance policies.

Health Actuarial (B) Task Force

HATF discussed the feedback on the initial draft of the proposed changes to the Medicare Supplement Insurance Model Regulation Compliance Manual necessitated by the federal Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) while maintaining consistency with the overall intent of the provisions of the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651). HATF intends to expose a final draft of the proposed changes for MACRA at a future date.

HATF disbanded the Individual Disability Valuation Table Implementation (B) Subgroup and the Actuarial Value (B) Subgroup since both subgroups had completed their respective charges.

Regulatory Framework (B) Task Force

The Task Force adopted revisions to the Accident and Sickness Insurance Minimum Standards Model Act (#170) to include short-term, limited-duration health insurance coverage in the definition of “supplementary health insurance” covered by the scope of the NAIC model, unless otherwise specified. The Accident and Sickness Insurance Minimum Standards (B) Subgroup will continue its discussion of potential revisions to the Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (#171) on interim calls to be scheduled for early 2019.

The Task Force will consider developing a new NAIC model to establish a licensing or registration process for pharmacy benefit managers with provisions regarding prescription drug pricing and cost transparency.

Property and Casualty Insurance (C) Committee

The C Committee adopted an extension for NAIC model law development to continue the drafting of the Real Property Lender-Placed Insurance Model Act, which addresses lender-placed insurance related to mortgage loans.

The C Committee also adopted the “Guidelines on Nonadmitted Accident and Health Coverages” developed by the Surplus Lines (C) Task Force and intended to provide state guidance for the regulation of the nonadmitted accident and health market.

The C Committee exposed a white paper on pet insurance. Comments are due by 21 December 2018.

The C Committee disbanded the Auto Insurance (C/D) Working Group and deleted its 2019 proposed charge. The Working Group requested the NAIC staff to complete the auto insurance report intended to present information related to premiums, loss ratios, frequency and severity of claims, as well as socioeconomic data such as income, on a state and zip code level under the direction of the respective committees. The C Committee also disbanded the Medical Professional Liability (C) Working Group after receiving the Working Group’s report on the medical professional liability survey since it had completed its charge.

Casualty Actuarial Statistical (C) Task Force

CASTF adopted the plan to fulfill its property and casualty (P&C) appointed actuary continued competence charge as submitted by a joint task force of the Casualty Actuarial Society and the SOA. The plan focuses on the continued competence of the appointed actuary as measured by the quality and quantity of continuing education.

CASTF exposed a white paper on best practices to conduct the regulatory review of predictive models and insurers’ use of predictive analytics. Comments are due by 15 January 2019.
Actuarial Opinion (C) Working Group
The Working Group adopted its 2018 Regulatory Guidance on Property and Casualty Statements of Actuarial Opinion, which supplements the P&C annual statement instructions to provide clarity and timely guidance to insurance companies and appointed actuaries on regulatory expectations for the statement of actuarial opinion, actuarial opinion summaries and actuarial report. The guidance includes a reference to the change that was made to the P&C annual statement instructions for 2018, which states that the actuarial report and related workpapers summarizing the asset adequacy testing of LTC contracts must be in compliance with the provisions of AG 51, and reproduces the content of AG 51 included in the Accounting Practices & Procedures Manual (AP&P Manual).

Financial Condition (E) Committee
The E Committee adopted the revisions to Model #785 and Model #786 that were developed by the Reinsurance (E) Task Force to incorporate relevant provisions of the US-EU Covered Agreement. NAIC legal staff will address various technical edits and resolve internal inconsistencies identified in the adopted revisions before the final revisions are presented to the Executive Committee and Plenary for adoption on 19 December 2018.

Blanks (E) Working Group
BWG received a memo from SAPWG about the reporting and disclosure requirements for certain revisions to statutory accounting guidance that are effective for year-end 2018 reporting. No structural changes were made to the annual statement blanks to data capture these requirements for year-end 2018, but the instructions provide a template for narrative disclosures. Reporting entities can reference the example disclosures included in the memo to meet these requirements. BWG accepted the memo and will make its content available as an update to the 2018 annual statement instructions.

Appendix B summarizes the actions taken by BWG since the 2018 Summer National Meeting.

Capital Adequacy (E) Task Force
The Capital Adequacy (E) Task Force (CATF) received a referral detailing a comprehensive fund proposal being considered by the Valuation of Securities (E) Task Force (VOSTF). The proposal would unify the guidance for all fund investments in a new section of the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual). It would also expand the existing policy to include closed-end funds or unit-investment trusts issued by an SEC registered investment company and allow certain private funds that are structurally similar (i.e., the underlying investments are in fixed income securities) to receive consistent treatment. CATF will conduct a comprehensive review of all funds that can be assigned NAIC designations by the NAIC Securities Valuation Office (SVO) and consider how such designations should be included in the RBC calculations.

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 2018 Summer National Meeting.

Operational Risk (E) Subgroup
The Subgroup discussed the feedback received on options to address growth risk within the Life RBC formula and determined that the best approach is to expand the basic operational risk methodology by incorporating an add-on factor applied to premium growth that exceeds defined thresholds. Questions were raised about whether a charge based on short-term growth (i.e., year-over-year growth in premiums) is appropriate, given the long-term nature of life insurance. The Subgroup plans to refer this topic to the Life RBC (E) Working Group for further discussion.

