

# NAIC REGULATORY UPDATE

This tri-annual issue of the *NAIC Regulatory Update* summarizes the National Association of Insurance Commissioners' financial activities affecting health entities at the 2010 Spring National Meeting. The meeting took place March 24-28, 2010 in Denver, CO.

## NAIC Hot Topics

The **Capital Adequacy (E) Task Force** adopted a proposal to add risk charge for additional DTA and a sensitivity test to measure total adjusted capital....[see page 1](#)

The **Blanks Working Group** adopted ten blanks proposals affecting the Health Blank forms and instructions.....[see page 1](#)

The **Statutory Accounting Principles Working Group** exposed a number of items including changes to SSAP No. 35R-Guaranty Fund and Other Assessments.....[see page 3](#)

The **Valuation of Securities (E) Task Force** adopted a new plan to create a new modeling and assessment process for Commercial Mortgage-Back Securities to be effect for reporting year 2010...[see page 5](#)

The **NAIC/AICPA Working Group** made a final updated on the status of states' progress on adopting the revised Annual Financial Reporting Model Regulation (Model Audit Rule).....[see page 6](#)

The **Examination Oversight (E) Task Force** discussed the results of a survey to track states' progress in adopting revisions to the "Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition.".....[see page 8](#)

The **Financial Examiners Handbook Technical Group** exposed revisions to several items related to association examinations.....[see page 8](#)

The **Financial Examiner Coordination Working Group** received a status report from the Regulator Issues (E) Subgroup.....[see page 8](#)

The **Financial Regulation Standards and Accreditation (F) Committee** adopted revisions to documents used for accreditation.....[see page 9](#)

The **Rating Agency Working Group** discussed the groups final recommendations and report to be given to E Committee....[see page 9](#)

The **Financial Condition (E) Committee** adopted recommendation to use RBC as an accreditation standard for Health Insurance Companies.....[see page 9](#)

## Financial Regulation—Health Risk-Based Capital

The **Capital Adequacy (E) Task Force** adopted a proposal on a December 17, 2009 conference call amending the Health RBC formula to add a deferred tax asset (DTA) sensitivity test. The new sensitivity test measures total adjusted capital with and without the impact of the incremental DTA resulting from the new provisions in SSAP No. 10R – *Income Taxes*. It also shows the RBC ratio without the incremental DTA to provide regulators with a review tool for those companies that are below the trend test level but do not trigger the trend test action level. The sensitivity test was filed as a manual worksheet with the 2009 RBC formula if requested by the domiciliary state but will be added as part of the regular 2010 RBC filing.

The **Task Force** also made a recommendation to the Financial Condition (E) Committee to add the Health Risk Based Capital Model Act as an accreditation standard. The recommendation was passed at the 2010 Spring National Meeting by the (E) Committee and referred to the Financial Regulation Standards and Accreditation (F) Committee for action.

The **Health Risk-Based Capital (E) Working Group** received an update from the **AAA Healthcare Receivable Working Group** during a March 4, 2010 conference call on sensitivity analyses based on changes to the healthcare receivable factors. The Working Group is studying the impact to the RBC after covariance value resulting from 50% plus or minus changes in the healthcare receivable factors. The Working Group concluded its sensitivity analysis on 2008 year-end data and will review the 2009 data before submitting recommendations to the Working Group. The Working Group was uncertain if these changes could be made for year end 2010 formula. A June conference call will be held to discuss the findings of the **AAA Working Group** after they have reviewed the 2009 data.

During the March 4 conference call, the **Working Group** also added an additional charge to the Working Group's 2010 agenda to do an initial evaluation of the overall efficiency of the current Health RBC formula. The Working Group has asked the AAA to review the current Health RBC formula and provide recommendations to the Group.

## Financial Reporting

The **Blanks Working Group** adopted 10 blanks proposals affecting the Health, Life, Title and Property/Casualty Blank forms and instructions.

