The National Association of Insurance Commissioners (NAIC) held its 2016 Spring National Meeting from April 3 to 6, 2016 in New Orleans, Louisiana. This client update highlights some of the developments from the Spring National Meeting that are of particular interest to many of our insurance industry clients, including developments relating to:

- Life Insurer Developments
- Property/Casualty Insurer Developments
- Captive Reinsurance
- Cybersecurity
- International Insurance Issues
- Corporate Governance
- Group-Wide Supervision
- Risk-Based Capital Developments
- Long-Term Care and Health Insurers
- Receivership and Insolvency
- Financial Stability Task Force
- Valuation of Securities Task Force

For purposes of this report:

- “ACLI” means the American Council of Life Insurers.
- “ComFrame” means the Common Framework for the Supervision of International Active Insurance Groups.
- “EU” means the European Union.
- “FSB” means the Financial Stability Board.
- “FSOC” means the Financial Stability Oversight Committee.
“G-SII” means a global systemically important insurer.
“IAIG” means an internationally active insurance group.
“IAIS” means the International Association of Insurance Supervisors.
“IMF” means the International Monetary Fund.
“RBC” means NAIC risk-based capital.
“SEC” means the U.S. Securities and Exchange Commission.
“SIFI” means a systemically important financial institution.
“SVO” means the NAIC Securities Valuation Office.

(1) LIFE INSURER DEVELOPMENTS

Principle-Based Reserving—State of PBR Adoption

The Principle-Based Reserving Implementation (EX) Task Force announced that 42 jurisdictions representing at least 75% of the premium volume (as of 2008) have adopted the Standard Valuation Law, the principle-based reserving legislation. Therefore, the required threshold has been met and the Valuation Manual will become “operative” on January 1, 2017, with a three-year phase-in period.

The Task Force is continuing its consideration of what standards will be used to determine whether states have enacted principle-based reserving legislation that has “substantially similar terms and provisions” as the Standard Valuation Law in order to determine whether a state’s enactment should count toward the Valuation Manual Operative Date threshold. The Task Force plans to discuss the standard of review in a regulator-only call with commissioners and counsel.

With principle-based reserving going into effect within a few years, the Task Force also considered a number other matters related to principle-based reserving, including adopting changes to principle-based reserving blanks and instructions and adopting changes to the PBR Financial Analysis Handbook.

Life Insurance Illustrations

During the 2015 Fall National Meeting, the Life Insurance and Annuities (A) Committee created a new working group to explore how the narrative summary required under the Life Insurance Illustrations Model Regulation (#582) and the policy summary under the Life Insurance Disclosure Model Regulation (#580) can be enhanced to promote consumer readability and understandability of life
insurance policy summaries, including how they are designed, formatted and accessed by consumers.

During the 2016 Spring National Meeting, the Committee adopted the report of the Life Insurance Illustration Issues (A) Working Group, which met for the first time on April 3, 2016. The Working Group heard from the ACLI and the Center for Economic Justice regarding issues to consider and possible approaches for completing its charge. The Working Group asked the ACLI for examples of policy summaries and narratives currently in use and plans to begin meeting by conference call within the next month.

DOL Fiduciary Rule

The Committee heard an update on the U.S. Department of Labor’s fiduciary/conflict of interest proposed rule, which would treat as a fiduciary virtually anyone who makes an investment-related recommendation to an ERISA plan, individual retirement account or an ERISA plan participant or IRA beneficiary and receives any sort of compensation in connection with such recommendation. Although the rule applies when any form of compensation is received in connection with making a recommendation, the rule’s impact on transaction-based compensation (such as commissions) is likely to be more severe than on a fee-for-services advisory model.

The rule was released in the first week of April and the final rule will be effective April 10, 2017, providing approximately one year for affected parties in the financial services industry to absorb its implications and make necessary adjustments. For more information on the DOL fiduciary rule, please see our client update dated April 13, 2016.

(2) PROPERTY/CASUALTY INSURER DEVELOPMENTS

Public Hearing on Big Data

The Big Data (D) Working Group held a public hearing as a first step for the Working Group to obtain a broad understanding of how big data is used in the insurance industry, the positive and negative impacts on consumers and how state insurance regulators can make use of big data to enhance the efficiency and effectiveness of insurance regulation.