The Subgroup exposed a memo to solicit feedback on how to address growth risk within the Health RBC formula. The memo includes a description of the existing Health RBC growth risk methodology and related observations on how the methodology was developed, a description of a potential alternative approach and options to transition this topic to the Health RBC (E) Working Group for further evaluation. Comments are due by 14 December 2018.
The Subgroup also exposed a memo to solicit feedback on how insurance companies identify and quantify operational risk to determine what information could be most beneficial if an operational risk database were to be established. Example questions intended to understand how regulators collect this information have been provided, along with a request for suggestions on how the information can be coordinated between regulators on a timely basis. Comments are due by 14 December 2018.

**Investment RBC (E) Working Group**

The Investment RBC (E) Working Group (IRBC) continued its work in developing the revised structure and factors for investment risk in each of the RBC formulas. The target implementation date for these revisions continues to be year-end 2019, but implementation may not occur until year-end 2020 due to NAIC system constraints that have delayed the changes needed to capture the increased granularity of NAIC bond designation categories for use in the RBC formulas.

IRBC discussed the feedback received on a previously exposed report from the AAA regarding the risk premium offset assumption (i.e., the amount of credit losses already included in statutory policy reserves) within the updated base factors for bonds in the Life RBC formula. No changes have been suggested by IRBC because the AAA determined that the initially proposed assumption is appropriate.

IRBC also discussed the feedback received on a previously exposed report from the AAA that included recommendations for revised bond factors to be used in the Health and P&C RBC formulas. The risk charge (i.e., base factors and portfolio adjustment factors) developed by the AAA for the respective RBC formulas is based on a representative portfolio of investments applicable to these industry sectors. Respondents generally agreed that the base factors should incorporate a time horizon of five years for the P&C portfolio and two years for the health portfolio, which is largely consistent with the periods used to model the underwriting and reserve charges in the respective RBC formulas, but suggested additional granularity with respect to the type of bond (i.e., investment grade or speculative) used to develop the risk charge. IRBC will develop a document to summarize the feedback and identify next steps for consideration on an interim call to be scheduled in 2019.

**Health RBC (E) Working Group**

The Working Group discussed comments on the AAA report that detailed the revised bond factors to be used in the Health RBC formula. The Working Group sent a referral to IRBC in support of adding a portfolio adjustment factor to the Health RBC formula to recognize the diversification of risk in bonds. The adjusted factors will be implemented and used once final recommendations have been made by IRBC regarding the increased granularity in bond factors.

**Group Capital Calculation (E) Working Group**

The Working Group continued developing the requirements for the NAIC’s group capital calculation for an initial filing to state insurance regulators using 2019 annual data. The Working Group exposed a field testing template and related instructions that considered the previously exposed “scope of application” concept, which, based on certain criteria, would allow state insurance regulators to limit the scope of the group capital calculation to those entities deemed appropriate. Comments are due by 30 January 2019.

NAIC staff indicated that the field testing template as constructed represents an initial draft for data collection in a format that will provide maximum flexibility in testing various options for the group capital calculation. Any item not explicitly captured in the instructions (e.g., potential adjustments to the amounts reported for captives that assume XXX / AXXX business) will not automatically be excluded from the field test. NAIC staff also indicated that the field testing template is not intended to be representative of the final product; rather, the data provided in the field test will be used to inform the decisions reached by regulators in determining the final requirements for the group capital calculation.

The Working Group said it intends to begin field testing in March 2019. Qualitative questions will be included as part of the data collection activity to provide volunteers with the ability to elaborate on how the field testing template was completed.
Receivership and Insolvency (E) Task Force

The Task Force received updates from the three drafting groups that were formed to address recovery and resolution research activities in support of the NAIC’s macroprudential initiative:

- The first drafting group has begun reviewing best practice developments in international and federal supervision. The drafting group will compare the Insurer Receivership Model Act (#555 or IRMA) to state receivership models and propose updates to current recovery and resolution laws, procedures, manuals and handbooks to align with best practices.

- The second drafting group continues to review information from recovery and resolution planning that may be valuable as possible enhancements in risk surveillance and prospective planning for the resolution of large cross-border US insurance groups, with the objective of resolutions that avoid receiverships when possible.

- The third drafting group continues to evaluate federal laws for any misalignments between state and federal laws. The drafting group met with federal authorities to further understand existing federal laws, including rules on the recognition of stays and the effect of the recent report from the US Department of the Treasury on orderly liquidation authority.

The Task Force will continue to address these considerations throughout 2019.

The Receivership Large Deductible Workers’ Compensation (E) Working Group presented a report to the Task Force with recommendations based on its study of receivership laws and practices regarding the receivership of insurers with significant books of large deductible workers’ compensation business. The Working Group will continue discussing the outstanding issues of ownership of the deductible recoveries and collateral and drafting best practices and guidance on how to address the issues in large deductible workers’ receiverships for inclusion in the Receivers’ Handbook for Insurance Company Insolvencies.