The **Working Group** adopted the following changes to the 2010 Health Statement:

Item	Effective Date
Added two new General Interrogatories regarding whether the reporting entity has established an Audit Committee in compliance with the domiciliary state insurance laws.	Annual 2010
Modified the instruction and illustration for Note 29 Premium Deficiency Reserves. The data for the illustration will be electronically data captured.	Annual 2010

Financial Reporting, *continued*

Item	Effective Date
Added a "Fair Value" column to Schedule DB, Part B, Section I and modified Schedule DB Verification, Line 10 to reference the new Fair Value column.	Annual 2010
Added illustrations to Note No. 5 – Investments subsections D(4), (5) and (6) regarding loan-backed securities. In addition the disclosure requirements adopted for the 2009 year-end reporting was reversed to provide consistency with the AP&P manual. Note 5D(4), 5D(5) and 5D(6) will be electronically data captured.	Annual 2010
Modified instructions for Note 21, Events Subsequent, to be consistent with the changes adopted for SSAP No. 9R, <i>Subsequent Events</i> .	Annual 2010
Added a new Note 20, Fair Value Measurement, to reflect additional disclosures required by the adoption of SSAP No. 100, <i>Fair Value Measurements</i> . All notes following the new Note 20 will be renumbered. Note 20A(1), 20A(2) and 20B(1) will be data captured.	Annual 2010

The *Working Group* also exposed 12 proposals for comment. Eight of these proposals affect the Health statement. Some of the more significant proposals affecting the Health Statement are:

1. Proposal to combine the current sub-categories used for mortgage-backed and asset-backed securities in Schedules D, DA and E from the current five to three groupings. The proposed change would be effective for the 2010 Annual Statement.
2. Proposal to expand the list of identifiers used to identify additional types of "Other Asset-Backed Securities" for Schedule D Part I Column 26 – Collateral Type. The proposed change would be effective for the 2010 Annual Statement.
3. Proposal to modify the Health Actuarial Opinion annual statement instructions including adding several exemptions in which the actuarial opinion would not be required; clarifying the specific items that must be opined on; and in clarifying the required wording, if there are different reserve requirements in different states. The proposed change would be effective for the 2010 Annual Statement.
4. Proposal to add a new instruction and illustration to Note 5E for repurchase agreements. The proposal also adds a new interrogatory to be included in the General Interrogatories, Part I, and adds a new code to the investment code list for reinvested collateral from securities lending programs. The proposed change would be effective for the 2010 Annual Statement.
5. Proposal to add a new Schedule DL, Securities Lending Collateral Assets for the 2010 Annual Statement and the quarterly statements beginning first quarter 2011. Schedule DL will be used to report reinvested collateral assets at the end of each quarter.
6. Proposal to add a new line to the asset page (Securities Lending Reinvested Collateral Restricted Asset) and liability page (Payable for Securities Lending). The proposed change would be effective for the 2010 Annual Statement.
7. Proposal to add illustrations to the instructions for Note 9, Income Taxes. The amounts for 9A(1) through 9A(6), 9A(8) and 9A(9) will be electronically data captured in the electronic notes. The proposed change would be effective for the 2010 Annual Statement.
8. Proposal to add two columns to Schedule S, Part 4 to identify the bank issuing or confirming a letter of credit. The new columns will capture the banks American Bankers Association (ABA) routing number and name. The proposed change would be effective for the 2011 Annual Statement.

The comment deadline for the above exposed items is May 21, 2010.

### Financial Reporting, *continued*

The *Working Group* also exposed a revision to its Procedures in connection with procedures for addressing amendments to the annual and quarterly statements. The revision will allow the Working Group to meet four times a year, instead of its current three meeting procedure. Three of the meetings will be held during the NAIC Spring, Summer and Fall National Meetings starting in 2010. The fourth meeting will be held via conference call in June of each year. Other conference calls may also be held if deemed necessary by the Working Group.

