

CLIENT UPDATE

NAIC 2013 SUMMER NATIONAL MEETING

NEW YORK

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The National Association of Insurance Commissioners (NAIC) held its 2013 Summer National Meeting from August 24 to 27, 2013 in Indianapolis, Indiana. This Client Update highlights some of the developments from the Summer National Meeting that are of particular interest to many of our insurance industry clients, including developments relating to:

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For purposes of this report:

- “ACLI” means the American Council of Life Insurers.
- “FIO” means the Federal Insurance Office of the U.S. Department of the Treasury.
- “FSB” means the Financial Stability Board.
- “FSOC” means the Financial Stability Oversight Committee.
- “G-SII” means a global systemically important insurer.
- “IAIS” means the International Association of Insurance Supervisors.
- “SIFI” means a systemically important financial institution.
- “SVO” means the NAIC Securities Valuation Office.

(1) REINSURANCE MATTERS

Process for Developing and Maintaining the List of Qualified Jurisdictions

The **Reinsurance (E) Task Force** adopted the Process for Developing and Maintaining the List of Qualified Jurisdictions. The list is referenced in the revised Credit for Reinsurance Model Law and Regulation, which provides that any assuming insurer, licensed and domiciled in a Qualified Jurisdiction, is eligible to be considered for certification by a state as a certified reinsurer for reinsurance collateral reduction purposes. The Task Force will set up a working group to begin the expedited review of the four jurisdictions that have previously been approved by individual states: Bermuda, Germany, Switzerland and the U.K. These jurisdictions are expected to be approved as conditional qualified jurisdictions by the end of the year. The working group will also begin considering other jurisdictions for qualification this year. Currently, 18 states have enacted the Credit for Reinsurance Model Law and Regulation and several other states are considering the model law in their upcoming legislative sessions. Insurers domiciled in the 18 states that have adopted the model law write approximately 53% of the primary insurance premiums in the U.S.; if all the states considering the model law end up enacting it, this figure will rise to approximately 75%.

Reinsurance Financial Analysis (E) Working Group

The **Reinsurance (E) Task Force** received a report from the Reinsurance Financial Analysis (E) Working Group, which had previously met in a regulator-only session to discuss the process for reviewing reinsurers that have been certified by individual states for reinsurance collateral reduction purposes. Connecticut, Florida and New York have

certified 29 reinsurers and the NAIC will act as a peer reviewer. The Working Group aims to complete its review of the 29 reinsurers by the end of the year, thereby allowing the reinsurers to hold less collateral starting on January 1, 2014. The lead filing state is charged with informing reinsurers once the Working Group finishes its review.

Captive and Special Purposes White Paper Recommendations

The **Reinsurance (E) Task Force** received a referral from the Financial Condition (E) Committee to consider three of the seven recommendations made in the White Paper on captive reinsurers, which was adopted by the Executive (EX) Committee/Plenary on July 26, 2013. The recommendations are to (1) consider updating the Special Purpose Reinsurance Vehicle Model Act, (2) monitor ongoing developments with respect to IAIS principles and consider possible enhancements to the U.S. captive regulatory framework and (3) study captive structures that may be at odds with the Credit for Reinsurance Model Law and Regulation. The remaining four recommendations were referred to the Principles-Based Reserving (PBR) Implementation (EX) Task Force and are discussed below.

(2) INTERNATIONAL INSURANCE MATTERS

International Insurance Relations (G) Committee

The **International Insurance Relations (G) Committee** received updates regarding several international relations bodies. In particular:

- The International Regulatory Cooperation (G) Working Group reported that in July 2013 there was a seminar on group supervision with 11 countries.
- The Joint Forum (which brings together IAIS, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions) issued three reports over the last few weeks, including a mortgage insurance report and a report on longevity risk. Longevity risk is a growing area of risk as baby boomers get older, interest rates remain low, and annuity providers worry whether pension assets will be sufficient to honor the obligations arising under annuity contracts. One of the recommendations of the longevity report is that “[p]olicymakers should review rules and regulations pertaining to the measurement, management and disclosure of longevity risk with the objective of establishing or maintaining appropriately high qualitative and quantitative standards, including provisions and capital requirements for expected and unexpected increases in life expectancy.” The Joint Forum has three

active work streams, with topics including asset encumbrances and collateral requirement increases.