The Working Group heard presentations from four panels, representing four perspectives on big data. The academic perspective focused on the ethical implications of big data and noted that there is no consensus on the definition of big data and that insurers are not legal fiduciaries with respect to the insured.
The insurance industry perspective noted that more big data has been created in the past two years than in all of history, in part because younger generations are more willing to share personal data in exchange for enhanced customer experience. The insurance industry agreed that there is no industry-wide accepted definition of big data, but did not advocate for the Working Group to accept one definition. The industry representatives stressed the need to find the right regulatory balance between full compliance with applicable legal standards and improving efficiency and promoting competition.

The consumer perspective panel generally encouraged more disclosure and education, both for regulators to gain a better understanding of how data is being used and to educate consumers on what big data is and how it is being collected. According to the consumer panel, currently there is little to no disclosure to regulators and consumers about how consumers’ data is used and what that data consists of. The consumer panel explained that regulatory involvement can promote competition and protect consumers and encouraged the NAIC to create a template to be used by states to collect information regarding the types, sources and uses of big data.

The panel offering the regulator perspective described ways in which regulators use big data (e.g., to uncover patterns) and how such uses enable regulators to monitor various insurance markets.

The Working Group decided to receive additional comments and hold an open conference call shortly after the Spring National Meeting to prioritize topics for further exploration this year. The Working Group will hold an interim meeting at the Insurance Summit in Kansas City on May 19, 2016.

**Sharing Economy**

The **Sharing Economy (C) Working Group** continues to monitor and educate itself about the sharing economy and related insurance issues. The Working Group focused on home sharing, with a presentation from Airbnb regarding its insurance policies and a report from the Insurance Services Office regarding products and policy updates related to home sharing that it plans to release soon. The Working Group stated its interest in understanding home sharing legislation and regulation across the states, and it requested that Airbnb provide an overview of this area after the meeting. The Working Group also plans to ask other home sharing entities to provide information.

The Working Group intends to focus on miscellaneous sharing economy ventures, including personal vehicle sharing, home/delivery services and
household chore services at the 2016 Summer National Meeting, and it expects to focus on transportation network company (TNC) legislation and private passenger auto products available to TNC drivers at the 2016 Fall National Meeting.

(3) CAPTIVE REINSURANCE

XXX/AXXX Credit for Reinsurance Model Law and Regulation

During a January 6, 2016 conference call, the Reinsurance (E) Task Force adopted amendments to the Credit for Reinsurance Model Law (#785) to provide state insurance commissioners authority to adopt regulations with respect to captive reinsurance transactions involving: (1) life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits, (2) universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period, (3) variable annuities with guaranteed death or living benefits, (4) long-term care insurance policies and (5) other life and health insurance and annuity products as to which the NAIC adopts model regulatory requirements with respect to credit for reinsurance.

Although the Task Force achieved the timeline it set for adopting amendments to the Model Law, it requested an extension from the Financial Condition (E) Committee until the Summer National Meeting to continue working on a draft of the proposed XXX/AXXX Credit for Reinsurance Model Regulation. The Task Force exposed a draft of the Model Regulation on February 26, 2016 and discussed during the Spring National Meeting comments that were received. The Task Force directed NAIC staff to work with the XXX/AXXX Captive Reinsurance Regulation Drafting Group to draft a revised Model Regulation that includes the comments received and the discussion held during the Spring National Meeting, which will then be presented to the Task Force for future consideration and exposure.

A number of the comments received on the exposure draft and at the meeting related to the Task Force’s decision to include the “all or nothing” penalty provision in the Model Regulation. Under this provision, if the ceding insurer had a shortfall in either the Primary Security or Other Security, and such shortfall is not remediated within a short time period, the ceding insurer would not receive any credit for reinsurance. At least one state said in writing that it had changed its position from supporting the all or nothing approach to supporting a pro rata reduction of reinsurance credit for any shortfall.
Reinsurance Captives and NAIC Accreditation Standards

The Financial Regulation Standards and Accreditation (F) Committee exposed proposed revisions to the Review Team Guidelines and the Accreditation Review Process and Procedures for a 60-day public comment period. The purpose of the proposed revisions is to help enhance and modernize the state accreditation program. The Committee also adopted the certified reinsurer provisions from the XXX/AXXX Credit for Reinsurance Model Law and Regulation as an accreditation requirement, effective Jan. 1, 2019. The certified reinsurer provisions are currently optional under the Part A: Laws and Regulations Accreditation Standards, but will become mandatory as of Jan. 1, 2019.