As noted above the *Working Group* added two new Interrogatories regarding compliance with the audit committee requirements contained in the revised Model Audit Rule which became effective January 1, 2010. The original proposal contained three new Interrogatories, the third Interrogatory requiring the reporting entity to report the “names of audit committee members and disclose if they are independent.” This part of the Interrogatory was not adopted but referred to the *NAIC/AICPA (E) Working Group* for review.

Industry Interested parties raised concerns regarding the disclosure of these names to be included in the annual statement. Interested parties asked the Working Group to consider adding the disclosure as an additional supplement that would be sent directly to the state of domicile instead of reported in the annual statement.

### Financial Regulation—Accounting

The *Statutory Accounting Principles Working Group* exposed the following substantive and nonsubstantive changes to the *Accounting Practices and Procedures Manual* during its public hearing:

#### 1. Ref No. 2003-12 – Issue Paper No. 135 – Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Others

Additional revisions were exposed to SSAP No. 5R - *Liabilities, Contingencies and Impairments of Assets* at the 2010 NAIC Spring Meeting. The revisions will add an exclusion for 100% wholly owned subsidiaries from the liability recognition. The proposed revisions to paragraph 16f will exclude guarantees made on behalf of wholly-owned subsidiary and paragraph 16g will exclude intercompany and related party guarantees that are considered “unlimited”. Changes to paragraph 17 will clarify the exclusion of a wholly owned subsidiaries and unlimited guarantees from the initial liability recognition requirement.

#### 2. Ref No. 2009-14 - Issue Paper No. 141 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Substantive revisions and recommendations from the *Securities Lending Subgroup* to modify IP No. 141 were exposed. Issue Paper No. 141 proposes adoption with modification of *FAS 166, Accounting for Transfers of Financial Assets – an Amendment to FAS 140 (FAS 166)* in a new SSAP to supersede SSAP No. 91R—*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 91R)*. IP No. 141 establishes new conditions for when a transferred financial asset can be accounted for as a sale, as well as removal of the concept of a qualifying special-purpose entity. The comment deadline is April 29, 2010. The anticipated effective date is year end 2010.

#### 3. Ref No. 2009-15 - Issue Paper No. 142 – Variable Interest Entities

The *FAS 166 and FAS 167 Subgroup* was formed during the 2009 Winter National Meeting to review and recommend changes to IP No. 141 and 142. This issue paper incorporates guidance from *FAS No. 167-Amendments to FASB Interpretation No. 46R*. The issue paper does not incorporate consolidation aspects which was previously rejected for statutory accounting, but has been drafted to provide documentation of a reporting entity’s financial interests in variable interest entities.

#### 4. Ref No. 2008-14 – Measurement of Sufficient Collateralization for Securities Lending Transactions

A recommendation was received from the *Securities Lending Subgroup* to expose substantive revisions to SSAP No. 91R - *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The revisions to SSAP No. 91R uses a modified GAAP approach of defining on and off balance sheet assets, this will require that if the collateral can be sold or pledged by custom or contract by the company, it will be considered “on” the balance sheet. The revisions will also require additional disclosures and will be reported on a separate line of the balance sheet.

**Financial Regulation—Accounting, continued**

The Subgroup also submitted to the *Blanks Working Group* a proposal to add a new Schedule DL – Securities Lending, a new line to the asset page, and to modify disclosures to be done in conjunction with the above changes to SSAP No. 91R. The comment deadline is April 29 and a conference call will be held to adopt the proposal before the *Blanks Working Group* meets in June.

During the regular meeting, the *Working Group* exposed and re-exposed for comment a number of items. The comment deadline is May 28, 2010. The following items that impact health entities were exposed for comment:

**1. Ref No. 2010-05: ASU 2010-06, Fair Value Measurements and Disclosures-Improving Disclosures about Fair Value Measurement**

This item was moved to nonsubstantive active listing and exposed revisions to SSAP No. 100 - *Fair Value Measurements*. The proposed revisions are to the disclosure section of SSAP No. 100 and will provide a greater level of disaggregated information and more robust disclosures on valuation techniques and inputs to fair value measurement. The proposal will be discussed on a summer conference call. The new disclosures would be effective for year-end 2010.

