



NAIC Meeting Notes

GLOBAL INSURANCE INDUSTRY GROUP, AMERICAS

NAIC 2009 FALL NATIONAL MEETING

The National Association of Insurance Commissioners held their 2009 Fall National Meeting in Washington, D.C. September 21-24. This newsletter contains information on activities that occurred in some of the committees, task forces and working groups that met there. For questions or comments concerning any of the items reported, please feel free to contact us at the address given on the last page.

Executive Summary

- With close proximity to the White House, the NAIC took advantage of its conference location and held a special meeting to provide Vice President Joseph Biden an opportunity to address the NAIC on health care reform. (page 3)
- The Commissioners adopted eight new or revised model laws or white papers, including a revised Standard Valuation Law, which is a key component of the principles-based reserving project. (page 3)
- The Principles-Based Reserving Working adopted previously exposed corporate governance guidance for use in a principles-based reserving environment. A free educational session on PBR was also held at the Fall National Meeting. (page 4)
- This summer the Statutory Accounting Principles Working Group developed, revised and adopted SSAP 43R, Loan-backed and Structured Securities, which replaces both SSAP 43 and SSAP 98. Final adoption by Executive Committee and Plenary occurred in Washington, D.C. At the Fall National Meeting, the working group adopted significant changes to SSAP 10, Income Taxes, to expand the admitted deferred tax asset. However, these changes still require final adoption by Executive Committee and Plenary, and there is opposition to the changes by some regulators. The working group also finalized three issues papers on accounting for guarantees, transfer of P/C runoff portfolios and fair value measurements, respectively. The working group has already scheduled interim conference calls on October 5 and October 8 to continue work on its projects in process. (page 5)
- The Emerging Accounting Issues Working Group had a lengthy discussion of Re-REMIC transactions and in close vote decided not to adopt the draft INT 09-07 exposed for comment this summer, and instead exposed a significantly revised Interpretation, which would allow transfer of securities at book value, not fair value, in certain circumstances. (page 8)
- The Blanks Working Group adopted eight blanks proposals as final, including three proposals which expand title insurance reporting requirements within the title annual statement, and exposed five new proposals for comment. The working group also exposed guidance for the reporting of investment holdings and the reporting and disclosure changes resulting from the adoption of SSAP 43R. (page 9)
- The NAIC/AICPA Working Group updated its survey on the states' progress of adopting the revised Model Audit Rule (MAR), noting that thirty-six jurisdictions have either adopted revised laws or regulations or

have exposed proposed revisions. The working group discussed MAR implementation and interpretation questions and exposed four tentative responses for comment. (page 10)

- The Valuation of Securities Task Force received a revised proposal from the ACLI to consider adjusting the NAIC Designation for RMBS securities as many believe the recent rating downgrades overstate the true risk of these securities. The task force also added RealPoint LLC to the Approved Rating Organization list for CMBS securities, considered whether it would permit the NAIC to provide ARO ratings to insurance companies, and adopted a reorganized Purposes and Procedures Manual. (page 11)
- The Investments of Insurance Model Act Revision Working Group adopted a survey request to solicit input from state insurance departments on various aspects of the current NAIC model investment laws, related state statutes and potential changes to such models and statutes. (page 13)
- The Rating Agency Working Group held an all day public hearing to address the current use of ratings in state insurance regulation, the frequency of ratings changes in response to the financial crisis, and to consider alternatives to the use of NRSRO ratings in the insurance regulatory system. A report from the working group on findings and recommendations is expected later this year. (page 13)
- The Capital Adequacy Task Force adopted a proposal to remove for Life RBC the off-balance sheet charge for TALF assets pledged as collateral; the task force exposed for comment the same proposal for the P/C and Health formulas. The task force also approved the development of a new RBC model law for fraternal benefit societies. (page 14)
- The Life RBC Working Group heard updates on its many significant projects: C-3 Phase III, the long-term solution for the mortgage-experience adjustment factor, 2009 and 2010 derivatives collateral proposals, and progress on the derivatives risk mitigation proposal for 2010. (page 14)
- The Reinsurance Task Force adopted as final its draft federal legislation, the Reinsurance Regulatory Modernization Act of 2009, after significant revisions this summer. The Act was subsequently adopted by the Government Relations Leadership Council; the NAIC will now try to find a sponsor in Congress. (page 16)
- The Life and Health Actuarial Task Force made significant effort on its Valuation Manual, which needs to be adopted by the end of 2009, as the revised Standard Valuation Law was adopted contingent upon completion of the Valuation Manual by the end of the year. The task force also adopted clarifications to Actuarial Guideline 33, Determining CARVM Reserves for Annuity Contracts with Elective Benefits, to address guaranteed lifetime income benefits. (page 17)
- The NAIC held separate joint meetings on credit scoring and usual, customary and reasonable (UCR) rates to hear testimony on issues that can have significant effects on consumers. (page 18)
- The Climate Change and Global Warming Task Force reviewed voluntary sample submissions of the Climate Risk Disclosure Survey, discussed recent Securities and Exchange Commission activities with regard to climate risk disclosures, and discussed potential topics for a Climate Change and Global Warming Summit expected to be held in conjunction with the Winter National Meeting in San Francisco. (page 20)
- The Restructuring Mechanism for Troubled Companies Working Group exposed its draft white paper, Alternative Mechanisms for Troubled Companies, for comment. (page 22)

Vice President Biden Addresses NAIC

In a last minute announcement as the Fall National Meeting got underway, the NAIC held a special meeting on September 22 to provide Vice President Joseph Biden an opportunity to address all NAIC attendees on the Administration's health care reform plan. Mr. Biden's speech touched on common arguments against health care reform, but also noted that in his view Americans have never been "so close to real insurance reform." He then discussed insurance company competition and profitability and presented a set of "basic ground rules" for health care reform which include the following:

- No discrimination for preexisting conditions
- No exorbitant out of pocket expenses, deductibles or co-pays
- No cost sharing for preventive care
- No dropping of coverage for the seriously ill
- No annual or lifetime caps on coverage
- Guaranteed insurance renewal

The Vice President noted that these ground rules will not affect insurers' ability to compete since the same rules would apply to everyone, and the plan will add "30 to 40 million new paying customers," which would keep costs down. If health care reform is not achieved, the Administration believes that "in 10 years, one in every five dollars Americans earn will be spent on health care."

Mr. Biden closed his address by directing his comments to the commissioners and other regulators in attendance by stating "you support reform...You are the best equipped to educate consumers and serve as a critical line of defense against fraud. And you will remain so."

Executive Committee and Plenary

During its Plenary meeting in Washington, D.C., the commissioners considered the Amended Standard Valuation Law for adoption, which is a key part of completion of the Principles-Based Reserving project. During the discussion, Commissioner Dilweg of Wisconsin proposed that the SVL be modified to include specific language which would require that the forthcoming Valuation Manual must include a "floor" when establishing life and annuity reserves under the principles-based approach. The Valuation Manual is incorporated by reference into the SVL.

Following much deliberation by the commissioners, while it was uniformly agreed that the Valuation Manual should include a "floor," the proposal to include such a requirement within the SVL was rejected. Instead the majority of commissioners concluded that the Valuation Manual, once completed by LHATF, would not be approved by Executive Committee and Plenary if it does not contain the "floor" provisions. Following this discussion Plenary adopted the SVL as submitted, with Wisconsin and New York dissenting.

The commissioners also adopted the following items, all of which were the subject of extensive public hearings as the proposals were being debated by the various groups of the NAIC:

- Revised Uniform Applications for Producer Licensing
- Amendments to Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities
- Amendments to Valuation of Life Insurance Policies Model Regulation Amendments to Actuarial Opinion and Memorandum Regulation
- Amendments to Long-Term Care Insurance Model Act and Model Regulation
- Risk-Based Capital (RBC) for Health Organizations Model Act
- Actuarial Guideline 1c - Interpretation of the Calculation of the Segment Length with Respect to the Life Insurance Policies Model Regulation Upon a Change in the Valuation Mortality Rates Subsequent to Issue
- Whitepaper entitled *Natural Catastrophe Risk: Creating a Comprehensive National Plan*

The commissioners' also acknowledged the New York State Department of Insurance for achieving full accreditation status. All 50 states are now fully accredited by the NAIC.