Risk Retention Group Captives

During the 2015 Fall National Meeting, the Financial Regulation Standards and Accreditation (F) Committee exposed proposed revisions to the Part A Laws and Regulations Standards Preamble and the Part B Regulatory Practices and Procedures Preamble for a short 20-day comment period that ended December 9, 2015. The Part A revisions identify criteria by which a risk retention group (RRG) organized as a captive is considered a multi-state insurer: (1) an RRG domestic insurer registered in at least one state other than its state of domicile, (2) an RRG domestic insurer operating in at least one state other than its state of domicile or (3) an RRG domestic insurer reinsuring business covering risks residing in at least two states.

At the 2016 Spring National Meeting, the Committee adopted the proposed revisions to the Part A Preamble related to RRGs and the Part B Preamble, under which an RRG that meets any of the above criteria will be considered a multi state insurer and will be subject to the Part A standards. The Part B revisions are intended to maintain consistency with the Part A Preamble. The revisions will be effective January 1, 2017.

(4) CYBERSECURITY

The Cybersecurity (EX) Task Force received an update on federal cybersecurity legislation and initiatives. The federal Cybersecurity Information Sharing Act, which authorizes the government to share unclassified cyber threat indicators and defensive measures, was signed into law on December 28, 2015 as part of an omnibus spending bill. The Data Security Act of 2015, which contains one federal ceiling data standard for all institutions, was marked up by the House Financial Services Committee in December 2015. On February 12, 2016, President Obama signed an executive order establishing the White House’s
cybersecurity national action plan. The Task Force also discussed the 2016 Federal Cybersecurity Research and Development Strategic Plan, which is coordinated by the National Science and Technology Council and is the most recent comprehensive federal cybersecurity research and development plan to date.

The Task Force received comments on the first draft of the Insurance Data Security Model Law, which was exposed in March. Parties who submitted written and verbal comments included industry groups representing life, property/casualty, title and mutual insurers; several individual insurers; producer associations; and consumer advocates. All of the comments (except one) expressed opposition to the draft Model Law. Commenters objected to the draft on the basis that a number of provisions in the draft are not workable, including the requirement that the commissioner has to review an insurer's breach notice before it is sent out; that the draft encourages states to enact their own laws, potentially resulting in 50 different breach notification requirements and undercutting the goal of uniformity; and that some of the provisions in the draft apply too broadly, reaching even data that is not sensitive, which may result in compliance burdens that impact smaller companies.

(5) INTERNATIONAL INSURANCE ISSUES

IAIS Activities

The International Insurance Relations (G) Committee received a report on IAIS activities. Reflecting the widespread de-risking of the insurance sector, the fourth G-SII assessment will launch in April using a revised assessment methodology, which focuses more on each assessed firm’s activities and risks rather than a relative ranking of insurers. The IAIS is expected to make G-SII recommendations to the FSB in late October and provide input to the G-SII methodology by defining non-traditional non-insurance (NTNI) activities. A number of consultation documents, including various Insurance Core Principles (ICP), will be released over the summer. The second ICP consultation document will be released in July 2016, one month later than planned, with a subsequent three-month comment period. Additionally, in June, an IAIS working group is expected to release the results of its analysis of whether loss absorbing capacity (LAC) is applicable to G-SIIIs in resolution.

IMF Financial Sector Assessment Program

The International Insurance Relations (G) Committee heard a report on the future of the IMF’s financial sector assessment program (FSAP). The IMF has
raised concerns about its future ability to perform full FSAPs, so it is assessing how to focus FSAP on key areas that are macroprudentially important.

The Financial Condition (E) Committee considered a referral from the International Insurance Relations (G) Committee of certain FSAP recommendations provided by the IMF’s review of the U.S. financial regulatory system. The Financial Condition (E) Committee will refer the recommendations to the appropriate working groups or task forces for consideration. The Committee affirmed that after consideration by the working groups or task forces, not all of the recommendations may be adopted.

**IAIS Stakeholder Engagement**

A member of the IAIS Secretariat held a question-and-answer session with interested parties, focusing on stakeholder engagement. An IAIS task force recently assessed and provided recommendations about stakeholder engagement, and consequently the IAIS has decided to open its June global seminar and November annual meeting to stakeholders. The IAIS also intends to increase the number of subject-specific stakeholder meetings it holds. In addition, the IAIS has hired a full-time communications officer, whose primary role is to improve stakeholder communication and engagement.

At the question-and-answer session, interested parties expressed significant concerns about fundamental engagement issues, including the timing of stakeholder engagement in the development and consultation process, the lack of timely distribution of materials in advance of meetings, the lack of transparency around the discussions that IAIS committee members have when developing IAIS documents and the limitations of listen-only conference calls.