**2. Ref No. 2010-06: ASU 2010-10, Consolidation (Topic 810)-Amendments for Certain Investment Funds**

This item was moved to the nonsubstantive active listings, exposed for comments, and directed the FAS 166 and FAS 167 subgroup to consider the guidance within ASU 2010-10 in conjunction with comments received on Issue Paper No. 142 – Variable Interest Entities. Issue Paper No. 142 was exposed at the 2009 Winter National Meeting and proposed the development of a new SSAP to address variable interest entities within statutory accounting. *The Subgroup* will review and make additional recommendations to the *Working Group*.

The *Working Group* also exposed a policy statement on coordination with the *Valuation Manual* for inclusion within Appendix F of the *Accounting Practices and Procedures Manual*. The *Valuation Manual* sets forth the minimum reserve and related requirements pursuant to the Standard Valuation Law. The exposed policy statement is currently included in the *Valuation Manual* and states that updating the *Valuation Manual* should be coordinated with the **Statutory Accounting Principles Working Group**. This is a new publication, therefore there is not a specific policy statement in the NAIC *Accounting Practices and Procedures Manual* on the *Valuation Manual*.

The *Working Group* also formed the *DTA Subgroup* to research and monitor changes to SSAP No. 10R *Income Taxes* and to provide updates to the *Working Group* on the impact the changes will have on the financial reporting of companies.

The **Emerging Accounting Issues Working Group** discussed one item that was exposed as a tentative consensus position at the 2009 NAIC Winter National Meeting. The issue on “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing” was rejected at this meeting as not applicable to statutory accounting principles.

In its discussion of other outstanding issues, the *Working Group* rejected two items as not applicable to statutory accounting; took no position on two other issues; and exposed the following issue for comment:

**INT References to Revised SSAPs**

In its review of the *Accounting Practices and Procedures Manual*, NAIC staff identified ten Emerging Accounting Interpretations (INTs) that have not been updated since substantive and nonsubstantive changes to the related Statement of Statutory Accounting Principle (SSAP) were made. The accounting issue is whether the revised consensus opinion within the Interpretations is still considered appropriate in accordance with the revised SSAP guidance. NAIC staff presented updated versions of the INTs based on the revised SSAPs and submitted them for comment.

The comment deadline on this exposed item is May 28, 2010.

## Financial Regulation—Investments

The **Valuation of Securities (E) Task Force** adopted a comprehensive plan for determining a NAIC Designation for structured securities. The plan has several components that were adopted by the Task Force, including:

1. The *Task Force* will extend the residential mortgage-backed securities (RMBS) modeling process that was adopted for year-end 2009 reporting until a long-term solution for loan-backed and structured securities is adopted and effective. In addition, the RMBS modeling will be done semi-annually. The next rating update for RMBS will be conducted in June 2010. The *Task Force* will continue to discuss when these updates are necessary and how many updates should be completed during the year.
2. Beginning at year-end 2010 the *Task Force* will also use the modeling process used for RMBS to determine the NAIC designation for Commercial Mortgage-back Securities (CMBS). However, unlike the modeling process for RMBS, there are three other fundamental differences that will need to be taken into consideration when modeling CMBS:
  - Collateral Concentration
  - Homogeneous vs. Heterogeneous Collateral
  - Loan Performance Patterns
3. Other structured securities that are not subject to the modeling processes, but are rated by an NAIC acceptable rating organization (ARO), will be subject to a modified Filing Exempt (FE) requirement that was also implemented for year-end 2009 reporting. The NAIC Designation will be developed using the “second-lowest” ARO rating standard as part of the filing exempt rule and will take into account the staleness of credit ratings provided by the ARO. The *Task Force* considered three options to handle the staleness of credit ratings and adopted the following:
  - a. Require insurers to use the most current rating, defined as the rating with the most recent confirmed evaluation date. The **Task Force** determined that most recent evaluation date can vary among AROs ranging from just over six months by Fitch to 2.8 years by S&P; and
  - b. Notch ratings that are over a year old by one NAIC Designation.