At its earlier meeting, Executive Committee approved three requests to amend the following existing model laws:

- Long-term Care Insurance Model Act
- Insurance Holding Company System Regulatory Act
- Insurance Holding Company System Model Regulation With Reporting Forms and Instructions

Government Relations Leadership Council

The council received a presentation from Representative Greg Wren (R-AL) on efforts of the Coalition Organized for the Future of Insurance Regulation (COFIR), formerly known as the Coalition Opposed to a Federal Insurance Regulator, in Washington and in the states to defend state regulation of insurance. Rep. Wren commented on the federal efforts to "dismantle" 150 years of state-based insurance regulation and indicated that the threat of federal preemption has never been more immediate. He indicated that COFIR will be lobbying extremely hard at the state and federal level over the next few months and would like to work with state regulators as appropriate.

The council also discussed the Reinsurance Regulatory Modernization Act proposal received from the Reinsurance Task Force and voted unanimously to approve the legislative language for use in Washington, DC. The intent is for this document to be submitted as a legislative proposal in the U.S. Senate and House of Representatives. If enacted as drafted the bill would create a Reinsurance Supervision Review Board as a federal agency of the United States, comprised of ten directors from the state insurance regulatory authorities and five directors from other U.S. state departments. See further discussion of the proposed bill in the summary of the Reinsurance Task Force on page 16.

NAIC Staff in provided an update on federal activities concerning financial reform efforts, including the proposed Consumer Financial Protection Agency, systemic risk regulation, the optional federal charter proposal, and the Office of National Insurance proposal. Updates were also provided on the federal healthcare reform efforts, including an overview of the Senate Finance Committee draft proposal and efforts to reconcile the various bills pending in the House and Senate.

Principles-Based Reserving Working Group

Corporate Governance

The working group adopted previously exposed corporate governance guidance for principles-based reserves. The document establishes broad-based responsibilities for life insurers' board of directors, senior management and actuaries as it relates to principles-based reserves.

Valuation Manual

LHATF reported that the variable annuities section of the Valuation Manual has been completed. The task force is waiting for a proposal from the ACLI to complete the life insurance products section, which would then complete the Valuation Manual. The task force is hopeful that it can complete the manual by the Winter National Meeting, as the Standard Valuation Law was adopted with the condition that the Valuation Manual be completed by the end of 2009.

Principles-Based Approach Training

The working group referred a draft fiscal impact statement for the development of a proposed training program on the principles-based approach to life and annuity reserving to LHATF for its input. Once LHATF determines what it believes is an appropriate training program for the topic, the document will be revised at the direction of the working group, and NAIC staff will be charged with determining the necessary resources to carry out such training.

Statistical Agent

A draft memorandum to the Executive Committee from the working group related to the use of statistical agent(s) for principles-based reserving was exposed for comment. The role of the statistical agent(s) would be to collect industry data such as mortality, morbidity, policyholder behavior and expense experience to be considered by regulators when evaluating assumptions used by life insurers to established their principles-based reserves. The memorandum suggests that it may be appropriate for the NAIC to serve as the designated statistical agent or as the data repository for regulators as it relates to this information. It also indicates that the NAIC should determine the costs associated with serving in such a capacity and whether any new model laws are needed to provide specific authority the NAIC would need to act as this agent.

Education Session on PBR

At the Fall National Meeting, the NAIC held a well-attended ninety minute "education session" on principles-based reserving with presenters being the chairs of LHATF and the Life RBC Working Group and the senior life fellow from the American Academy of Actuaries. As the project nears completion, questions from the audience focused on adoption of PBR by the states. January 1, 2012 is the earliest possible effective date of the SVL, but it will not become operative until the earliest January 1st at least six months following the date at which three-quarters of NAIC member

states have adopted the law and those states must also constitute at least 51% of premium volume. States will be able to adopt starting in 2010, but it could take longer than until 2012 to get three-quarters of the states to adopt.

While PBR has wide support from industry, state insurance department personnel and the NAIC, the LHATF chair noted that it is hard to accurately predict support from the 50 individual state legislatures. He also noted that they expect the new guidance to go through the process to become accreditation standards.

Financial Condition Committee

Risk Charges for Individual Separate Account Products

At the Fall National Meeting, the committee adopted a proposal to form a new group called the Separate Accounting Risk Charge Working Group; this group will study the need for new regulatory requirements for risk charges assumed by the general account in support of individual separate account products. The working group could request the development of a new model law if deemed warranted based on its work.

SSAP 10 Revisions

As discussed in further detail below on page 6, the committee had an impassioned discussion of whether to adopt changes proposed by the SAP Working Group and the APP Task Force to amend SSAP 10, Income Taxes, to increase the admitted asset limitation for deferred taxes for year-end 2009 and 2010. The motion was adopted in a 9-2 vote.

Statutory Accounting Principles Working Group

Interim Meetings on SSAP 43R

At the Summer National Meeting, the SAP Working Group had directed NAIC staff to draft an SSAP to consider new GAAP guidance on other-than-temporary impairments; in July the working group exposed for comment a draft SSAP 43R, Loan-backed and Structured Securities. During the late summer the working group released several subsequent exposure drafts as a result of comments from industry and regulators, and held two lengthy public hearings by conference call, culminating in the adoption of SSAP 43R by the working group and its parent committees, APP Task Force and Financial Condition Committee on September 17. Final adoption by Executive

Committee and Plenary occurred at the Fall National Meeting.

The new standard (the most quickly adopted new SSAP in the NAIC's history), will be effective as of September 30, 2009. Key provisions of SSAP 43R include the following:

- SSAP 43R supersedes SSAP 98, which was scheduled to be effective September 30 and would have required all other-than-temporarily-impaired (OTTI) loan-backed bonds to be written down to fair value with the impairment recognized in earnings as a realized loss. SSAP 43R also supersedes SSAP 43, which required that an other-than-temporary impairment be recognized only when the carrying value of a security was less than its undiscounted estimated future cash flows.
- Under SSAP 43R, for securities for which the fair value is less than amortized cost, and either (1) the insurer has the intent to sell the security, or (2) the insurer does not have the intent and ability to retain the security until recovery of its carrying value, insurance entities are required to recognize an impairment in earnings equal to the difference between the security's fair value and its carrying value. The fair value at the time of the impairment becomes the security's new cost basis.
- For securities for which the insurer does not expect to recover its amortized cost basis but has the intent and ability to hold the security until maturity, the insurer will recognize in earnings a realized loss for only the "non-interest" related decline. The interest-related impairment is not recognized in earnings or surplus but is disclosed in the notes to the quarterly, annual and audited annual financial statements until the security is disposed of.
- SSAP 43R requires entities to assess whether they have the intent and ability to retain impaired securities for a period of time sufficient to recover the amortized cost basis (when the entity does not intend to sell the security). SSAP 43R notes that "this assessment [of intent and ability] shall be considered a high standard due to the accounting measurement method established for the securities within the scope of this Statement (amortized cost)." After significant discussion among regulators and interested parties over many meetings, the SAP Working

Group and its parent committee voted not to adopt the industry's proposed revisions to allow more flexibility in assessing intent and ability.

- As a result of long debate over several meetings, SSAP 43R was amended to allow all entities that either 1) early adopted SSAP 98 in 2009 or 2008, or 2) previously had an accounting policy for impairment of loan-backed securities that was consistent with SSAP 98, to reverse previously recognized OTTI. The effect of adoption of SSAP 43R will reverse such OTTI as part of the cumulative effect adjustment by comparing the present value of the cash flows expected to be collected to the amortized cost basis of the security as of July 1.
- Significant new disclosures have been added. (The Blanks Working Group has exposed for comment proposed templates to comply with the new disclosure requirements.)