Valuation of Securities (E) Task Force

VOSTF continued its work to amend the P&P Manual to clarify the instructions, modify various administrative procedures and improve the compilation function of the NAIC SVO. VOSTF adopted amendments to the P&P Manual that:

- Delete the valuation instructions and replace them with an explanation of NAIC SVO valuation activity in the compilation function
- Delete the MFE procedure from the P&P Manual and paragraph 26b of SSAP No. 43R
- Delete the description of financial modeling of structured securities and transfer the financial modeling text in Part 7 of the P&P Manual to the Structured Securities Group website
- Add the administration of filing exemption (FE) to the description of ongoing operation of the NAIC SVO
- Modify the administrative symbol “NR” (i.e., not rated) to “ND” (i.e., not designated) to eliminate the use of the word “rating” as that term has a legal meaning under federal securities law
- Delete certain obsolete filing and documentation instructions related to the FE process
- Modify the current definition of “notching” to align the text to the NAIC designation framework
- Modify the instructions governing the procedure for amending the P&P Manual to conform the procedure to the template that was adopted by the Governance Review (EX) Task Force to promote uniformity of the governance process across the various NAIC groups
- Modify the compilation instructions to clarify the relationship between the NAIC SVO list of investment securities and NAIC reinsurance standards and expand the guidance of what constitutes a regulatory transaction consistent with the decision reached by the Reinsurance (E) Task Force
- Modify the description of the credit substitution methodology (i.e., a technique in which an NAIC designation is assigned based on credit strength of a third party due to a legally enforceable right)

VOSTF also adopted a proposal to reorganize and reformat the content of the P&P Manual, based on a report from the NAIC SVO and the North American Securities Valuation Association. The reformatted content of the P&P Manual will be organized in four parts: (1) VOSTF policies, (2) NAIC SVO operations
and administrative procedures, (3) procedures and methodologies used to produce NAIC designations, and (4) all materials relevant to the structured securities group. VOSTF intends to expose the reformatted content of the P&P Manual in 2019.

VOSTF re-exposed an amendment to the P&P Manual that would provide a comprehensive framework for fund investments and make the investments subject to the same principles regardless of the investment schedule on which the fund is reported. Comments are due by 18 February 2019.

VOSTF also deferred amendments to the P&P Manual that would:

- Delete the procedure for placing securities under regulatory review in order to conduct additional research to further understand in what circumstances regulatory review might occur
- Improve and expand disclosure on securities ineligible for FE, based on feedback indicating there are different interpretations as to whether certain security populations (e.g., credit tenant loans) meet the FE criterion

VOSTF indicated that private letter rating securities could be reported as "FE" for year-end 2018 as a result of issues encountered during the implementation of new procedures to assign NAIC designations for these types of securities. A private letter rating security would be reported as "PL" if an electronic data feed from the NAIC credit rating provider is available. However, insurers will not be required to file documentation if such a feed does not exist. The documentation filing requirement for all private letter rating securities will take effect on 1 January 2019.

VOSTF received a referral from SAPWG related to certain SEC-registered investment funds (i.e., mutual funds, closed-end funds and unit-investment trusts). VOSTF will consider establishing a methodology for reviewing and determining the appropriate NAIC designation for equity investments with underlying bond investments in response to the SAPWG referral.

VOSTF received a referral from SAPWG related to proposed changes to statutory accounting, where period-certain investments in the cash flows from structured settlements will either follow the guidance in SSAP No. 43R (in the case of a securitization) or the guidance in SSAP No. 21 (in the case of an individual investment that would be reported within other long-term invested assets on Schedule BA). VOSTF expressed support for the proposed changes.

**Financial Regulation Standards and Accreditation (F) Committee**

The F Committee adopted revisions to Part B of the accreditation standards to incorporate guidelines for the timely review of Own Risk and Solvency Assessment (ORSA) summary reports by regulators, with an effective date of 1 January 2020. The revisions require an analysis of the ORSA summary report for an insurer that is subject to ORSA requirements at the legal entity level to be completed by the domiciliary state regulator within 180 days of receipt. If an insurer is part of a group that is subject to ORSA requirements, the analysis needs to be completed by the lead state regulator and shared with other states that have domestic insurers in the group within 120 days of receipt.

The completed analysis is expected to include documentation demonstrating that all three sections of the report have been adequately reviewed and assessed, with follow-up procedures identified as appropriate, and distributed to other states when warranted in accordance with prescribed timelines. However, the communication of feedback or follow-up procedures to the insurer is not required to be completed before finalizing the analysis.

The F Committee also adopted revisions to Part B of the accreditation standards to incorporate guidelines for an additional level of review when insurance departments use an independent contractor to perform the primary supervisory review of a financial analysis, with an effective date of 1 January 2019. The revisions include supporting guidance developed by the Risk-Focused Surveillance (E) Working Group to address issues that could arise in the implementation of these guidelines.
International Insurance Relations (G) Committee

The G Committee approved the comments submitted by the NAIC to the International Association of Insurance Supervisors (IAIS) on the consultation documents soliciting feedback on the requirements of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and version 2.0 of the risk-based global Insurance Capital Standard (ICS). The feedback provided to the IAIS addressed the following items:

- For the ComFrame materials, the NAIC’s comments identified key issues and text that could be further improved or clarified.
- For the ICS, the NAIC responded to the questions posed by the IAIS on the remaining design elements of version 2.0 of the ICS that are most important and relevant for US state insurance regulators. Key issues to be addressed before implementation include ongoing concerns about capital resources, market-adjusted valuation and margin over current estimates, as well as new concerns about the spread over the long-term forward rate, non-default spread risk and the use of internal models in determining the prescribed capital requirement.