The *Task Force* voted to ignore ratings that are over a year old.

4. Securities that are not rated or are not modeled will be subject to the 5\*/6\* ruled as contained in the *SVO Purposes and Procedures Manual*.
5. The NAIC will also use a modeling process for other loan-backed and asset-backed securities if it determines that doing so is cost-effective.

Also adopted by the *Task Force* was a proposal to permit the SVO to implement an analytical procedure to permit insurers to obtain an NAIC Designation from the SVO for military housing bonds. Like municipal bonds some of the military housing bonds may be wrapped with monoline insurance where the AROs downgrade the securities only on the basis of downgrading the monoline insurer. By adding this new procedure it will allow the SVO to assign an NAIC Designation higher than the NAIC equivalent of the NAIC ARO rating. The new procedures for military housing bonds will be added in *SVO Purposes and Procedures Manual* in Part Four, Section 6-Military Housing Bonds.

The *Task Force* also exposed revisions to the *Purposes and Procedures Manual* to update language as it pertains to prohibiting insurers from inserting clauses in their private loan agreements with borrowers that calls for an adjustment in the financial terms of the transaction upon a change in a NAIC designation assigned by the SVO. Staff is suggesting that the prohibition be retained however they are proposing a modified enforcement method be added to the text.

Two items were deferred by the *Task Force* at the 2010 Spring National Meeting:

1. NAIC Designation for unrated Hybrid Securities

This issue was discussed during the January 13, 2010 *Invested Asset Working Group* conference call. The *Hybrid Working Group* presented a report that concludes that the NAIC should expand its analysis of risks other than credit.

### Financial Regulation—Investments, *continued*

They also recommended that the NAIC review the role of classification methodology. The Working Group report was exposed for a 30 day comment period and will be discussed on an April conference call.

#### 2. Definition of First Lien on RMBS and CMBS securities that Incorporate Mixed Collateral

The *Task Force* has been asked to define the amount of second-lien mortgages that could be permitted in RMBS and CMBS issues and still be defined in the RMBS or CMBS categories. The **Task Force** directed NAIC staff at the 2009 Winter National Meeting to study the issue and report back to the group.

The *Task Force* also received a report on a new security type known as contingent capital securities which are offered by federal and international banking regulators to raise regulatory capital for banks. The security is issued as a bond, but upon a stated event such as the bank's capital ratio falling below a stated level, the security will convert to an equity instrument. NAIC staff is currently studying the conversion triggers before they issues guidance on where insurers should report the securities within the investment schedules.

### Other Financial Regulatory Issues

The **NAIC/AICPA Working Group** made a final update on the status of states' progress in adopting the revised Annual Financial Reporting Model Regulation (Model Audit Rule). The effective date of the revised Model Audit Rule is January 1, 2010, meaning that the audit report of the 2010 annual statement will be based on the revised Model Audit Rule requirements. Alaska and North Dakota are the only remaining states that have not yet adopted the revised Model Audit Rule, but expect to do so in early 2010 with a January 1, 2010 effective date.

The Working Group also discussed the NAIC's staff review of SEC 17 CFR PARTS 229, 239, 240, 249 and 274. The Working Group's review is in connection with their charge to monitor rules and regulations promulgated by the SEC.

On December 16, 2009, the SEC approved final amendments to its proxy disclosure rules. The new requirements were designed to improve the information companies provide to the public with the primary purpose being to improve disclosure of the company's overall compensation policies for employees in order to identify if such policies create incentives that can affect the company's risk and management of that risk.

Related to this item, the Financial Stability Board (FSB) recently concluded that compensation structures at significant financial institutions was one factor among many that contributed to the financial crisis that began in 2007. NAIC staff provided a summary of six of the different types of requirements included in this final SEC Rule as broken down by major defined topics of the Final Rule. Overall, the purpose of the enhanced disclosures from the SEC are to address the belief that greater transparency is needed in order to address the issue of corporate policies create incentives that can affect the company's risk.