Fall National Meeting

The working group took the following actions on significant issues as discussed below. Items exposed for comment have a comment deadline of October 28.

DTA Admitted Asset Limitations

At the Spring National Meeting the working group exposed a revised SSAP 10, which would increase the admitted deferred tax asset limitation but which incorporated additional restrictions suggested by the Capital and Surplus Relief Working Group, e.g. the higher DTA may only be recognized by insurers above certain RBC levels and it cannot be used to pay dividends and several other caveats. At the Summer National Meeting, the working group had little discussion on the issue, but held a conference call on August 20 to continue consideration of an expanded limitation for DTAs.

At the Fall National Meeting, the working group expedited review of this issue on its agenda and spent most of the meeting discussing, at times contentiously, a motion to adopt proposed revisions to SSAP 10. In a 7-5 vote, the working group adopted a motion to adopt the previously exposed SSAP 10 with the following modifications, effective for 2009 year-end reporting.

- Revisions to paragraphs 10e.i. and 10.e.ii.a. to require that admitted DTAs should correspond with IRS tax-loss carryback provisions, not to exceed three years.

- Revisions to paragraph 10.f.i. to clarify that by regulation, DTAs may not be used for determining any regulatory trigger that involves admitted assets and/or statutory surplus. This would include triggers contained in the Insurance Holding Company System Regulatory Act, e.g. determination of ordinary or extraordinary dividends as well as investment limitations and grounds for rehabilitation and liquidation.
- A new paragraph 10.f.iii. which require DTAs to be reported as an aggregate write-in for surplus.
- A "sunset provision" that expires with year-end 2010 financial statements.
- Formation of a Deferred Tax Asset Subgroup to "further evaluate and conclude on the appropriate calculation of admitted DTAs to be applied with financial statements filed after December 31, 2010, including a study of the realization of DTAs."

There was additional passionate discussion of this issue at subsequent meetings of the working group's parent committees. At the meeting of the Accounting Practices and Procedures Task Force, a motion to not proceed with adoption of the SSAP 10 revisions and to study the issue further was defeated with a 15-13 vote, with two states abstaining. At the subsequent meeting of the Financial Condition Committee, the chair from Virginia made a motion to defer adoption of SSAP 10 and hold a conference call the week of September 28 to discuss the issue further. That motion was defeated with a vote of 9-2 and a subsequent motion to adopt the revisions passed 9-2.

After the vote, the chair noted that his commissioner, Commission Gross will ask for a separate vote of this issue during final consideration at the joint Executive Committee/Plenary session, which would ordinarily occur at the Winter National meeting in December. To provide companies with a definitive answer sooner than December, the chair observed that a vote by Executive Committee and Plenary could be expedited to a conference call. However, a decision to expedite that meeting has not yet been made.

Subsequent to the Fall National Meeting, the SAP Working Group exposed the revised SSAP 10 for comment "to verify that the revised SSAP represents the conceptual changes adopted during

the Fall National Meeting." A conference call has been scheduled for October 8; discussion is expected to include comments from interested parties that proposed changes "incorrectly tie the 10(e)(i) carryback limits to the 10(e)(ii) forecasted period."

Issue Paper 135, FIN 45: Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others - The working group adopted Issue Paper 135 as final, which requires liability recognition at the inception of a guaranty. The changes made since the first draft require liability recognition for related party guarantees except when the transaction is considered an "unlimited guarantee," such as a rating agency requirement to provide a commitment to support a subsidiary. In those circumstances, the existence and terms of the guaranty would be disclosed but not quantified.

Prior to adoption the working group adopted changes to paragraphs 18, 22, 23 and 32 after review of comment letters. The effective date was revised to apply to guarantees outstanding as of December 31, 2010, which is a two year deferral but would be apply to all guarantees in force, not just prospectively applied.

The working group agreed to refer to the Capital Adequacy Task Force an issue related to the RBC "stacking effect" when a parent insurer provides a guarantee of debt incurred by a lower-tier subsidiary. No change was made to the accounting for the guarantee by the parent insurer.

The working group then directed NAIC staff to draft SSAP 5R, Liabilities, Contingencies and Impairment of Assets to reflect the conclusions adopted in Issue Paper 135. Discussion on SSAP 5R is expected at October 5 interim conference call discussed below.

Issue Paper 138 - Fair Value Measurements – The working group adopted Issue Paper 138, which had been exposed for comment at the Summer National Meeting. The issue paper proposes adoption of FAS 157 with few modifications, the most significant of which is rejection of the GAAP provision to include consideration of own-credit risk in determining the fair value of a liability as the regulators believe such consideration is inconsistent with the statutory accounting concept of conservatism and the assessment of financial solvency for insurers. The working group directed staff to begin drafting the related SSAP, which will

have a proposed effective date of year-end 2010, with early adoption for 2009 encouraged.

Comments from interested parties asked that derivatives be scoped out of the own credit risk guidance or be removed entirely from Issue Paper. The working group did not agree to either change but asked that staff work with interested parties this fall on how to address the issue. Interested parties also asked that FAS 157 Level 3 rollforward not be included in Issue Paper 138 as the disclosures are "not meaningful under statutory accounting in many instances." This change was not adopted by the working group, but the group did agree to a referral to the Valuation of Securities Task Force regarding how fair value is determined by the SVO.

Issue Paper 137, Transfer of P/C Runoff Portfolios The working group adopted Issue Paper 137 as final at the Fall National Meeting as recommended by the P/C Reinsurance Study Group, which include certain revisions to the exposed issue paper as discussed below. The guidance allows prospective reinsurance accounting for the transfer of "runoff transactions" when specific criteria are in place, given the difficulty in achieving novation of direct contracts. Such runoff transactions require approval by the domiciliary commissioner of the transferring company and the acquiring company; there is also guidance on considerations and contractual provisions that should be required by the regulator. The working group voted to re-expose SSAP 62R with the modifications discussed during both the National Meeting and the interim conference call of the P/C Reinsurance Study. The guidance is expected to be effective for transactions entered into on or after January 1, 2010.

As discussed above, the P/C Reinsurance Study Group held an interim conference call on September 15 to consider whether to recommend adoption of Issue Paper 137, which the study did in a close 4-3 vote. Included in its recommendation was additional guidance in the form of journal entries for recording the transaction by both the assuming and ceding companies. Because the guidance is not in cases "intuitive" (e.g. consideration received by the reinsurer is classified as a negative Paid Loss) the journal entries will be included as an appendix to SSAP 62R.

Proposed Revisions to SSAP 56, Separate Accounts Subgroup

The working group adopted, with some minor changes requested by interested parties,

significant new disclosures in the general account financial statements with regard to the separate account, including the general nature of the separate account business, identification of the separate account assets that are legally insulated from the general account claims, identification of the separate account products that have guarantees backed by the general account and other detailed disclosures related to guarantees of separate account products. The new disclosures will be effective for 2010 year-end reporting. The working group will also be making a proposal to the Blanks Working Group a related annual statement interrogatory and illustration to implement the new disclosures.

SSAP 60 - Financial Guaranty Insurance

The working group exposed proposed disclosures as an amendment to SSAP 60. The disclosures had been previously exposed, but due to considerations of comments received and modifications suggested by the Financial Guaranty Subgroup, the working group agreed to re-expose the revised disclosures for public comment, but with the stated goal of having the disclosures adopted for the year-end 2009 reporting period.

Other Items Adopted

The working group adopted as final rejection of the following GAAP guidance as not applicable to statutory accounting: FSP SOP 94-3-1 and AAG HCO-1, Omnibus Changes to Consolidate and Equity Method Guidance for Not-For-Profit Organizations.