- Pennsylvania Commissioner Michael Consedine provided an update on the U.S./EU dialogue. There was a meeting in Frankfurt in July 2013. Reinsurance will continue to be an important topic in the “Way Forward” plan regarding regulatory cooperation. NAIC CEO Ben Nelson said that the July 2013 meeting was constructive in enhancing transatlantic dialogue.
- The Organization for Economic Cooperation and Development met in June 2013. A key agenda item for that meeting was a roundtable on insurer long-term financing.
- Ekrem Sarper of the NAIC provided an update on International Trade Agreements, including an International Services Agreement due to be completed by the end of 2013 and a trade agreement between the U.S. and Japan about market access.

The Committee heard an update on activities at the IAIS, including collaboration between the FSB and the IAIS on work relating to G-SIIs. On July 18, 2013, the FSB announced the designation of nine G-SIIs¹ and the policy measures that apply to them, including “straightforward, backstop capital requirements”.² Some believe that it would have been better to do a comparative analysis to determine whether the most risky insurer is still less risky than the least risky bank before designating G-SIIs. The policy measures are advisory and nonbinding, and any potential G-SII designation of reinsurers is deferred until mid-2014.

Any action on U.S. G-SIIs will require action by the FSOC, and the Committee heard an update on FSOC activities. The FSOC has its own process for the designation of U.S. insurance groups as SIFIs. AIG and GE Capital have been designated, Prudential Financial is in the process of contesting designation and MetLife has moved to stage three of the designation process. The ACLI commented that it has been working with the FRB, the FSOC and other groups considering new capital standards. The ACLI is opposed to an application of bank-centric standards and is concerned about the effects of additional capital standards proposed for G-SIIs being applied to some insurers but not others. The ACLI takes the position that the standards should be applied consistently, and that they should be tailored to the long-term nature of life and annuity products.

The Committee heard an update on the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which has been under revision. The

¹ The nine insurers are Allianz SE; American International Group, Inc.; Assicurazioni Generali S.p.A.; Aviva plc; Axa S.A.; MetLife, Inc; Ping An Insurance (Group) Company of China, Ltd.; Prudential Financial, Inc.; and Prudential plc.

² The policy measures can be found at www.iaisweb.org/G-SIIs-988.

purpose of the Field Testing Task Force (FTTF) at the IAIS is to perform studies to determine whether ComFrame promotes effective group-wise supervision, whether there are undue burdens associated with it, and whether ComFrame should be revised. The FTTF has three U.S. members: a representative from each of the NAIC, the FIO and the states. A Field Testing questionnaire will be sent in March 2014 and the FTTF is looking for volunteers. The questionnaire will contain qualitative and quantitative questions, and the results will be used to further shape ComFrame. An interested party expressed concern that ComFrame is transforming itself behind closed doors. Ramon Calderon of the NAIC said he doesn't believe there has been a lot of change yet, though there could be change in the future. He encouraged the U.S. industry to continue to fight for more openness in the meetings.

The Committee approved a position paper entitled "U.S. Insurance Regulators' Views: IAIS Common Framework for the Supervision of Internationally Active Insurance Groups 'ComFrame'" which states that the U.S. insurance regulators support ComFrame development but will oppose ComFrame if it mandates changes to U.S. insurance regulation that is not in the best interests of U.S. insurers or insurance consumers.