- I. Enhanced Compensation Disclosure – A Narrative Disclosure of the Company's Compensation Policies and Practices as They Relate to the Company's Risk Management. The new disclosure requires discussion on the effect on risk taking with respect to the compensation of all employees. Disclosure is required for risks that are "reasonably likely to have a material adverse effect" on a company.
- II. Enhanced Director And Nominee Disclosure
- III. The changes related to this item requires expanded disclosure of the background and qualifications of directors and director nominees and suggests the company should be able to justify why that person should serve as a director of the company.
- IV. New Disclosure About Board Leadership Structure And Board Role
- V. The changes related to this item require the company to describe its board leadership structure
- VI. New Disclosure Regarding Compensation Consultants
- VII. Examples of the type of disclosures contemplated in this area include:

### Other Financial Regulatory Issues, *continued*

- The nature and extent of all services provided to the reporting entity or its affiliates during the last fiscal year by a compensation consultant and any affiliates of the consultant; and
- Whether the board of directors or the compensation committee has approved all of the services from the compensation consultant.

#### V. New Disclosure Regarding Diversity

The changes require the disclosure of whether the board or nominating committee has a policy with regard to the consideration of diversity in identifying director nominees. If the nominating committee or board has such a policy, the company must describe the implementation of the policy as well as the board's assessment of the policy's effectiveness. The new disclosure requirements do not define the term "diversity."

#### VI. Reporting Of Voting Results On Form 8-K

This new disclosure requirement accelerates the deadline for reporting vote results from a meeting of shareholders. Rather than reporting the results in Forms 10-Q or 10-K, the company must report the results on Form 8-K within four business days of the meeting.

The Working Group views these new SEC rules in a similar way as they did with Sarbanes Oxley and believe that similar insurance regulatory standards and disclosures should be developed and adopted. Consequently, the Working Group directed NAIC staff to draft blanks' disclosures related to these items. The Working Group also entertained an alternative to a blanks disclosure to add these items to the NAIC *Financial Examiners Handbook*.

The Working Group heard a report from the AICPA on recent AICPA activities including the following: NAIC's staff review of SEC 17 CFR PARTS 229, 239, 240, 249 and 274. The Working Group's review is in connection with their charge to monitor rules and regulations promulgated by the U.S. Securities and Exchange Commission.

1. Service Organizations SAS - The AICPA Auditing Standards Board (ASB) voted to ballot a proposed Statement of Audit Standards (SAS) *Audit Considerations Relating to an Entity Using a Service Organization* and a proposed Statement on Standards for Attestation Engagements (SSAE) *Reporting on Controls at a Service Organization*, for issuance as final standards.

The ASB plans to issue the SSAE at the end of March 2010. The SSAE will be effective for service auditors' reports for periods ending on or after June 15, 2011. The two standards will replace AU Section 324, Service Organizations, which currently provides guidance to auditors of the financial statements of entities that use service organizations (user auditors) as well as auditors reporting on controls at service organizations (service auditors).

2. Omitted Procedures - The ASB voted to ballot a proposed SAS *Consideration of Omitted Procedures after the Report Release Date*, for issuance as an exposure draft by June 2010.

This is a redraft of SAS No. 46, *Consideration of Omitted Procedures after the Report Date*, in accordance with the clarity drafting conventions. SAS No. 46 addresses the auditor's responsibilities when:

- i. After the date of the auditor's report the auditor becomes aware that one or more auditing procedures considered necessary in the circumstances existing at the time of the audit were omitted from the audit of the financial statements, and
- ii. There is no indication that the financial statements are not fairly presented in conformity with the applicable financial reporting framework.