Interim Conference Call October 5

Because of the length of time spent discussing Re-REMIC and SSAP 10 DTA issues, there was insufficient time to discuss other issues on the SAP Working Group agenda. A conference call has been scheduled for October 5 to discuss the following issues:

- Consideration of FAS 166, FAS 167 and FAS 168 (FASB Standards Codification) for statutory accounting,
- Proposed revisions to SSAP 92 (OPEB) and SSAP 100 (pensions) which include proposed revised transition guidance allowing all companies to elect a 10 year transition, not just those companies meeting a 1% of surplus threshold
- Deferred premium asset and unearned premium reserve issue related to life reinsurance

- Updates from the Guaranty Fund Subgroup, the Securities Lending Subgroup and the APP Manual Subgroup

Emerging Accounting Issues Working Group

Re-REMIC Transactions

The working group spent most of its meeting in Washington discussing proposed guidance on Re-REMIC transactions. At its last National Meeting, the working group discussed re-securitizations of residential mortgage-backed securities, which generally involve the transfer of RMBS from the insurer into a special purpose entity (SPE) and through "structural subordination" individual securities are "re-tranched" into several securities and re-rated with the goal of creating securities of greater and lesser quality than those transferred in. The re-rated securities are transferred back to the insurer and risk-based capital relief is achieved due to improvement in the securities' RBC ratings.

Subsequent to the Summer National Meeting, the working group released for comment draft INT 09-07, Accounting for Re-Securitizations of Loan-backed and Structured Securities (e.g. Re-REMICs). The draft INT would require, among other tentative conclusions, that transfers to an SPE would be accounted for in accordance with SSAP 25 on related parties, and as result would be transferred at fair value or the lower of cost or fair value (depending on whether the transaction was an economic or non-economic transaction).

At the Fall National Meeting, the working group reviewed the three comment letters received on the draft INT and had a lengthy discussion among regulators and interested parties. In a close 7-5 vote, the working group rejected a motion to adopt INT 09-07 as exposed this summer. The working group then adopted a motion to expose a revised INT that reflects accounting proposed by interested parties, which includes the following:

- A transfer of a structured security qualifying as a sale under paragraph 5 of SSAP 91R would result with the allocation of statutory book values of the underlying securities to the new beneficial interests created, with any gain or loss being realized by the insurer only to the extent of any beneficial interests not retained.
- Transfers of structured securities to an affiliate (not including a trust that is beyond the control of the insurer or its subsidiaries) shall be

accounted for in accordance with SSAP 25. To the extent that the underlying securities are transferred to a trust that is beyond the control of the insurer and subsidiaries and 100% of the beneficial interests are retained by the insurer, no sale has occurred and the statutory book values of the underlying securities are transferred to the new beneficial interests created, with no gain or loss recognized.

- Re-securitization transactions where an insurer's intent is to obtain a re-rating of asset-backed securities and to continue to hold a portion of the underlying cash flows, the re-securitization is not an intent to sell those securities for which the insurer retains beneficial interests. Once re-securitized, the beneficial interests retained shall be reviewed for impairment.

In connection with the exposure of the revised INT, the chair request that interested parties provide additional commentary as to why SSAP 25 should not apply to transfers to an SPE and how the guidance in FAS 166, Accounting for Transfers of Financial Assets, an amendment of FAS 140 and FAS 167, Amendments to FASB Interpretation No. 46 (R) should apply to these re-securitization transactions that include qualified SPEs.

The working group then briefly discussed two outstanding and two new issues:

INT 09-05, EITF 08-3: Accounting by Lessees for Maintenance Deposits - The working group adopted as final a consensus to adopt this guidance with modifications: refundable maintenance deposits shall be accounted for as a nonadmitted asset. Expenditures that do not increase the value or usefulness of the leased asset shall be expense as incurred.

INT 09-06, EITF 08-8: Accounting for an Instrument (or an embedded feature) with a Settlement Amount that is based on the Stock an Entity's Consolidated Subsidiary - The working group exposed a tentative consensus to reject the EITF as non-applicable to statutory accounting.

Statutory Accounting for Loans Received under the Federal TALF Program - The working group exposed a tentative consensus that loans received and collateral provided under the TALF program to not meet the criteria in SSAP 64 for offsetting. Therefore, the accounting guidance under SSAP 91R would apply and, as a result, the collateral should be reported separately on a gross basis,

until the time of default of the received loan. At the time of default the collateral claimed should be removed from the balance sheet with a corresponding reduction in the loan liability.

Compilation of Rejected Interpretations - The working group exposed a tentative consensus to remove all EAIWG Interpretations from Appendix B of the APP Manual which reject GAAP guidance as "not applicable to statutory accounting" or that "reject" GAAP without providing any additional statutory accounting guidance. This new Interpretation will include a full list of all rejected FASB EITF guidance and will be updated as new EITF guidance is rejected.

Blanks Working Group

The working group adopted eight blanks proposals as final, including those discussed below which are effective for the 2010 annual statements unless otherwise stated.

- Questions were added to the General Interrogatories related to the exemption given to specified sections of the Annual Financial Reporting Model Regulation or substantially similar state law or regulation. (Agenda item 2009-25BWG)
- Two additional interrogatory questions were added to the Supplemental Exhibits and Schedules of Interrogatories for communication of internal control related matters noted in audit and management's report of internal control over financial reporting. (Agenda item 2009-26BWG)
- An additional interrogatory question was added to the Supplemental Exhibits and Schedules of Interrogatories for the actuarial opinion required by the Modified Guaranteed Annuity Model Regulation. Several other interrogatories associated with actuarial opinions were also modified and four additional certifications were added related to Actuarial Guideline XLIII (VA-CARVM). (Agenda item 2009-28BWG)
- Modifications were made to Schedule T and the State Pages of the title insurance annual and quarterly statement in order to expand the reporting of title insurance loss experience by type of property and type of rate at an individual state level. Instructions were also developed to support the new reporting requirements. Some of the minor modifications

are effective beginning in the first quarter of 2010. The more significant changes to the State Pages will be effective for the 2012 annual statement to permit time for systems modifications to be made to capture the necessary data. (Agenda items 2009-29BWG, 2009-30BWG, and 2009-31BWG)

The working group exposed five new proposals for comment. The comment period for these proposals ends November 5. The exposed proposals would:

- Add instructions to Schedule T to clarify that the reporting "other alien" premium as a write-in should identify the jurisdiction (country) in the write-in line description. (Agenda item 2009-33BWG)
- Add instructions to the Assets page to clarify that receivables for securities not received within 15 days of settlement date should be reported as a write-in and nonadmitted in accordance with SSAP 21. (Agenda item 2009-34BWG)
- Add a new annual statement line for the reporting of director and officer business to the Underwriting and Investment Exhibits, Exhibit of Premiums and Losses, Five Year Historical, and Insurance Expense Exhibit of the property statement and property supplement of the health statement. (Agenda item 2009-35BWG)
- Add categories to Schedule S of the life, health and fraternal statements to group separately U.S. and Non-U.S. insurers reported in the schedule. (Agenda items 2009-36BWG)
- Modify instructions for the treatment of other-than-temporary impairments in the reporting of IMR and AVR as a result of the adoption of SSAP 43R. (Agenda item 2009-37BWG)

The working group also exposed three items which will be listed on the NAIC website as formal guidance following a brief comment period ending October 5. The exposed items include:

- Investment category guidance which is designed to assist companies with the determining the appropriate categorization for investment holdings within the various investment schedules in order to promote more consistency in reporting. A blanks proposal is expected to follow to incorporate

such guidance into the 2010 annual statement and 2011 quarterly statement instructions.

- Loan-backed securities disclosure illustration developed by the Statutory Accounting Principles Working Group, which provides guidance for completing the new annual and quarterly statement disclosures required as a result of the adoption of SSAP 43R.
- Guidance for the treatment of other-than-temporary impairments in the reporting of IMR and AVR as a result of the adoption of SSAP 43R. This guidance will be provided until the official instructions discussed above are adopted and become effective.