The G Committee approved the comments submitted by the NAIC to the IAIS on the proposed revisions to the following Insurance Core Principles (ICPs): ICP 6, Change in Control, and ICP 20, Public Disclosure. The proposed revisions incorporate developments in supervision and recommendations from self-assessment and peer reviews into the ICPs, along with editorial changes intended to make their content more consistent and coherent. In general, the NAIC’s comments addressed whether the standards and guidance allow for sufficient jurisdictional flexibility and are not overly prescriptive.

The G Committee also approved the comments submitted by the NAIC on the following documents:

- The IAIS draft Issues Paper on the Increasing Use of Digital Technology in Insurance and its Potential Impact on Consumer Outcomes, which considers the effect of the increasing use of digital technology in insurance and consumer outcomes and discusses what digitalization means for insurance supervision, focusing on product design and underwriting, along with the marketing, sales and distribution aspects of the insurance value chain
- The IAIS draft Application Paper on the Composition and Role of the Board, which provides additional material to help with the practical interpretation and application of selected standards and guidance in ICP 5, Suitability of Persons, and ICP 7, Corporate Governance, focusing on the supervisor’s assessments of certain aspects of the board’s performance
- The IAIS draft Application Paper on Supervision of Insurer Cybersecurity, which provides further guidance to supervisors seeking to develop or enhance their approach to supervising the cyber risk, cybersecurity and cyber resilience of insurers
- The draft Cyber Lexicon prepared by the Financial Stability Board (FSB), which provides definitions for 50 core terms related to cybersecurity and cyber resilience in the financial sector in support of the work of the FSB, standard-setting bodies (such as the IAIS), financial sector authorities and private sector participants

Any new documents released by the IAIS for public consultation will be reviewed by the NAIC staff and discussed by the G Committee on interim calls to be scheduled prior to the respective deadline for submission.

Stay tuned

The NAIC’s 2019 Spring National Meeting is currently scheduled for 6–9 April 2019 in Orlando, Fla. A list of conference calls or other meetings that will be held before then can be found at http://naic.org/meetings_calendar.htm.
Appendix A – Statutory Accounting Principles Working Group

This chart summarizes actions taken by SAPWG since the 2018 Summer National Meeting. Comments on exposed items are due by 15 February 2019, unless otherwise noted. More information is available at http://www.naic.org/cmte_e_app_sapwg.htm.

<table>
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<tr>
<th>Topic/Issue</th>
<th>Status</th>
<th>Discussion</th>
<th>Effective date</th>
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<tr>
<td><strong>Substantive listing</strong>¹</td>
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<tr>
<td>SSAP No. 22R and Issue Paper – Leases (Ref #2016-02)</td>
<td>Exposed*</td>
<td>Exposed an issue paper and revisions to SSAP No. 22, Leases, to incorporate various concepts from the US GAAP guidance in ASU 2016-02, Leases, while retaining the operating lease concept for statutory accounting. The proposed revisions are intended to clarify the application of statutory accounting guidance in certain areas (e.g., sale-leaseback transactions) and identify the types of assets allowed for lease and sale-leaseback treatment rather than change the existing statutory accounting treatment for leases. Re-exposure of the issue paper and proposed revisions to SSAP No. 22 is likely to occur in Spring 2019.</td>
<td>TBD</td>
</tr>
<tr>
<td>New SSAP and Issue Paper – Derivatives Hedging Variable Annuities (Ref #2016-03)</td>
<td>Adopted</td>
<td>Adopted SSAP No. 108 and related Issue Paper No. 159 to provide specific accounting and reporting guidance for derivatives that hedge interest rate risk of variable annuity guarantees. The adopted guidance specifies the requirements for applying a special accounting treatment for derivative contracts hedging variable annuity guarantee benefits that are subject to fluctuations as a result of interest rate sensitivity. The provisions of SSAP No. 108 are separate and distinct from the guidance in SSAP No. 86 since the derivative contracts that would be subject to these requirements would not qualify for hedge effectiveness under SSAP No. 86. Application of the adopted guidance is limited to the derivative transactions specified therein and permitted only if all of the requirements for the special accounting treatment are met.</td>
<td>1 January 2020, with early adoption permitted as of 1 January 2019</td>
</tr>
<tr>
<td>ASU 2016-13 – Credit Losses (Ref #2016-20)</td>
<td>Further analysis necessary*</td>
<td>Deferred discussion of the feedback received on the exposed document detailing how the US GAAP concepts in ASU 2016-13, Measurement of Credit Losses on Financial Instruments, should be incorporated into statutory accounting. Due to different interpretations of the proposed guidance, the NAIC staff will work with interested parties to clarify how the incurred loss model would be replaced with an expected credit loss model for statutory accounting before a revised document is provided to SAPWG for further consideration.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 41R – Amortization and Accretion Surplus Notes (Ref #2017-12)</td>
<td>Deferred*</td>
<td>Deferred consideration of proposed revisions to SSAP No. 41R, Surplus Notes, that would incorporate the fundamental principle that the effect (i.e., increase in surplus) from a surplus note issued at a discount or zero coupon should never be greater than the amount of cash and liquid admitted assets received, along with specific statutory accounting guidance for certain transactions (including exchanges or amendments of terms) consistent with the overall principle and disclosures to capture information for discounted or zero coupon surplus notes in the statutory-basis financial statements.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 62R – Reinsurance Credit (Ref #2017-28)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 62R to incorporate guidance from US GAAP and be more consistent with the provisions of ASC 944-20, Insurance Activities. The revisions specifically incorporate additional guidance from EITF 93-6 and EITF D-035 to address the statutory accounting requirements for multiple-year retrospectively rated contracts and will help prevent the ceding company from reporting a credit for reinsurance that is greater than the amount of risk ceded.</td>
<td>1 January 2019</td>
</tr>
<tr>
<td>SSAP No. 30 – Investment Classification Project (Ref #2017-32)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 30 to improve the common stock definition and include closed-end funds and unit-investment trusts within its scope.</td>
<td>1 January 2019</td>
</tr>
<tr>
<td>ASU 2017-12 – Derivatives and Hedging (Ref #2017-33)</td>
<td>Deferred*</td>
<td>Deferred consideration of an issue paper detailing an initial assessment of the effect of ASU 2017-12 on the statutory accounting and reporting of derivatives. Feedback has been provided on the assessment and revisions needed to incorporate suggested modifications into statutory accounting, along with the differences between the US GAAP and statutory accounting for derivatives that should be retained.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 21 – Structured Settlements (Ref #2018-17)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 21 to specify that period-certain structured settlements acquired in accordance with state and federal laws are admitted assets. Life-contingent structured settlements and period-certain structured settlements that are not acquired under state and federal laws have been specifically identified as nonadmitted assets.</td>
<td>31 December 2018</td>
</tr>
</tbody>
</table>