In other matters, the Working Group discussed a blanks proposal that would require a reporting entity to disclose in a General Interrogatory its audit committee members and their independence. The Interrogatory is intended to provide regulators with information regarding compliance with the audit committee requirements in the revised MAR. The Blanks Working Group adopted the first two components of the Interrogatory (see Blanks Working Group above) but rejected and referred the third part to the Working Group for their consideration. The Interrogatory under discussion asks the following:

**Other Financial Regulatory Issues, *continued***

10.9 If an Audit Committee has been established as required by state insurance law, complete the following:

Audit Committee Member (First/Last) (Title/Firm) if desired	Independent (Yes/No)

Industry raised concerns regarding the disclosure of the actual audit committee member name and expressed confusion as to the member’s relationship to the reporting entity (is the member part of the reporting entity’s board or a member of the ultimate parent’s board).

The **Examination Oversight (E) Task Force** updated the results of a survey to track states’ progress in adopting revisions to the “Model Regulation to Define Standards and Commissioner’s Authority for Companies Deemed to be in Hazardous Financial Condition.”

The Model Act was revised last year to provide additional considerations to be made by the commissioner to determine whether the continued operation of any insurer might be deemed to be hazardous to its policyholders, creditors, or the general public. The revisions also give the commissioner increased authority to issue an order requiring companies deemed to be in a hazardous financial condition to take corrective action.

43 states responded that “they have reviewed the revisions to Model Act to compare the new standards and authority included in the model to current rules and regulations in their state” while five indicated such a review is in process and two other states indicated that such a review has not yet started. One state did not respond to the survey.

The survey also asked the following questions:

Does your state intend to adopt the revisions to Model 385, or adopt with changes?					
Adopted – 8	Adopt – 2	Adopt with Changes – 8	Don’t Plan to Adopt – 3	Not Sure Yet – 10	No Response – 1
Has your state developed a timeline for the adoption of these revisions? If so, please indicate your proposed timeline in the space provided, along with details of where you currently are in the process.					
Adopted – 8	2010 – 15	2011 – 6	2012 – 1	No Timeline – 17	N/A or No Response – 4
Do you anticipate any problems in adopting the revisions to Model 385 in your state? If so, please provide detail on the anticipated problems in the space provided.					
No – 28	Yes – 0	Not Sure Yet – 11	N/A – 11	No Response – 1	

The Task Force also adopted the following Working Group reports:

- I. The **Financial Examiners Handbook Technical Group** met via conference call March 3, 2010. During this meeting, the Technical Group:
  - a. Exposed for a 45-day comment period, revisions to several items related to association examinations:
    - Guidance on Examinations of Multi-state Insurers.
    - Guidance on Exam Classifications and Definitions.
    - Guidance on Scheduling Examinations.
    - Guidance on Examiner Definitions and Qualification including Salary and Per Diem Guidelines.
    - Guidance on the Authority and Responsibilities of the Examiner-In-Charge.
  - b. Discussed a referral received from the NAIC/AICPA Working Group regarding coordination of obtaining work

**Other Financial Regulatory Issues, continued**

papers of external auditors. The Technical Group asked NAIC staff to draft guidance related to the subject based on the discussions.

- c. Discussed a referral received from NAIC staff regarding communication with federal and international regulators. The Technical Group asked NAIC staff to draft guidance on this subject.

2. The **Financial Examiners Coordination Working Group** held a conference call on March 4 where they received a status report from the Regulator Issues (E) Subgroup. The Subgroup is continuing to develop a framework for coordinating exams of holding company groups. The Subgroup expects its work to be complete sometime near the end of April.

The Working Group also discussed the “Exam Coordination Exhibit” from the *Financial Examiners Handbook*, which is separated into two parts:

- Part One is designed to be given to personnel of a holding company group to obtain information on how exams of the group may be scheduled and coordinated.
- Part Two is the existing exam coordination exhibit (Exhibit Z) with some minor proposed revisions.

The Working Group is taking comments on the exhibit, although the exhibit will be formally exposed along with the coordination framework when it is complete.