All Blanks proposals, including those adopted and exposed for comment, can be viewed at the NAIC's webpage for the Blanks Working Group.

NAIC/AICPA Working Group

MAR Adoption

The working group updated its ongoing survey of the progress of states' adopting the revised Model Audit Rule (MAR), which has a proposed effective date of January 1, 2010. Since the Summer National Meeting, eight new states (Arizona, Indiana, Kansas, Maryland, Missouri, New Hampshire, North Carolina and Utah) have completed adoption of the revised MAR, consistent with the NAIC's version. This brings the total of states which have completed adoption of the revised MAR to thirty-one.

Other MAR activities include the following:

- Arkansas, California, New York, Nevada, and Tennessee have exposed revised regulations for public comment.
- Fourteen of the remaining 15 jurisdictions plan to adopt by year-end. The final state, Nebraska, plans to adopt within the first few months of 2010.

The results of the quarterly survey of states' plans for adoption are available on the AICPA/NAIC Working Group's webpage.

MAR Implementation Issues

The working group has solicited questions from interested parties, auditors and regulators as to what implementation issues are arising in connection with MAR adoption. Several issues were discussed in Washington and the working

group approved the formation of a MAR Implementation Subgroup, which will work with interested parties to address MAR interpretation issues. Some of this guidance may result in revisions to the MAR Implementation Guide while other guidance could be posted to the working group's webpage as non-authoritative frequently asked questions.

The working group discussed the following MAR implementation/interpretation issues:

"Group of Insurers" - NAIC staff had been asked to provide guidance on management's assertions of internal control when the insurer has decided to assess controls at the "group of insurers" level. In response, the working group exposed for comment for 30 days the following proposed addition to the definition of "Group of Insurers":

"Regardless of the structure deemed most appropriate for the evaluation and reporting of controls, management is required to issue an assertion regarding the effectiveness of internal control over statutory financial reporting. As statutory reporting requires presentation at the legal-entity level, management's assertion must apply at that level. Therefore, when determining the scope of controls subject to review for the "group of insurers," all controls deemed significant to each individual level with the group should be included within the scope of management's review."

Auditor Rotation Issue - The working group exposed for comment a proposed revision to Q&A 5 in the Implementation Guide related to audit partner rotation to allow an additional two year transitional period for the audit partner on a non-insurance parent or ultimate parent which is an SEC registrant during the transitional period. NAIC staff will also be working with the NAIC legal department on the issue.

Material Weaknesses at One Insurer - An insurer asked for guidance on how to report a material weakness identified for one company in a group of insurers, where the internal control deficiency is not a material weakness for the entire group. The working group concluded that such material weakness should be reported in Management's Report of Internal Control; interested parties will work with NAIC staff to draft guidance.

SSAE 15 Report - NAIC staff will consult with its legal department as to whether an SSAE 15 report

on internal controls would meet the MAR requirement without formally revising the Model.

Access to CPA Workpapers

The working group briefly discussed a referral from the Risk Assessment Implementation Subgroup regarding access to CPA workpapers. The subgroup was formed to address issues related to the implementation of the risk-focused examination process. A survey of chief examiners of potential implementation issues noted that examiners are concerned with being able to have access to CPA workpapers earlier than they have had in the past, sometimes prior to completion of the statutory audit. In addition, the examiners would like to be able to work concurrently with auditors at the insurer's offices, such as participating in internal control "walkthroughs" alongside the auditors. NAIC staff will work with representatives of the AICPA this fall on protocols for mutual cooperation.

Valuation of Securities Task Force

The task force held three interim conference calls and met in Washington, D.C. to discuss the following issues:

Residential Mortgage-Backed Securities

The task force discussed an ACLI proposal to more accurately measure the severity of loss implied by credit ratings of residential mortgage-backed securities as part of an improved process to determine risk-based capital. Because the RBC charge for each security is determined by its NAIC Designation, which is, in turn, established by its Approved Rating Organization (ARO) rating through the NAIC equivalency formula, recent downgrades by the rating agencies have required a significant increase in C-1 capital for life insurers. The ACLI and other interested parties have stated the current ratings are not "logically consistent with the underlying risk to which the companies are exposed." In documents submitted to the task force by the ACLI, it was noted that 64% of all non-agency RMBS initially rated as AAA have been downgraded.

At the Summer National Meeting, the ACLI requested that the NAIC permit an increase in the NAIC Designation equivalent of the NAIC ARO rating by reference to a notching process that would increase the NAIC Designation two classes (e.g. from an NAIC 4 to an NAIC 2). This proposal was discussed over several conference calls and subsequently modified by the ACLI.

At the Fall National Meeting, the ACLI formally suggested, in a letter dated September 10, that the better approach would be to instruct the SVO to contract with an independent third party vendor to model losses of RMBS securities held by the insurance industry. The modeling would use assumptions generally accepted by market participants for prepayments, home price levels, expected defaults, severities of loss, and performance of loans in good standing, along with other assumptions including interest rates. The modeling would produce a modeled loss value, which could then be mapped backed into an appropriate NAIC Designation. The proposal would apply to all RMBS securities, and the process may result in either better or worse NAIC designation of any RMBS security. During the meeting, it was noted that the vendor would have to model approximately 18,000 securities held by insurers and could complete this task in four-six weeks.

The task force exposed the revised ACLI proposal for comment. Subsequent to the Fall National Meeting, the working group announced a joint conference call with the Financial Condition Committee has been scheduled for October 14 to further consider the proposal.

Ratings for Commercial Mortgage-Backed Securities

During an interim conference call the task force discussed whether the NAIC should purchase credit ratings for commercial mortgage backed securities (CMBS) from RealPoint LLC, a subscriber based-NRSRO that specializes in default assessment of CMBS. The task force requested the SVO to conduct a comparability analysis of RealPoint methodology to that of other AROs. On a subsequent call the task force approved RealPoint as an ARO. The SVO expects to be able to map RealPoint definitions and ratings to the ratings of other AROs and NAIC Designations by year-end.

Defined Mortgage-Backed Security

The task force instructed the SVO staff to study first lien mortgage securitizations to determine what percentage of second lien mortgages can be included in such a securitization before the insurer should be required to report the investments as a "defined mortgage-backed security."

Rating of Municipal Securities

The task force heard a staff report expressing concern that insurers have not availed themselves of the opportunity to file municipal securities that

are wrapped by monoline financial guarantors with the SVO for a re-rating. The result of NRSRO downgrades of financial guarantors is that the NAIC ARO rating of guaranteed municipal securities were also downgraded, despite the fact that the standalone credit quality of the municipal issuer is often higher than the new NAIC ARO rating assigned to the financial guarantor. The SVO was given authority to evaluate the municipality's credit quality and, where appropriate, to assign a corresponding NAIC ratings designation, even if the designation is higher than the designation derived by reference to the financial guarantor's NAIC ARO financial strength rating. The SVO reported that it has not seen the number of filings it would expect to see and is concerned that insurers may be ignoring the issue.

NRSRO Ratings

The task force discussed a proposal to have the SVO staff create a process that would permit insurance companies that want to obtain an NAIC Designation for a security rated by an NRSRO to purchase the rating from NAIC. Currently, insurers must obtain rating services from all of the AROs in order to calculate the appropriate NAIC Designation. Many insurers have complained of the cost associated with this process as the NAIC ARO List has grown. The proposed administrative change in NAIC procedure acknowledges that the NAIC already conducts the calculation for its own purposes and can make that information available to insurers.

Disclosures

The task force discussed a concern raised by the Credit Default Swap Working Group as to whether additional disclosure is necessary for mortgage loan concentration exposure. The task force referred this issue to the Invested Asset Working Group for further consideration. The task force also discussed whether increased disclosure is necessary for the expected duration of life insurer liabilities under different scenarios. It concluded that this item has been on the agendas of the SAPWG, LHATF and the Financial Analysis Working Group. The task force directed the staff to draft a memorandum expressing the interest of the task force in the issue and offering its assistance in a resolution of the technical issues.