¹ Substantive revisions are those that modify the statutory intent of an SSAP or create new statutory accounting principles.
<table>
<thead>
<tr>
<th>Topic/issue</th>
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<th>Discussion</th>
<th>Effective date</th>
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<tr>
<td><strong>Nonsubstantive listing</strong></td>
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<tr>
<td>SSAP No. 26R and SSAP No. 43R – Measurement Method for NAIC 5 Designations (Ref #2015-17)</td>
<td>Deferred*</td>
<td>Deferred revisions to statutory accounting guidance that would require investments with an NAIC 5 designation held by an AVR filer to be reported at the lower of amortized cost or fair value.</td>
<td>TBD</td>
</tr>
<tr>
<td>Aging and Revenue Recognition of Multi-Peril Crop Policies (Ref #2015-33)</td>
<td></td>
<td>Further analysis necessary* Directed the NAIC staff to work with state insurance regulators and key stakeholders to develop recommendations to update SSAP No. 7B, Multiple Peril Crop Insurance, for (1) using the billing date for application of the 90-day rule, (2) defining the processing date or updating the term, (3) providing more specificity on the period of risk for purposes of earning revenue and (4) developing a glossary of terms.</td>
<td>TBD</td>
</tr>
<tr>
<td>Appendix C Introduction (Ref #2016-42)</td>
<td>Deferred*</td>
<td>Deferred revisions to the introduction page of Appendix C of the AP&amp;P Manual that would promote the consistent application of the Actuarial Guidelines for statutory accounting. The revisions add language noting that various SSAPs incorporate the Actuarial Guidelines by reference into the statutory accounting requirements and provide information regarding their applicability after the operative date of the Valuation Manual (i.e., 1 January 2017).</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 61R – Reinsurance Credit (Ref #2017-28)</td>
<td></td>
<td>Forwarded the feedback received from Connecticut and New Jersey regulators that raised concerns with the application of the risk transfer guidance in SSAP No. 61R and Appendix A-791, Life and Health Reinsurance Agreements, to certain transactions (e.g., group life yearly renewable term contracts with experience refund provisions) to the informal Life and Health Reinsurance Drafting Group for further analysis and consideration.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 43R – Reporting NAIC Designations as Weighted Averages (Ref #2018-03)</td>
<td>Deferred*</td>
<td>Deferred review of proposed revisions to clarify that if a security subject to the statutory accounting guidance in SSAP No. 43R has different NAIC designations by lot, the reporting entity can either report the entire investment in a single reporting line at the lowest NAIC designation or report the investment separately by purchased lot in the investment schedules of the annual statement blank.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 26R – VOSTF Bank Loan Referral (Ref #2018-04)</td>
<td>Deferred*</td>
<td>Deferred review of feedback on proposed amendments (by VOSTF) to the P&amp;P Manual intended to verify consistency with the definition of a bank loan in SSAP No. 26R, Bonds, including whether borrowing base loans, debtor-in-possession financing and revolving credit facilities as referenced in the P&amp;P Manual should be removed from the definition of a bank loan.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 4 – Regulatory Transactions (Ref #2018-06)</td>
<td>Exposed*</td>
<td>Exposed revisions to SSAP No. 4, Assets and Nonadmitted Assets, to clarify that items reported as invested assets acquired as part of a regulatory transaction would only be admitted with the approval of the domiciliary state insurance department and such admission is subject to disclosure as a prescribed permitted practice. Comments have been requested on whether all “regulatory transactions” should be reported on Schedule BA.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 41R – Surplus Note Accounting (Ref #2018-07)</td>
<td>Exposed*</td>
<td>Exposed revisions to SSAP No. 41R to clarify that surplus notes linked to a reported asset or other agreement are not subordinate and do not qualify for reporting as statutory equity by the issuer of the surplus note, with additional language to clarify the principal intent of a surplus note.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 2R, SSAP No. 26R, SSAP No. 43R and SSAP No. 86 – Structured Notes (Ref #2018-18)</td>
<td>Re-exposed</td>
<td>Re-exposed the proposed revisions that would require structured notes to be reported as derivatives under SSAP No. 86, except for mortgage-referenced securities, for which the contractual principal amount to be paid at maturity is at risk for other than failure of the borrower to pay the contractual amount due. Comments have been requested on the classification of structured notes as derivatives or as mandatory convertible bonds in the scope of SSAP No. 26R.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 43R – Elimination of Modified Filing Exempt (Ref #2018-19)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 43R to eliminate the MFE process in determining the final NAIC designation for NAIC CRP-rated securities. A separate annual statement blanks proposal will be submitted to eliminate the MFE designation from the reporting instructions. A reporting entity may elect to early adopt the revised guidance; however, the revised guidance would need to be applied to all securities that would be subject to the MFE process at year-end 2018.</td>