**Certified Reinsurers and Covered Agreement**

On November 20, 2015, the U.S. Department of the Treasury and the Office of the U.S. Trade Representative announced that they would begin negotiations with the European Union on a covered agreement, which would include reinsurance collateral, group supervision and the sharing of confidential information. Although the NAIC has been assured that state regulators will have direct and meaningful participation in the negotiations, the NAIC continues to be concerned about the transparency of the process and the potential impact, including pre-emption, on state insurance laws and regulations. Therefore, the Executive (EX) Committee and Plenary adopted a charge for the Financial Condition (E) Committee to “consider and develop contingency regulatory plans to continue to protect U.S. consumers and U.S. ceding companies from potential adverse impact resulting from covered agreement negotiations.”
(6) CORPORATE GOVERNANCE

Enterprise Risk Report (Form F) Survey

The Group Solvency Issues (E) Working Group held a conference call on February 10, 2016, during which it discussed evaluating the effectiveness of the Form F reporting process. The Working Group noted that changes made in 2010 to the Insurance Holding Company System Model Act (#440) and the Insurance Holding Company System Model Regulation (#450) require holding company groups to submit an annual filing on Form F with information on enterprise risk management. As the Form F reporting requirements have become required for NAIC accreditation as of January 1, 2016 and many states received Form F filings in 2014 and 2015, the Working Group created and exposed for public comment a survey that seeks to gather information on the effectiveness of Form F filings from state regulators that have received them. The proposed survey questions ask respondents to evaluate the effectiveness of Form F reporting by considering whether groups are providing valuable information on enterprise risks, including those emerging from non-insurance operations. The proposed survey also asks for feedback on the definition of enterprise risk provided in the Model Act, whether the examples of enterprise risk provided in the Model Regulation are valuable and whether additional examples should be developed.

At the 2016 Spring National Meeting, the Working Group reviewed and discussed the comments received during the exposure of the survey and approved changes to a number of survey questions. Among them was the addition of a question asking regulators about any redundancies between the Form F and ORSA reporting processes. The Working Group noted that the Form F filing is targeted more at risks emerging from non-insurance operations, which may not be addressed through an ORSA Summary Report. The Working Group will distribute the survey to NAIC members with responses due by May 20, 2016.

ORSA Implementation

During its February 10 conference call, the Group Solvency Issues (E) Working Group discussed its ongoing oversight of the implementation of ORSA requirements. The Working Group noted that 35 states have adopted ORSA reporting requirements and a number of those states received their first ORSA Summary Reports in 2015. In an effort to support the states in their review of ORSA filings, the NAIC has added guidance to its handbooks and provided hands-on training for state regulators. Finding that regulators are beginning to see a need for additional guidance and oversight in this area, the Working Group decided to form an ORSA Implementation (E) Subgroup, which would collect feedback on ORSA guidance and tools developed by the NAIC, encourage
consistency in states' review of ORSA filings, and address issues encountered by states in first-year ORSA reviews.

At the 2016 Spring National Meeting, the Working Group discussed the status of the newly created **ORSA Implementation (E) Subgroup**, which will be co-chaired by representatives from Connecticut and Iowa. Ten states are members of the Subgroup, including the majority of jurisdictions receiving U.S. ORSA filings. While the Subgroup's first meeting will be limited to regulators, the Working Group expects that most meetings will be open to interested parties.

**GROUP-WIDE SUPERVISION**

**Group Capital**

The newly formed **Group Capital Calculation (E) Working Group** met for the first time to consider the charge, referred from the **ComFrame Development and Analysis (G) Working Group**, to construct a U.S. group capital calculation using an RBC aggregation methodology. The Working Group heard a presentation from ACLI and the American Insurance Association on policy issues that would be beneficial for regulators to discuss early in the working group process in order to streamline later decisions. Members of the Working Group reiterated that the proposed group capital calculation would serve as a tool, supplementing ORSA and holding company filings, to assist regulators in developing a better understanding of the risks and financial position of U.S. insurance groups. The Working Group does not foresee developing a model law or regulation for group capital. In response to questions from interested parties, Working Group members indicated that the group capital calculation likely will apply to all U.S. insurance groups, but may include an exemption for certain groups.