Reorganized Purposes and Procedures Manual

The task force adopted a previously exposed reorganized Purposes and Procedures Manual. The revised format reduces the 36 sets of guidance and instructions into six sections and will

be published beginning with the December 31, 2009 publication.

Report of the Invested Asset Working Group

The task force adopted an outline of a plan for regulating risks inherent in investment securities, other than credit risk, developed by the Investment Asset Working Group and previously released for comment during an interim conference call of the task force. The plan has three components: a disclosure component that incorporates investment risks other than credit associated with fixed income securities into the regulatory framework, a tools component which would direct the SVO to develop additional analytical tools and systems and a monitoring component which would charge the working group to coordinate with the SVO to inform regulators of risks that are likely to manifest in current market environments.

Investments of Insurers Model Act Revision Working Group

The working group is charged with assessing the need to modify the Investments of Insurers Model Act by gathering input from states regarding the use of the existing models and their effectiveness in addressing the issues that exist within insurers' portfolios. At the conclusion of its study, the working group will provide recommendations to the Financial Condition Committee, which may include requests for the changes to the model act.

The working group held a conference call on September 9 to discuss a previously exposed document prepared by SVO staff regarding changes in the financial markets since the original passage of the Investments of Insurers Model Act in 1996. The document recommends that the working group make several considerations, including:

- Whether or not "structured security asset class" should be a criterion for determining current limitations in addition to the existing "rated credit instrument" criterion;
- Whether the current maximum (45%) of admitted assets that can be invested in obligations secured by first mortgage liens and income-producing property is still appropriate;
- Whether the diversification language as it relates to the percentage allowed to be invested in assets insured by financial

guarantors in light of the recent credit rating downgrades of monoline insurers is sufficient;

- Whether the securities lending language and the 40% aggregate admitted asset limitation is sufficient;
- Whether the residual tranches of structured securities (classified as common equity) should be included in the current "equity interest" limitation;
- Whether mandatory filing to the SVO should be required for Schedule B mortgages to provide more accurate credit risk assessment and reliability.

The working group reviewed the two comment letters received on the SVO document. One large insurer expressed concern with the proposed mandatory filing of securities with the SVO, noting that it could be very difficult and costly for insurers to provide the required information for filing. The comment letter from ACLI had no specific recommendations on the exposed document, but indicated that a relative minority of states had adopted the Model Act in full and suggested that more widespread adoption of model laws governing insurers' investments would enhance regulatory uniformity and help insurers manage assets in fulfillment of their long-term commitments more efficiently and effectively. The ACLI letter also encouraged the NAIC to be more engaged in the federal legislative dialogue regarding derivative instruments.

The working group concluded that it would solicit input from the states through the development of survey, which was available for discussion in Washington. The draft survey requests input on various aspects of the current NAIC model investment laws, related state statutes and potential changes to such models and statutes. The survey also requests feedback on whether commissioners would support such potential changes, because uniformity is a determining factor for NAIC model laws. After minor changes, the working group adopted the survey, which will be distributed to all jurisdictions with a response date of October 19.

Rating Agency Working Group

The working group is charged with conducting a comprehensive evaluation of the reliance on of Nationally Recognized Statistical Ratings Organizations (NRSRO) ratings by state insurance

regulators and the NAIC, the insurance industry and the insurance marketplace in light of the financial crisis. The working group held a hearing in Washington, D.C. as part of its evaluation process. The full day hearing was comprised of three panels which included a total of 18 individuals including NAIC Securities Valuation Office Staff, representatives of NRSROs, consumer groups, pension funds and insurers. The panels addressed the current use of ratings in state insurance regulation, discussed the frequency of ratings changes in response to the financial crisis, examined whether the ratings fulfill investor expectations, discussed recent systematic and procedural changes enacted by NRSROs, and considered alternatives to the use of NRSRO ratings in the insurance regulatory system.

An audio transcript of the hearing and presentation materials can be viewed at the NAIC's webpage for the Rating Agency Working Group.

Following the hearing, the working group will develop and present a final report to the Financial Condition Committee documenting its findings and any recommendations for changes in the use of NRSRO ratings by the NAIC and its members, as well as provide potential recommendations to the federal government on NRSRO regulation.

Capital Adequacy Task Force

The task force met via twice this summer via conference call and at the Fall National Meeting and discussed the following items:

TALF Proposals

During the summer the task force exposed for comment a proposal to remove the off-balance sheet charge for life insurers (1.3% pre-tax) for TALF (Term Asset-Backed Securities Loan Facility) assets pledged as collateral. The rationale for the removal of the charge is that there is no credit risk related to TALF assets. During its conference call on September 10, the working group approved the change for 2009 RBC. At its meeting in Washington, D.C. the task force exposed for comment for thirty days a proposal that this same treatment apply for P/C and Health RBC formulas.

On a related issue, the Emerging Accounting Issues Working Group has been asked by the task force whether the TALF assets should be shown on the balance sheet gross or net of the liability for the loan; at this meeting EAIWG exposed a

tentative consensus to require reporting the items gross in the balance sheet.

CADTF/LHATF Joint Subgroup

The task force heard a report from its subgroup which held a conference call August 12 to discuss the AAA Comparison Report, which compares the current proposal of the C3 Life and Annuity Capital Work Group to the proposed requirements under VM-20, the existing requirements under C-3 Phase II and VA-CARVM. During its meeting, the subgroup focused on its first agenda item, reviewing high level risks for capital versus reserves and the related interaction.

The report lists 16 areas where material differences were noted including prudent estimate margins, projection period, stochastic scenarios, IMR, clearly defined hedging strategy, prior valuation date, dividends, revenue sharing and reinsurance. There has been no indication at this time that these differences will be eliminated; the subgroup is generally attempting to confirm the appropriateness of the each of the differences. In addition, by comparing the differences, the subgroup hopes to gain insight on how to define what is in RBC that is not in reserves and where the extra conservatism in RBC is located.

Fraternal RBC Model Act

The task force reviewed a memo from NAIC President Roger Sevigny that requests that the task force consider development of a new RBC model for fraternal benefit societies, given concerns of the effect of the current economic conditions on fraternal. The working group agreed to take up this charge; NAIC staff will begin drafting a model and revising the formula.

Health RBC Model Act

A working group member noted that the revisions to Health RBC to adopt a trend test will be adopted shortly by Executive and Plenary, and he requested that the task force vote to recommend that these changes be considered as accreditation standards. The chair agreed to have a vote at the Winter National Meeting.

Life Risk-Based Capital Working Group

The working group met five times this summer via conference call; much of the time during these calls was spent working on the C-3 Phase III proposals. The group also met in Washington, D.C. and heard updates on the projects in process.

C-3 Phase III Proposal

The working group reviewed several minor and clarifying changes to the current proposal. The working group voted to expose it for thirty days. The chair also brought up several previous concerns and solicited comments from members and interested parties. One member pointed out that, under the current framework of RBC set equal to total asset requirement less reserves, and given that insurers view required capital as multiples of RBC, companies could lower required capital requirements by raising reserves. This concern will be taken up as a separate issue to be addressed later.

ACLI MEAF Proposal

At the Summer National Meeting, the working group adopted a short-term solution to the Mortgage Experience Adjustment Factor issue; for 2009 only (currently), the MEAF factor will have a floor of 75% and a ceiling of 125%. At the Fall National Meeting, the ACLI gave a brief oral report on the status of its proposed long-term solution to the MEAF issue. The ACLI continues to work on the proposal, but it is not yet ready for submission to the NAIC. The chair noted that he does not want to have a substantive discussion about adopting the short-term proposal for 2010 until the long-term proposal is received. However, he noted that the working group will "have to do something for 2010, since it is clear we won't have an implemented long-term proposal for 2010."