<td>31 March 2019, with early adoption permitted</td>
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2 Nonsubstantive revisions are those that do not modify the statutory intent of an SSAP.
<table>
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<tr>
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<tr>
<td>SSAP No. 15 and SSAP No. 25 – Debt Forgiveness Between Related Parties (Ref #2018-20)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 15 to reference the applicable guidance in SSAP No. 25 and SSAP No. 72 in accounting for the forgiveness of debt between related parties. Revisions to SSAP No. 25 were also adopted to reference SSAP No. 72 when there has been forgiveness of an amount owed to a related party.</td>
<td>Immediately</td>
</tr>
<tr>
<td>SSAP No. 72 – Distributions (Ref #2018-21)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 72 to clarify that, for any event in which unassigned funds are negative or go below zero as a result of a distribution to a parent or stockholder, the distribution will be considered a return of capital. The adopted guidance further specifies that a return of capital is charged directly to gross paid-in and contributed surplus.</td>
<td>Immediately</td>
</tr>
<tr>
<td>SSAP No. 37 – Participation Agreement in a Mortgage Loan (Ref #2018-22)</td>
<td>Re-exposed</td>
<td>Re-exposed revisions to SSAP No. 37, Mortgage Loans, to clarify that a mortgage loan acquired through a participation agreement is limited to a single mortgage loan agreement with a sole borrower and exclude bundled mortgage loans (e.g., an interest in multiple loans with various unrelated borrowers and collateral acquired in a single transaction) from its scope.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 68 – Mergers (Ref #2018-23)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 68 to clarify that when the ownership equity of an investment in an SCA entity is canceled, with the parent insurance company directly reporting the SCA’s assets and liabilities in its statutory-basis financial statements, the transaction should be accounted for as a statutory merger.</td>
<td>Immediately</td>
</tr>
<tr>
<td>SSAP No. 97 – Accounting Guidance for SCA Loss Tracking (Ref #2018-26)</td>
<td>Re-exposed</td>
<td>Directed the NAIC staff to research and consider revisions to existing guidance in SSAP No. 97 that requires the recognition of a negative investment (contra asset) when there is a guarantee or commitment to provide financial support to the SCA entity.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 48 – Entities’ Loss Tracking (Ref #2018-27)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 48 to incorporate disclosures from SSAP No. 97 for loss tracking when the reporting entity’s share of losses results in a negative equity position (i.e., accumulated losses in excess of its investment).</td>
<td>Immediately</td>
</tr>
<tr>
<td>SSAP No. 51 – Life and Annuity Liquidity Disclosures (Ref #2018-28)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 51R, SSAP No. 52 and SSAP No. 61R to enhance the existing disclosures for annuity actuarial reserves and deposit-type liabilities by withdrawal characteristics. The revisions are intended to assist regulators in monitoring the liquidity position of life insurers.</td>
<td>Immediately</td>
</tr>
<tr>
<td>Appendix A-820 – Consistency Revisions to A-820 (Ref #2018-29)</td>
<td>Adopted</td>
<td>Adopted revisions to Appendix A-820 to remove the phrase “good and sufficient reserve” to be more consistent with the language in Model #820 as currently adopted by the NAIC.</td>
<td>Immediately</td>
</tr>
<tr>
<td>SSAP No. 86 – Hedge Effectiveness Documentation (Ref #2018-30)</td>
<td>Adopted</td>
<td>Adopted revisions to SSAP No. 86 to incorporate hedge documentation and assessment efficiencies from ASU 2017-12. The revisions will allow companies to perform subsequent assessments of hedge effectiveness qualitatively if certain conditions are met, allow companies more time to perform the initial quantitative hedge effectiveness assessment and clarify that companies may apply the “criterial terms match” method for a group of forecasted transactions if they meet the requirements. Early adoption is permitted for year-end 2018. However, if the reporting entity is also subject to US GAAP reporting requirements, early adoption can only be elected if it has also elected early adoption of ASU 2017-12 for year-end 2018.</td>
<td>1 January 2019, with early adoption permitted</td>
</tr>
<tr>
<td>INT 18-04 – Extension of Ninety-Day Rule for the Impact of Hurricane Florence and Hurricane Michael (Ref #2018-31)</td>
<td>Adopted</td>
<td>Adopted an interpretation of statutory accounting guidance to allow for an optional temporary 60-day extension of the normal 90-day rule in paragraph 9 of SSAP No. 6 for policies affected by the identified catastrophes or the related flooding. The nonadmission guidance for premiums receivable from directly affected policies or agents has been extended by 60 days for a total of 150 days but not past 6 March 2019.</td>