International Solvency and Accounting Standards (E) Working Group

The **International Solvency and Accounting Standards (E) Working Group** heard a presentation from the ACLI on the IASB and FASB 2013 Insurance Contracts Exposure Drafts, which were released in June 2013. These Exposure Drafts contain proposals that would change how insurance contracts are accounted for. The IASB Exposure Draft states that the paper "has been developed to improve the transparency of the effects of insurance contracts on an entity's financial position and financial performance and to reduce diversity in the accounting for insurance contracts." The ACLI expressed a number of concerns about the Exposure Drafts, including increased complexity, volatility and costs. The U.S. P&C Coalition also expressed concerns about the impact of the Exposure Drafts on the property/casualty industry, including significant changes to the property/casualty insurance accounting model. On the Working Group's August 15, 2013 conference call, Rob Essen of the NAIC was directed to prepare a summary document of key issues relating to the IASB Exposure Draft so that the Working Group could provide input on the process. At the Summer National Meeting, Mr. Essen presented a memorandum compiling the key issues from state insurance regulators, the U.S. P&C Coalition and the ACLI. The Working Group will have a conference call in September 2013 to finalize the memorandum before the IAIS Accounting and Auditing Issues Subcommittee meeting to be held September 19-20, 2013.

(3) GROUP SOLVENCY ISSUES

The **Group Solvency Issues (E) Working Group** heard an update from Pooja Rahman of the NAIC on the IAIS workstream related to Insurance Core Principle 23: Group-wise Supervision (ICP 23). Ms. Rahman reported that some issues have surfaced regarding ICP 23, including that it does not appear consistent with the Joint Forum principles for conglomerates, and that it does not appear to accommodate both direct (having authority at the holding company level) and indirect approaches to group-wise supervision. To deal with these issues, ICP 23 has been delinked from ComFrame since ComFrame is moving forward towards consultation later in 2013. There is a general concern as to whether work on ICP 23 will move forward and whether it will satisfy the FSB. An interested party stated that ICP 23 has a lot of influence on the insurance industry. He expressed frustration that ICP 23 language will not be in the next draft of ComFrame, to be exposed in October 2013, given the time spent commenting on it and the fact that it is supposed to be in the final draft of ComFrame before field testing begins.

At the 2012 Fall National Meeting, the Working Group discussed a lack of understanding among international regulators and other parties of the U.S. regulatory approach to group supervision and expressed a desire to clarify the approach, including the role of the lead state/group supervisor. At the 2013 Spring National Meeting, the Working Group exposed proposed changes to the Financial Analysis Handbook related to the roles and responsibilities of the U.S. lead state/U.S. group supervisor. After receiving comments from the American Insurance Association and the ACLI, the Working Group re-exposed the proposed changes. The American Insurance Association provided additional comments, which were discussed at the Summer National Meeting. The Working Group decided to refer the proposed changes to the Financial Analysis Handbook (E) Working Group so that others could become familiar with the changes.

The Working Group discussed a proposed letter to the Financial Examiners Coordination (E) Working Group on referrals regarding group solvency issues. The Working Group decided that rather than adopting the letter now, it would defer action until after the 2013 Own Risk and Solvency Assessment (ORSA) Pilot project is completed.

(4) CORPORATE GOVERNANCE

The **Corporate Governance (E) Working Group** received a suggestion from the Market Regulation and Consumer Affairs (D) Committee to add an organization's market conduct decision making process to a list of corporate governance inquiries that are being considered for annual collection from insurers. Other items already on the list include an

organization's investment, business strategy and internal audit decision making processes, among others. The Working Group indicated that it intends to incorporate the change.

Ryan Workman of the NAIC provided an update on the Governance and Compliance Subcommittee of the IAIS, which focuses on the corporate governance aspects of ComFrame. The Subcommittee last met in April 2013 and formed a drafting group to write an issues paper on approaches to group corporate governance. The next Subcommittee meeting is in September 2013.

While the Working Group waited on approval of a drafting group for the new corporate governance model law development, which was adopted at the 2013 Spring National Meeting, interested parties drafted a proposed model law entitled "Corporate Governance Annual Filing Model Act." Interested parties presented the proposed model law, explaining that representatives of various insurers and trade associations developed the model with a great deal of time and effort. The model law requires an annual filing and, importantly, is drafted to protect confidentiality and remove redundant filing requirements. The interested parties used language from the recently adopted Risk Management and Own Risk Solvency Assessment Model Act where possible, to bring some ease of review to the filing process. The model also builds in some flexibility so that the filing can be made either by the insurer or by the insurance group of which the insurer is a member. Another interested party expressed concern that the Working Group might still be committed to using a comparative analysis from an earlier proposal. The Working Group stated that the goal is an effective date of January 1, 2016 for the new corporate governance model law.