Life RBC Derivatives Collateral Proposal

During its July 1st conference call, the working group adopted a proposal for 2009 RBC to incorporate derivatives collateral as a standalone item and will treat the collateral as an NAIC 1 for RBC purposes; the proposal had been exposed at the Summer National Meeting.

In Washington, D.C. the working group received an updated proposal for 2010 RBC on derivatives collateral which addresses an issue related to a double-charge for collateral reported as cash. The working group expects to hold an interim conference call to further discuss the proposal.

Derivatives Risk Mitigation Proposal

The working group continued its discussion of the ACLI's proposal to give RBC credit for insurers who have effectively reduced risk through hedging. The ACLI recommendation categorizes hedging transactions into basic, intermediate and advanced hedging; RBC credit would be proportionate to the risk reduction. In the ACLI proposal, the basic category would receive 100% risk reduction;

intermediate would receive less than 100% and the advanced category would receive partial risk reduction based on documentation filed with the regulators. The ACLI group is current working on a method to calibrate risk when there is a maturity mismatch between a bond and the associated hedge and is addressing a concern raised by New York about the statutory accounting and RBC effect when a bond is valued at amortized cost and the associated hedged is valued at fair value and the RBC credit is attributed to the risk reduced by the hedge. The group is also developing RBC instructions for the entire proposal, which they hope can be adopted for 2010.

P/C Risk-Based Capital Working Group

The working group met via conference call on July 6th and discussed the following topics:

2009 P/C RBC Formula and Instructions

The working group adopted the 2009 RBC formula and instructions noting changes to implement the second phase of the revised underwriting risk charges and the inclusion of the new hybrid securities lines, triggered by changes to the annual statement.

Expansion of Schedule P Two-Year Lines

The working group continued its discussion of extending Scheduled P development to ten years for all lines. The working group reviewed a draft Blanks proposal to capture this data for electronic-only (not hard-copy) filings. The working group voted to expose the proposal for comment for 60 days. An interested party again commented that expansion from two to ten years could trigger tax issues.

Catastrophe Risk Subgroup

The subgroup has been charged with evaluating the possibility of developing a RBC charge for catastrophe risk and of using catastrophe modeling to develop that charge. The subgroup has not met since December 2008 and the chair of the working group suggested that a joint conference call between the subgroup and the Casualty Actuarial and Statistical Task Force be held to develop a "constructive proposal without duplication of effort." A conference call will be scheduled but no timetable was discussed at the Fall National Meeting.

Health Risk-Based Capital Working Group

The working group met via conference call on July 6, primarily to adopt the 2009 Health RBC formula

and instructions. NAIC staff summarized the three major changes to the formula over the prior year:

- The Health Trend Test has been added to the formula as approved by the NAIC leadership earlier this year. (Changes to the RBC for Health Organizations Model Act to implement the trend test in the model were adopted by full NAIC at the Fall National Meeting.)
- Medicare Part D Factor supplemental benefit charge is being increased over a two year period; the factor for 2009 will be 21% and will increase to 34% for 2010 and thereafter.
- Hybrid securities are being captured in a new line in Schedule D to the annual statement and as a result several pages in the formula have changed.

The working group heard from a representative from the American Academy of Actuaries that the Academy has formed a HealthCare Receivables Working Group to study whether each type of receivable (e.g. pharmaceutical rebate receivables, claim overpayment receivables) should have different RBC factors due to different inherent risks. The Academy expects that healthcare receivables to increase significantly if Congress passes the Medicaid Prescription Drug Rebate Equalization Act. Based on the work plan of the Health RBC Working Group, changes to the formula as a result of the Academy working group would be implemented in 2010 or afterwards.

Reinsurance Task Force

Adoption of Proposed Act on Reinsurance Regulatory Modernization

The task force released on July 27th a revised draft of the proposed Act to enact reinsurance modernization, which reflected comments on the previously released March 24th draft. Fourteen comment letters were received on the March 24 draft from trade associations, U.S. insurers, foreign reinsurers, international regulators and other interested parties.

The task force met via conference call on September 15 to discuss revisions made to the July 27 draft based on the eleven comment letters received (most of which were from the same parties commenting on the March 24 draft). During the conference call the chair noted that the final draft (dated September 3) "represents a substantial evolution from the initial exposure draft" released March 24.

During the conference call the task force continued its discussion of constitutional issues related to adoption of the Reinsurance Regulatory Modernization Act, as the Act would create a national system of reinsurance regulation that would supersede state-based laws and regulations "to the extent that they are inconsistent with the Act." The chair noted that Reinsurance Supervisory Review Board, which would be charged with evaluating proposed Home State and Port of Entry Supervisors, is proposed to be an agency of the federal government with fifteen members appointed by the President and confirmed by the Senate. Ten members would be state insurance regulators and five would be from the Department of the Treasury, the Department of Commerce and from the Office of the U.S. Trade Representatives.

Many major provisions of the Act have not changed from the March 24 draft. The RSRB would oversee two types of reinsurers: National Reinsurers (U.S. insurers certified by a Home State Supervisor) and Port of Entry Reinsurers (non-U.S. reinsurers certified by a Port of Entry State). Both types of reinsurers would be required to maintain at least \$250 million in capital and surplus. The ratings of the reinsurers (Secure 1-4 and Vulnerable - 5) and related collateral requirements have not changed. National Reinsurers rated Secure - 3 or above would not be required to post any collateral for reinsurance assumed. Port of Entry Reinsurers rated Secure - 1, - 2, - 3, - 4 and Vulnerable - 5 would be required to post collateral of 0%, 10%, 20%, 75% and 100% respectively. Consistent with prior versions, the Act would only apply to reinsurance contracts entered into or renewed on or after the effective date of the Act and would not apply to life reinsurance until the earlier of 24 months from the effective date of the Act or implementation of principles-based reserving standards.

After some discussion with interested parties as to whether the September 3rd draft of the Act had been exposed for an adequate length of time, the task force voted 20-1 to adopt the September 3 draft of the Act as final with referral to the NAIC's Government Relations Leadership Council for a final review.

The task force reported at its meeting in Washington, D.C. that the Council adopted the Act. The next step is submission of the proposed legislation to Congress for further action. The NAIC will be actively seeking a sponsor in Congress for the Act.

Life and Health Actuarial Task Force

Valuation Manual Outlook

The task force discussed that its parent committee, Life Insurance and Annuities (A) Committee had an interim conference call wherein the committee adopted amendments to the Standard Valuation Law contingent upon the Valuation Manual, including a minimum floor reserve, being completed by the end of 2009. LHATF members then discussed how they expect the VM to evolve over the next two years while the SVL makes its way through the state legislatures. Some regulators as well as industry members expressed concern with seeking legislature approval without further defining the Valuation Manual for more products. Currently only VM-21 covering variable annuities is complete. LHATF expects legislatures will take up the issue in the 2011 sessions which means work may continue until March 2010. This may either imply that the VM will be adopted before the end of the year knowing changes will come soon after adoption or a new "A" Committee vote may be necessary.

Net Premium Reserves in VM-20

The ACLI updated its presentation on the use of a net premium reserve as part of PBR for life insurance products in VM-20 but was not ready to share results. They will be prepared to present results by November and will recommend modifications to VM-20 at that time. These will include the elimination of the mortality mapping to the VBT tables in the stochastic calculation. Regulators expressed concerns with the timing of the deliverables given the December deadline for the Valuation Manual.

Default Costs in VM-20

The Academy presented the impacts of two alternative default cost methods, a method developed by the Academy and a method recommended by the New York regulator. The latter determined default costs and the maximum of either 50 basis points or 50% of the AAA spread. The Academy explained that the former method includes current market statistics for "N" years, currently tested at three years, but then long-term historical default costs thereafter. For both parts of the Academy method, the level will be based on some CTE level of the observations. The Academy then pointed out some apparent flaws in the New York methodology, most notably that the method may result in different valuation for similar assets. Despite a regulator concern that the Academy method may reward insurers for holding aggressive asset portfolios, LHAFT voted to

eliminate the New York method and proceed with drafting VM-20 language around the Academy method.