<td>Immediately</td>
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<td>Topic/issue</td>
<td>Status</td>
<td>Discussion</td>
<td>Effective date</td>
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<tr>
<td>SSAP No. 26R – Prepayment Penalties (Ref #2018-32)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 26R to provide guidance when the consideration received from a callable bond is less than par. In these situations, the reporting entity should allocate the consideration received between investment income and realized gain and loss in accordance with the terms of the callable bond. Amounts received that represent prepayment penalties or acceleration fees should be reported as investment income.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 30R – Pledges to FHLBs (Ref #2018-33)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 30R to clarify that assets pledged to an FHLB by an insurance entity on behalf of an affiliate would be nonadmitted and restrict the guidance in SSAP No. 30R to reporting entities that are FHLB members. The revisions also clarify that any transaction entered into on behalf of an affiliate, but completed in a manner to exclude the affiliate’s involvement, would be considered a related party transaction under SSAP No. 25.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 30R – Foreign Mutual Funds (Ref #2018-34)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 30R to explicitly include foreign open-end mutual funds in its scope. SAPWG requested feedback from CATF and VOSTF regarding the proposed revisions and identified questions.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 104R – ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting (Ref #2018-35)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 104R, Share-Based Payments, to adopt ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, with modifications. The revisions would eliminate the specific section for nonemployee awards from SSAP No. 104R and include guidance for both employees and nonemployees receiving share-based payments in the same manner as US GAAP. SAPWG included three questions for consideration: (1) should these revisions be considered substantive; (2) should the disclosure detail be retained; and (3) should the reference to the guidance in SSAP No. 13, Stock Options and Stock Purchase Plans, be retained in SSAP No. 104R.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 100R – ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (Ref #2018-36)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 100R, Fair Value, to adopt the amendments to the US GAAP disclosure requirements in ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement, with modification for statutory accounting.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 92 and SSAP No. 102 – ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans (Ref #2018-37)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 92, Postretirement Benefits Other Than Pensions, and SSAP No. 102, Pensions, to adopt the amendments to the US GAAP disclosure requirements in ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans, with modification for statutory accounting.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 55 – Prepayments to Service and Claims Adjusting Providers (Ref #2018-38)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 55, Unpaid Claims, Losses and Loss Adjustment Expenses, to provide guidance on payments to service and claim adjusting providers. The revisions would require the initial provider prepayment amount to be recognized as a miscellaneous underwriting expense. Subsequently, when direct policies that purchased and used these provider services incur losses which are paid, a proportionate percentage of the initial provider prepayment amount would be reclassified from miscellaneous underwriting expense to claims adjustment expense or claims expense, as applicable. To the extent that additional amounts are prepaid for direct policies that did not purchase these provider services, the prepaid expenses would remain in miscellaneous underwriting expenses.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 55 – Interest on Claims (Ref #2018-39)</td>
<td>Exposed</td>
<td>Exposed revisions to SSAP No. 55 to clarify the reporting of interest on accident and health claims. SAPWG requested feedback on whether subsequent revisions to SSAP No. 55 should be considered for other lines of business.</td>
<td>TBD</td>
</tr>
<tr>
<td>SSAP No. 16R and SSAP No. 22 – ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Ref #2018-40)</td>
<td>Deferred</td>
<td>Directed the NAIC staff to draft revisions to SSAP No. 16R, Electronic Data Processing Equipment and Software, to adopt with modification the US GAAP guidance in ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, allowing for capitalization and amortization of the related implementation costs as nonoperating system software. Feedback has been requested on whether any of the implementation costs would qualify for recognition as an operating system software asset under the existing concepts in SSAP No. 16R and, if so, whether it would be possible to bifurcate the costs between operating and nonoperating system software.</td>
<td>TBD</td>
</tr>
</tbody>
</table>