The Working Group formed the Drafting (E) Subgroup to draft the new corporate governance model law and the Internal Audit (E) Subgroup to amend the Model Audit Rule to include an internal audit requirement, with input from the NAIC, by the 2013 Fall National Meeting. Vermont Commissioner Susan Donegan is chairing the Drafting (E) Subgroup.

(5) FINANCIAL STABILITY (EX) TASK FORCE

The **Financial Stability (EX) Task Force** heard updates on the G-SII and nonbank SIFI processes. Connecticut Commissioner Thomas Leonardi stated that the designation of G-SIIs on July 18, 2013 was premature and that the nine insurance groups, three of which are U.S. insurance groups, do not rise to the standard of "institutions of such size, market importance, and global interconnectedness that their distress or failure would cause significant dislocation in the global financial system and adverse economic consequences

across a range of countries.” Commissioner Leonardi also mentioned that U.S. state insurance regulators have little insight into the process for designating G-SIIs.

The IAIS policy measures for G-SIIs, also released on July 18, 2013, include requirements for enhanced supervision, systemic risk management plans, crisis management plans and resolution plans. In the absence of a global capital standard, the IAIS intends for Higher Loss Absorbency (HLA) to be built upon “straightforward, backstop capital requirements” for all group activities, including non-insurance subsidiary activities. HLA capital requirements are to be finalized in late 2015.

Missouri Director John Huff, the designated state insurance regulator serving on the FSOC, provided the Task Force with an update on FSOC activities, though he cautioned that he is limited in what he can say about FSOC deliberations. FSOC released its annual report in April 2013, which examined the health of the insurance sector during the previous year. FSOC instructed state insurance regulators to monitor the interest rate environment and make sure that insurers take it into account.

Companies designated by FSOC as nonbank SIFIs are subject to enhanced prudential standards. Director Huff commented on the FSOC’s bank-centric approach, pointing out the distinction between banks and insurers. He explained that during the financial crisis, insurers did not experience runs as banks did. There are disincentives for insurance policyholders to surrender policies, such as contractual provisions allowing deferral of payments if necessary. Director Huff recommended that state insurance regulators and insurers monitor FSOC developments carefully.

The Task Force heard a presentation by Deloitte on experiences with resolution planning for systemically important banks. The presenter pointed out key issues, including the level of interconnectedness of the institution and the need to resolve an institution on the basis of legal entities. The presenter opined that the resolution path of an insurance group is typically far more predictable than that of a commercial bank or large SIFI with a broker-dealer because the asset/liability structure is more predictable.

The Task Force discussed the risks posed by the current interest rate environment. As investments mature and renewal premiums come in each year, insurers are investing assets in lower yielding products due to the low interest rate environment. Currently, spreads have gone down, but they are still positive.

The Task Force received a brief update on captives. Connecticut Commissioner Leonardi expressed opposition to an analysis of captives by the Federal Advisory Committee on Insurance of the FIO as he thinks the process at the NAIC led by Rhode Island

Superintendent Joseph Torti is sufficient and a federal effort would be a confusing duplication of efforts.

(6) NAIC ACCREDITATION STANDARDS

Risk Management and Own Risk Solvency Assessment Model Act

The **Financial Regulation Standards and Accreditation (F) Committee** exposed for a one year comment period the proposal to add the Risk Management and Own Risk Solvency Assessment Model Act to the NAIC accreditation standards. The Model Act requires that certain insurers perform an Own Risk Solvency Assessment which evaluates the adequacy of an insurer's capital levels in light of the insurer's unique business mix and strategy. The assessment consists of internal modeling and stress testing designed and conducted by an insurer in accordance with prescribed regulatory criteria.

Insurance Holding Company System Regulatory Act and Model Regulation

The **Financial Regulation Standards and Accreditation (F) Committee** adopted, effective January 1, 2016, the 2010 amendments to the Insurance Holding Company System Regulatory Act and the Insurance Holding Company System Model Regulation as an NAIC accreditation standard. The 2010 amendments, which have already been enacted in and promulgated by some states, include a required assessment of "enterprise risk" – the risk that an activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect on the financial condition or liquidity of the insurer or its insurance holding company system as a whole – and require annual reporting of potential enterprise risk by a holding company as well as access to information to allow the state insurance regulator to assess such risk. With this adoption, a state will be required to enact and promulgate the 2010 amendments by 2016 in order to remain NAIC accredited.