Timing remains uncertain, but the Working Group may target the end of 2016 for development of the calculation and the end of 2017 for implementation, although the timing depends, in part, on the difficulty of adopting or developing capital measures for entities that are not subject to U.S. RBC. The Working Group plans to schedule a conference call on a date to be determined to discuss open issues. Interested parties who would like to present suggestions on the construction of the group capital calculation should contact NAIC staff.
(8) RISK-BASED CAPITAL DEVELOPMENTS

RBC Factors for Bonds and Common Stocks

The Investment Risk-Based Capital (E) Working Group released a draft of its “A Way Forward” document (Way Forward), which outlines the Working Group’s plan to update the RBC factors for bonds and common stocks by year-end 2017. The Way Forward document is a high-level summary of principles to guide the Working Group’s consideration of updates to the RBC factors. The document was developed by the chair of the Working Group (Kevin Fry of the Illinois Department of Insurance) with the goal of reaching agreement, with input from other Working Group members, on as many items as possible. Once the document is complete, the Working Group will present it to the Capital Adequacy (E) Task Force for approval. The Working Group intends to reach agreement on the high-level items in the document before undertaking any work to implement them.

The principles for updating bond factors include expanding (for RBC purposes) the current six NAIC designations to 20, which will become part of a new electronic-only column in the annual statement. The current six NAIC designations will remain in place for statutory accounting and state law purposes, and the Working Group will consider maintaining the six-designation RBC system with updated factors for non-life annual statements. Initially, the Working Group plans to apply the same factors across all classes of bonds, but will determine later whether different factors are warranted for certain asset classes, such as municipal bonds or sovereign debt.

A key principle for updating common stock factors is to create greater consistency by establishing one RBC factor across all lines of insurance after adjusting for the tax treatment built into the different models. The Working Group proposed that the life insurance factor remain at the current 30%, but that the health and property/casualty insurance factors increase to 19.5% (from 15% currently). The Way Forward document explains that the life insurance factor would be 19.5% if the current 30% factor is tax-adjusted to properly compare it to the health and property/casualty insurance factors.

Interested parties were supportive of the overall goals of the Way Forward document, but were skeptical of the idea that asset factors needed to be the same across all types of insurance. A number of interested parties were concerned that the Working Group’s focus on consistency overlooked the different time frames of asset portfolios for life insurance versus other types of insurance, as well as
differences in how assets were matched against liabilities. The Working Group voted to expose the Way Forward document for a 45-day comment period.

In order to focus on updating RBC factors for common stocks and bonds, the Working Group voted to send the referral it received relating to RBC charges for investment affiliates back to the Capital Adequacy (E) Task Force.

(9) LONG-TERM CARE AND HEALTH INSURANCE

The Health Insurance and Managed Care (B) Committee adopted the charge of the Long-Term Care Innovation (B) Subgroup to examine the future of financing long-term care and the impact of long-term care on state Medicaid budgets. Separately, the Health Actuarial Task Force is studying revisions to the evaluation of long-term care reserves for the Health Insurance Reserves Model Regulation (#10). The Long-Term Care Consumer Disclosure (B) Subgroup is discussing revisions to the NAIC Guidance Manual for Rating Aspects of the Long-Term Care Insurance Model Regulation.

The Health Insurance and Managed Care (B) Committee adopted the charge of the CO-OP Solvency and Receivership (B) Subgroup to provide a forum for discussing and sharing information on the status and solvency of the Consumer Oriented and Operated Plans (CO-OP) created under the Affordable Care Act.

The Health Risk-Based Capital (E) Working Group voted to include an individual premium footnote to the health insurance RBC filing to identify the percentage of premiums inside and outside health exchanges. The purpose of the footnote is to provide information in order to evaluate whether there is additional risk for insurers with significant business in the individual health exchange market.

(10) RECEIVERSHIP AND INSOLVENCY

State Survey on Receivership Laws and the Key Attributes

During the 2015 Fall National Meeting, the Receivership Model Law (E) Working Group discussed the results of a multistate survey comparing existing state insurance resolution laws to the FSB's October 2014 Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). Thirty-seven states responded to the survey, which included questions about the grounds for receivership, jurisdictional issues, authority, qualified financial contracts, stays and operations. In general, the Working Group noted that state laws are designed to resolve separate legal entities, while the Key Attributes are focused on resolving insurance groups. Working Group members suggested
using the results to develop a number of critical items that states could address to make state resolution laws more consistent.