The **Financial Regulators Standards and Accreditations (F) Committee** adopted revisions to current documents used for Accreditation including revisions to:

- a. Annual Statement and Instructions
- b. Life and P&C Risk-Based Capital Formulas
- c. Securities Valuation Office’s *Purposes and Procedures Manual*
- d. *Accounting Practices and Procedures Manual*
- e. *Financial Condition Examiners Handbook*

The Committee was provided an update on the Capital Adequacy’s adoption of the Health Risk-Based Capital Model Act as an accreditation standard. The Task Force’s recommendation was adopted by the Financial Condition (E) Committee and will be forwarded to the F Committee for discussion at the NAIC’s Summer National Meeting in August.

The **Rating Agency Working Group** held a March 17, 2010 conference call to discuss their final recommendations and report to be given to the Financial Condition (E) Committee. The Working Group was formed in February 2009 to conduct a comprehensive evaluation of state insurance regulation use of the credit ratings of NRSROs. The final recommendations to the E Committee included the following:

1. Regulators should explore how reliance on ARO ratings can be reduced when evaluating new, structured, or alternative asset classes, particularly by introducing additional or alternative ways to measure risk;
2. Consider alternatives for regulators’ assessment of insurers’ investment risk, including expanding the role of the NAIC Securities Valuation Office (SVO); and
3. When considering continuing the use of ratings in insurance regulation, the steps taken by the NRSROs in correcting the causes that led to recent rating shortfalls, including the NRSROs’ efforts in implementing the recommended structural reforms, should be taken into account.

A conference call will be held in April 2010 by the E Committee to consider the adoption of this proposal.

The **Financial Condition (E) Committee** voted to form the *Health Reform Solvency Impact (E) Subgroup*. The Subgroup has been asked to “assess the solvency impacts/concerns for health insurers as a result of the recently passed Affordable Health Care for America Act (H.R. 3590) and recommend changes for the appropriate Financial Condition (E) Committee groups to address these impacts/concerns”. New York will chair the new subgroup.

## Upcoming NAIC Meeting Schedule

2010 Summer National Meeting	August 14—17, 2010	Seattle, WA
2010 Fall National Meeting	October 18—21, 2010	Orlando, FL
2011 Spring National Meeting	March 26—29, 2011	Austin, TX
2011 Summer National Meeting	August 30—September 2, 2011	Philadelphia, PA
2011 Fall National Meeting	November 3—6, 2011	Washington, DC

\*Beginning in 2010, NAIC national meetings will be held three times per year.

## 2010 Millennium Consulting Seminars

Investment Accounting and Reporting Workshop	June 21—22	Miami, FL
Introduction to Health Statutory Accounting and Reporting Seminar	July 28—30	San Francisco, CA
2010 Health Annual Statement Preparation Seminar	August 23—26	Chicago, IL
Claims Accounting and Reporting Workshop	September 9—10	Dallas, TX
Regulatory Update for Health Organizations Workshop	September 27	Detroit, MI
Regulatory Update for Health Organizations Workshop	September 28	Dallas, TX
Regulatory Update for Health Organizations Workshop	September 29	Orlando, FL
Introduction to Health Statutory Accounting and Reporting Seminar	November 17—19	Orlando, FL
2010 Health Annual Statement Preparation Seminar	Nov 29—Dec 2	New Orleans, LA
2010 Risk-Based Capital Preparation Seminar	December 3	New Orleans, LA

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Since a variety of viewpoints and issues are discussed at task force and committee meetings taking place at the NAIC meetings, and because not all task forces and committees provide copies of agenda material to industry observers at the meetings, it is often difficult to characterize all of the conclusions reached. The items included in this Newsletter may differ from the formal task force or committee meeting minutes. In addition, the NAIC operates through a hierarchy of subcommittees, task forces and committees. Decisions of a task force may be modified or overturned at a later meeting of the appropriate higher-level committee. Although we make every effort to accurately report the results of meetings we observe and to follow issues through to their conclusion at senior committee level, no assurance can be given that the items reported on in this Newsletter represent the ultimate decisions of the NAIC. Final actions of the NAIC are taken only by the entire membership of the NAIC meeting in Plenary session.

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