Risk Retention Group Accreditation Standards

The **Risk Retention Group (E) Task Force** discussed the 2010 revisions to the Insurance Holding Company System Regulatory Act and the Insurance Holding Company System Model Regulation and their applicability to the NAIC accreditation standards for risk retention groups (RRGs).

- The Task Force specifically discussed significant element (q) (granting authority to examine an insurer and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer) due to concern over a situation in which an

RRG is domiciled in State A and has an insurer in its insurance holding company domiciled in State B. The language in significant element (q) would give the state insurance regulator in State B the authority to examine the RRG domiciled in State A. This situation will require coordination similar to other examination elements applicable to RRGs so as not to conflict with the federal Liability Risk Retention Act of 1986. The Vermont Deputy Commissioner proposed language dealing with this scenario. The Task Force approved a motion to adopt the proposed language for significant element (q).

- The Task Force also discussed the applicability of the Enterprise Risk Report, Form F, to RRGs that are a part of an insurance holding company. The Task Force approved a motion applying the Form E filing requirement to RRGs that are a part of an insurance holding company.
- The Task Force also discussed significant element (y) (provisions protecting confidential information submitted to the state insurance regulator) related to the confidential treatment of information submitted to the NAIC. States that choose to participate in the Form F filings must have significant element (y) for purposes of protecting and sharing information with the regulators. The Task Force discussed making significant element (y) operational in 2015 as more states start requiring Form F filings. The Task Force will consider adoption of the revisions for accreditation purposes for RRGs on its next conference call.

The Task Force exposed for a 30-day comment period the 2008 revisions to the Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition as an NAIC accreditation standard for RRGs. One commenter noted that Section 3(k)-(m) of the Model Regulation could also be revised to apply to the manager of a captive insurer. The Task Force agreed to discuss expanding the definition of "management" to include management of a captive insurer on the next conference call.

The Task Force discussed the 2006 revisions to the Risk-Based Capital for Insurers Model Act related to the trend test for property/casualty insurers, noting that the trend test is required to be included as part of the state's adoption of risk-based capital for RRGs. Adoption of this Model Act for RRGs becomes required for NAIC accreditation on January 1, 2014.

(7) LIFE INSURERS – PRINCIPLES-BASED RESERVING

The **Principles-Based Reserving Implementation (EX) Task Force** continued discussing the implementation of principles-based reserving (PBR) legislation throughout the U.S.

Among other things, the Task Force formed a new working group, the PBR Review (EX) Working Group, and adopted a referral from the Financial Condition (E) Committee that led to a contentious exchange.

The purpose of the new Working Group is to coordinate financial analysis, examination and actuarial review procedures related to PBR implementation. Specifically, the Working Group was given the following charges:

- Develop a framework for development of risk-focused examination procedures for PBR, aiming for coordination and consistency of all such activities.
- Draft charges and operating procedures for the new PBR Valuation Analysis (E) Working Group, using the Financial Analysis (E) Working Group charges and procedures as a guide.
- Develop review tools and propose means to obtain relevant data. Test the tools and data for usefulness and accuracy.
- Identify the data and other reporting needs for actuarial review, financial analysis and public transparency. Recommend changes to other NAIC groups to modify the statutory financial statement blanks, statutory financial statement instructions and the SVO Purposes and Procedures Manual to obtain such needed data and disclosure. Utilize confidentiality where needed, maintaining an ability to share data appropriate for valuation improvements.
- Identify the ideal staffing resources for PBR reviews, including ideal NAIC assistance, and any new financial modeling or software reviewers. After review processes are better defined, conduct another PBR state resource survey.