At the 2016 Spring National Meeting, the Working Group identified a number of key topics on which it will focus in formulating its recommendations:
(i) liquidation authority under Title II of the Dodd-Frank Act; (ii) whether nonregulated entities that are operationally related to insurers are subject to insurance receivership laws; (iii) reciprocity, interstate relations and the extent to which full faith and credit is given to stays and orders; (iv) receiver’s statutory immunity; (v) treatment of qualified financial contracts in receivership; (vi) consultation with state guaranty systems; and (vii) large deductible provisions.

Consultative Document on Developing Resolution Plans for SIFIs

During the 2015 Fall National Meeting, the Receivership and Insolvency (E) Task Force discussed the release of the FSB’s consultative document on Developing Effective Resolution Strategies and Plans for Systemically Important Insurers. The Task Force decided to set up a small working group to review the document to determine whether the NAIC should submit comments, and if so, to draft them. At the 2016 Spring National Meeting, the Task Force noted that it submitted a comment letter to the FSB expressing concerns with the consultative document. The Task Force hopes that the FSB will provide for greater flexibility to accommodate the diversity of legal systems across the world and will come to recognize the successful model for insurance resolution schemes in the U.S.

(11) FINANCIAL STABILITY TASK FORCE

International Developments

The Financial Stability (EX) Task Force discussed the FSB’s consultative document on Developing Effective Resolution Strategies and Plans for Systemically Important Insurers, which was released in November 2015 and builds on previous FSB guidance related to the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). Members of the Task Force were skeptical that the FSB’s Key Attributes could be implemented in the United States. The Task Force was particularly concerned that the Key Attributes were overly focused on financial stability at the expense of policyholder protection, which is contrary to the principles of U.S. insurance resolution law. For instance, the consultative document describes policyholder protection schemes as a potential source of funds to facilitate, for example, “a transfer to a bridge insurer or other insurer or a creditor financed recapitalization.
They may also compensate policyholders for their losses in the event of an insolvency or liquidation.” The Task Force noted that a resolution system such as this could increase moral hazard risks and undermine consumer protections.

**MetLife Decision**

The members of the Financial Stability (EX) Task Force expressed support for the recent decision by a federal court to reject FSOC’s designation of MetLife as a non-bank SIFI. Although the Task Force cautioned that is still too early to know what the ramifications of the decision will be, it noted that both insurance representatives on FSOC dissented from the initial designation.

**Valuation of Securities Task Force**

**Purposes and Procedures Manual**

The Valuation of Securities (E) Task Force adopted several amendments to the Purposes and Procedures Manual of the NAIC Investment Analysis Office (P&P Manual), including adopting an amendment to add Italian GAAP as a National Financial Presentation Standard (NFPS). The designation of a foreign accounting system as an NFPS authorizes insurers under that system to file securities with the SVO using audited financial statements prepared in accordance with the NFPS accounting system without reconciliation to U.S. GAAP or the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board. The Task Force also approved a request from the SVO to study whether Belgian GAAP can be designated as an NFPS. The ACLI commented that it intends to work with accounting firms to create an annual update for NFPS.

The Task Force adopted an amendment to remove the Class I (Money Market Fund) List instructions to reflect new SEC regulations for money market funds that no longer permit certain funds to report a stable net asset value, which is a requirement for bond treatment. The amendment will be effective September 30, 2016.

**SVO Filings**

The Valuation of Securities (E) Task Force received a report from SVO staff on modernizing SVO computer systems and the process by which insurers file securities with the SVO. Interested parties were most focused on the process by which responsibility for filing securities with the SVO is determined and suggested a phased approach for implementing any change in filing.
responsibility. The report has been exposed for a 60-day public comment period ending June 3, 2016.

The Task Force also received a report from SVO staff on the project to understand why a large volume of securities that were reported as rated by one or more credit rating providers (CRP) were not in the CRP data feeds. The report presented six primary exception categories and recommendations for each. The largest category of exceptions related to private letter rating securities, and the report recommends that insurers file evidence of a monitored private letter rating or file the security with the SVO for an NAIC designation. Another exception category relates to securities that are shown on the Nationally Recognized Statistical Rating Organizations’ websites as rated but do not include a valid identifier or are not included in the CRP data feeds with a valid identifier. The report recommends that the P&P Manual be amended to consider a security not found on NAIC systems to be not rated and to require that the security be filed with the SVO. Interested parties expressed concerns about the accuracy of the report’s analysis and proposals. The report has been exposed for a 30-day public comment period ending May 4, 2016. The Task Force also formed a working group to receive comments, study the issues with the SVO and interested parties, and make recommendations to the Task Force within four months from the date on which it begins work.

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Please do not hesitate to contact us with any questions.