* No additional action was taken on this topic/issue since the 2018 Summer National Meeting.
Issues rejected or exposed for rejection/disposal

Rejected as not applicable to statutory accounting:

- ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842 (Ref #2018-25)

Exposed to reject as not applicable to statutory accounting:

- ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (Ref #2018-41)


- ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (Ref #2018-44)

- ASU 2018-06, Codification Improvements to Topic 942, Financial Services—Depository and Lending (Ref #2018-45)
### Appendix B – Blanks Working Group

This chart summarizes actions taken by BWG since the 2018 Summer National Meeting. Comments on exposed items are due by 6 March 2019, unless otherwise noted. Details of current proposals can be found at [http://www.naic.org/cmte_e_app_blanks.htm](http://www.naic.org/cmte_e_app_blanks.htm).

<table>
<thead>
<tr>
<th>Adopted items</th>
<th>Frequency</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-02BWG: Modifies the columns and rows on the Summary Investment Schedule to align with other investment schedules in the annual statement blank and adds two new categories so that publicly traded common stock and non-publicly traded common stock can be identified.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-22BWG: Adds instructions for the Life/Fraternal Analysis of Operations and Analysis of Reserves for types of life insurance, separated into individual life, group life, individual annuities and group annuities, and accident and health for the general and separate account filings.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-26BWG: Adds a blank page and instructions for the Analysis of Operations by Lines of Business – Summary for the general and separate accounts and modifies the crosschecks in the Summary of Operations and Analysis of Operations by Lines of Business pages for life (individual and group), annuities (individual and group) and health to have a direct tie between the Summary of Operations and the Analysis of Operations by Lines of Business – Summary.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exposed items</th>
<th>Frequency</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-23BWG: Adds questions 34.1 and 34.2 to the General Interrogatories Part 2 for fraternal benefit societies only, along with instructions regarding question 34.2.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-24BWG: Adjusts the AVR factors in the life, accident and health/fraternal blank where the related RBC factors have changed due to the enactment of the Tax Cuts and Jobs Act.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-25BWG: Modifies the reinsurance ceded code list for Schedule S in the health and life, accident and health/fraternal quarterly blanks to match the list used for annual financial statement reporting, with an additional column and associated instructions for the type of business ceded.</td>
<td>Quarterly</td>
<td>First Quarter 2020</td>
</tr>
<tr>
<td>2018-27BWG: Adds a reference to reporting separate accounts or protected cells to the instructions for Note 5L(4), with modified illustrations to include additional lines for separate accounts or protected cells in addition to the general account.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-29BWG: Removes Line 5 (Contract Loans) from the asset page in the separate accounts blank and renumbers the remaining lines.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-30BWG: Modifies the instructions and illustration for Note 10O – SCA Loss Tracking to include references to SSAP No. 48 and entities subject to its guidance to address the revisions adopted by SAPWG to SSAP No. 48.</td>
<td>Annual</td>
<td>Annual 2019</td>
</tr>
<tr>
<td>2018-31BWG: Adds two new common stock categories (unit investment trusts and closed-end funds) to Schedule D, the Summary Investment Schedule, and Schedule DL Part 1 and Part 2, along with definitions of the new categories to the General Investment Schedule instructions, and modifies the definition of “mutual fund” to address the revisions adopted by SAPWG to SSAP No. 30.</td>
<td>Annual and quarterly</td>
<td>Annual 2019 and First Quarter 2020</td>
</tr>
</tbody>
</table>
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 2018 Summer National Meeting.

<table>
<thead>
<tr>
<th>Topic/issue</th>
<th>NAIC Group</th>
<th>Status</th>
<th>Description</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>All RBC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stop Loss Tables (Ref #2018-14-CA)</td>
<td>Capital Adequacy Task Force</td>
<td>Comments due by 17 December 2018</td>
<td>Exposed revisions to Table 2 of the electronic-only stop loss tables that would allow regulators to distinguish between specific and aggregate stop loss data.</td>
<td>2019</td>
</tr>
<tr>
<td>Life and Fraternal RBC</td>
<td></td>
<td></td>
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<tr>
<td>Real Estate (Ref #2017-06-L)</td>
<td>Investment RBC Working Group</td>
<td>Deferred</td>
<td>Previously exposed a proposal to update the RBC charge for real estate in the Life RBC formula based on a report prepared by the American Council of Life Insurers (ACLI) detailing updated experience and analysis of the riskiness of these investments since the RBC charge was first developed. Specific aspects of the proposal, including analysis regarding why Schedule BA and Schedule A real estate should have similar charges, will be updated by ACLI based on feedback received and subsequently provided to IRBC for further analysis.</td>
<td>TBD</td>
</tr>
<tr>
<td>Property/Casualty RBC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underwriting Risk Line 4 Factors (Ref #2018-16-P)</td>
<td>P&amp;C RBC Working Group</td>
<td>Comments due by 18 January 2019</td>
<td>Exposed revisions to update the “reserve risk” and “premium risk” factors in Line 4 of PRO17 and PRO18A and establish the related underwriting risk charges. The proposal aligns the factors to the methodology suggested by the AAA, but calibrates significant updates to the factors by capping the change in certain lines (e.g., 35% cap on commercial, medical professional liability and other; 100% cap on personal and professional reinsurane).</td>
<td>2019</td>
</tr>
</tbody>
</table>