As discussed in previous client updates, the Task Force wrote a White Paper that discussed the use of captives by insurers that was adopted by the NAIC. In addition, the White Paper offered several recommendations to the Financial Condition (E) Committee for consideration for further study, four of which were referred to the Task Force in an August 2013 letter for further study. At the Summer National Meeting, the recommendations were adopted by the Task Force, and included (1) further studying the use of captives and special purpose vehicles, including determining whether some information related to such transactions should remain confidential; (2) considering whether financial statements of insurers should disclose information about transactions involving captives and special purpose financial vehicles; (3) developing guidance to the Financial Analysis Handbook that would guide states on how to analyze these transactions when conducting examinations of insurers; and (4) developing possible solutions to address any remaining

XXX and AXXX perceived redundancies by changing the underlying reserve requirements rather than by using captives and special purpose vehicles.

Delaware Bureau of Captives and Financial Insurance Products Director Steve Kinion took issue with the adoption of the charge to address reserve redundancies without the use of captives, and wanted the charge revised. Mr. Kinion stated that the captive law in Delaware was specifically created to attract the use of captive insurers that reinsure XXX and AXXX reserves. Rhode Island Superintendent Joseph Torti and the rest of the Task Force did not accept this suggestion, and when Mr. Kinion asked what he was supposed to do in the interim, New York Executive Deputy Superintendent Robert Easton stated that he would ask that Delaware not proceed with captive financing transactions until the Task Force determines how to proceed. Mr. Kinion said that Delaware could not do so. District of Columbia Commissioner William White then stated that Delaware was not facing anything different than other states with captive laws.

(8) RISK-BASED CAPITAL DEVELOPMENTS

Life Risk-Based Capital

The **Life Risk-Based Capital (E) Working Group** exposed for comment a letter from Peter F. Storms, manager of the Insurance Regulatory Consulting Practice, regarding the treatment of the asset valuation reserve. Mr. Storms expressed a concern over the inconsistent treatment of the asset valuation reserve for asset adequacy testing and life risk-based capital evaluation purposes.

The Working Group also exposed for comment a proposed change to the risk-based capital treatment of unauthorized reinsurance. Currently, in most cases where business is ceded to an unauthorized reinsurer, permitted security is required for ceded reserves, but there is no corresponding reduction in the risk-based capital for the unauthorized reinsurance (except where security is provided in the form of funds withheld), even though it may be fully collateralized. New York proposed that reinsurance ceded to an unauthorized reinsurer be allowed a risk-based capital reduction only if security is established in the same amount of the ceded reserves. In other words, a 100% risk-based capital reduction would require posting 100% of the required security. Although the proposal was not entirely clear, we understand this would extend the reinsurance risk-based capital reduction currently allowed for funds withheld in connection with unauthorized reinsurance to letters of credit and reinsurance trust agreements provided in connection with unauthorized reinsurance.

The Working Group also discussed forming a subgroup to address new charges related to principles-based reserving and contingent deferred annuities.

Investment Risk-Based Capital

The **Investment Risk-Based Capital (E) Working Group** received a presentation from the American Academy of Actuaries on the purpose and construction of a representative portfolio. The Working Group adopted the Life Insurer RBC for Common Stock Report, including a memo dated August 21, 2013 that addresses instruction-related questions regarding the calculation of beta (a measure of the volatility of a security or a portfolio in comparison to the market as a whole) and recommends a change to the asset valuation reserve instructions. The Working Group noted that more modeling work is required for the corporate bond factor development. The Working Group referred the Life Insurer RBC for Common Stock Report and memo dated August 21, 2013 to the Capital Adequacy (E) Task Force.

The Capital Adequacy (E) Task Force approved a motion to expose for comment the Life Insurer RBC for Common Stock Report submitted by the Working Group for a period of 45 days.

(9) LIFE INSURERS – CONTINGENT DEFERRED ANNUITIES

The **Life Insurance and Annuities (A) Committee** discussed and approved revisions to the draft proposed 2013/2014 charges related to Contingent Deferred Annuities (CDAs). At the 2013 Spring National Meeting, the CDA Working Group had submitted a report on its findings regarding the adequacy of existing laws and regulations as applied to CDAs. The Working Group also identified issues that would be more appropriately addressed by other existing NAIC groups with the specific subject-matter expertise. In order to implement its findings, the Working Group submitted to the Committee proposed charges to the various NAIC groups identified in the report as having the specific subject matter expertise. The ACLI proposed changes to such charges which will be circulated with a comment period to end on September 10, 2013. The Committee also discussed appointing a new working group to evaluate consumer protection issues with CDAs.

(10) VALUATION OF SECURITIES

The **Valuation of Securities (E) Task Force** adopted amendments to the SVO Purposes and Procedures Manual related to the Foreign Audit Project. The amendments clarify financial presentation standards and add a procedure to govern future requests to add national GAAP or IFRS to permitted financial performance presentation standards. Additionally,

Germany will be added to the list of countries whose national GAAP can be presented without reconciliation. The ACLI expressed support for these amendments.

The Structured Securities Group of the SVO presented to the Task Force on Freddie Mac's new residential mortgage-backed security (RMBS), the Structured Agency Credit Risk (STACR). On the motion of Matti Peltonen from New York, the Task Force referred to the Invested Asset (E) Working Group the charge of studying the accounting and reporting classification for STACR, as well as reviewing the regulatory reporting framework for structured notes. Mr. Peltonen expressed concern that based on current guidance applicable to structured notes, STACR would be classified as a SSAP No. 26 bond and not as a SSAP No. 43R RMBS. There was reluctance among certain members of the Task Force to make the referral at this meeting, but after some back and forth, the motion passed.

The Task Force adopted amendments to the SVO Purposes and Procedures Manual for quarterly reporting instructions for RMBS/CMBS. Prior to this, the Statutory Accounting Principles (E) Working Group adopted an amendment to SSAP No. 43R, Loan-backed and Structured Securities, to differentiate between annual and interim reporting periods.

The Task Force received two other proposed amendments to the SVO Purposes and Procedures Manual. The first amendment would add instructions for the filing of "Residual Tranches" of securitizations. The second amendment would add text specific to the Structured Securities Group to more accurately reflect the Regulatory Treatment Analysis Service process. The Task Force exposed both amendments for a 30-day comment period.

(11) OTHER MATTERS

Life Insurers – New Annuity Buyer's Guide

The **Annuity Disclosure (A) Working Group** received a presentation from Jim Mumford, Chair of the Working Group, on the electronic versions of the Annuity Buyer's Guides – a combination guide, a fixed guide and a variable guide. The Annuity Buyer's Guide is required to be distributed to consumers under the NAIC Annuity Disclosure Model Regulation which defines the "Buyer's Guide" as the NAIC-approved Annuity Buyer's Guide.

The Working Group discussed issues involving the transition from the old Annuity Buyer's Guide to the new Annuity Buyer's Guides, including issues involving states that have adopted the old version of the Annuity Disclosure Model Regulation, which includes the old buyer's guide as an appendix. The Working Group proposed January 1, 2014 as the

required distribution date for the new Annuity Buyer's Guides for all annuity sales. For states that have adopted the old disclosure model with the buyer's guide as an appendix, the Working Group noted that these guides will need to be updated with the new Annuity Buyer's Guides. The Working Group agreed to recommend that the Life Insurance and Annuities (A) Committee disband the Working Group.

The Life Insurance and Annuities (A) Committee accepted the Annuity Disclosure (A) Working Group report, which included approving the Working Group's request to disband. The Working Group expressed a preference to the Committee that customers should not be charged for the electronic versions of the Annuity Buyer's Guides.

Federal Home Loan Banks' Proposed Receivership Legislation

At the 2013 Spring National Meeting, the **Financial Condition (E) Committee** adopted a memo to state insurance regulators requesting that approval of legislation proposed by Federal Home Loan Banks (FHL Banks) be granted only after the NAIC has finalized a recommendation regarding the legislation. As of the Summer National Meeting, the NAIC's recommendation is still in process and will likely not be ready for the states' 2014 legislative sessions. FHL Banks are proposing to exempt their security agreements from stay and voidable preference provisions of state insurance insolvency laws, thereby acknowledging their priority status as secured creditors in state insurance insolvency proceedings just as current FDIC regulations do in the banking context.

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Please do not hesitate to contact us with any questions.

September 3, 2013