Economic Scenarios

The Academy's Economic Scenario Work Group provided a presentation on its current economic scenarios on developing a robust economic scenario generator for use in modeling under PBR and RBC. This was in response to previous concerns from LHATF members that the mean reversion parameter, currently recommended at 5.50%, did not provide a sufficient number of extreme scenarios. For reference, the C-3 Phase I parameter is 6.55%. Lively conversation ensued where mathematical theory and intuition appeared at odds with one another. This resulted in several novel ideas. Members suggested potentially performing the test as the maximum of two sets of scenarios, one with a mean reversion parameter and one without. Others suggested that deterministic scenarios may be necessary to supplement the Academy scenarios. In the end, no decisions were made but a subsequent call will be scheduled.

PBR Process & Coordination (VM-00 and VM-01)

LHATF's discussion regarding the Process and Coordination for PBR exclusively focused on descriptions of types of risks included and not included within VM-00. Members were uncomfortable listing any risk as not included as there may be a situation where the risk should be considered. VM-00 was modified and re-exposed.

PBR Reporting and Review (VM-30 and VM-31)

Regulators continued to discuss changes to the Actuarial Opinion Memorandum Regulation required under PBR. Industry members expressed concerns regarding the current language with respect to reliance on others in the actuarial opinion as well as the necessity for a write-in section for liabilities that do not otherwise have a place in the opinion. However, most of the debate revolved around the appointed actuary classifying the opinion in one of four categories (unqualified, qualified, adverse, or inconclusive) as is currently required in the draft Valuation Manual. Industry members offered to write amendments to this language that may also affect the P/C and health opinions. An alternative to the four categories might be to categorize opinions as either using or not using the prescribed language. Not using the prescribed language would indicate there is something to be further understood within the opinion. Members agreed to devote further time to this on an interim conference call.

PBR Experience Reporting (VM-50 and VM-51)

Industry members expressed concerns with data collection and submission. There were particular concerns with the consistency of data used in industry studies and the companies' data in support of their assumptions. Members explored the alternatives of whether it would be necessary for companies to have a statistical agent "scrub" and audit data or would the company simply submit a summary of its own analysis. While no decisions were made, LHATF members stated that companies will likely need to scrub the data for the statistical agent and confirm that the same data was used to compile their own experience.

Mortality Tables and Margins

During this meeting, LHATF received a joint report from the American Academy of Actuaries and the Society of Actuaries. Focusing on two products, a 20 year level term and a universal life with secondary guarantees, the presenters explored the impacts of various loading formulas for PBR. After the presentation, LHATF requested that the presenters develop guidance on how to apply mortality margins in a PBR framework pointing out that any methodology used should be linked to a company's specific experience. The Academy and Society were also tasked to continue their work on developing a new mortality table for payout annuity contracts.

AG 33 and Guaranteed Lifetime Income Benefits

LHATF adopted clarifications to AG 33. New guidance was added to address the proper interpretation of AG 33 for annuities with guaranteed lifetime income benefits, which is a guarantee to the contract owner to have a defined income for life in an amount defined by a formula while retaining the traditional rights to the underlying deferred annuity contract, namely, the control of the principle amount. Income benefits under a GLIB are deducted from the contract's account value and the owner can stop and restart the payments or request a full or partial surrender of the remaining account value. The changes clarify guidance in selecting the appropriate valuation interest rate.

Other Matters

There were several changes to the LHATF membership, most notably Sheldon Summers, chair of the Life PBR Reinsurance Work Group has retired.

There was also a discussion in the last few minutes of the meeting over how the change of AG 43 covering variable annuities should be

recognized in the 2009 income statement and balance sheet. While SSAP 3 might imply the impact as of January 1, 2009 would need to be determined, the members recognize this would cause significant additional work for the industry. Additionally, as SSAP 3 was written assuming all changes in accounting would be effective on the first of the year, the requirement to quantify the effect as of the first of the year was not assumed to be onerous. Given the uniqueness of a December 31st effective date, in the absence of specific guidance to the contrary, reporting the impact as of December 31st may be reasonable. LHATF chose to defer further conversation to an interim conference call.

Accident and Health Working Group

Due to the limited time available at the Fall National Meeting, the working group conducted its meeting via conference call on September 14. Given limited time on the call, much of their work was deferred to later interim calls.

Joint Meeting on Credit Scoring

The Property and Casualty Insurance Committee and the Market Regulation and Consumer Affairs Committee held a joint meeting in Washington, D.C. to consider whether companies that develop credit-based insurance scores should be regulated as advisory organizations. The joint committee discussed written comments on the topic submitted by several organizations, including FICO and LexisNexis who provide credit-based insurance scores used by insurers in underwriting and rate-making, the Consumer Data Industry Association and the American Insurance Association. The latter two organizations argued they are already subject to significant regulation and do not meet the interpretation of an advisory organization. The Indiana Department of Insurance also submitted a letter expressing similar views. Birny Birnbaum of the Center for Economic Justice (CEJ) expressed his view that credit scoring modelers are acting as advisory organizations and encouraged the NAIC to take action on insurance scoring.

The joint committee decided to collect additional data to determine the extent to which credit-based insurance scores are impacting consumers. As part of this effort, the committees agreed to reach out to companies and consumers to determine what data points should be collected and analyzed. A conference call is tentatively scheduled in four weeks to discuss a proposal on the data to be requested.

Joint Meeting on UCR Practices

The Health Insurance and Managed Care Committee and Market Regulation and Consumers Affairs Committee met to hold a public hearing on how usual, customary and reasonable (UCR) rates are derived and disclosed to consumers. This hearing focused on understanding of what constitutes a UCR charge, how insurers utilize UCR charges, and the effect on consumers of UCR charges including "balance billing." The consumer is liable to the provider for the difference between the amount charged by the provider for a service and the portion of the allowed amount paid by the carrier for that service. These balance billing charges can be very significant in certain circumstances.

The committees heard testimony from America's Health Insurance Plans, the American Medical Association, Maryland's Assistant Attorney General, Mid-Minnesota Legal Assistance and a representative from Georgetown University on various aspects of the issue, including when consumers voluntarily choose an out-of-network provider or unknowingly receives services from an out-network provider in an in-network facility. All of the presenters noted a need for better disclosures for consumers, including information in advance of the total cost of receiving care from an out-of-network doctor in an in-network facility.

The hearing concluded with resolutions from AHIP and the AMA to work with state regulators on a solution to balance billing issues.

Suitability of Annuity Sales Working Group

The working group provided the latest draft of the Suitability in Annuity Transactions Model Regulation, which is designed to establish standards and procedures for recommendations to consumers that result in the sale of annuity products so that the insurance needs and financial objectives of the consumers at the time of sale are covered. This regulation will apply to any recommendation to purchase or exchange an annuity made to a consumer by an insurance agent or broker that results in the purchase or exchange recommended.

The working group discussed the comments received on the July 2 exposure draft and discussed the revisions made to this draft based upon the subgroup's and interested parties' comments. This September 4 draft was voted on

and approved to be exposed for additional comments due by October 15. In addition, the working group agreed to ask the Life Insurance and Annuities Committee for a one-year extension to complete the model regulation even though they anticipate completing the work by year end 2009.

The working group asked regulators and interested parties to focus on the following issues as they provide comments:

- Concerns with training requirements expected of insurance agents and brokers.
- "Principal reviewer" in regards to who is qualified to perform the review.
- Control expectation in regard to reviewing of sales. It was discussed that there would be flexibility to develop a system that has a pattern of practice and it is not expected that every sale will be reviewed.
- Review FINRA Rule 2821 to ensure the provisions of this rule relate to the sale of fixed annuities.

It was voted upon and agreed that the working group would continue its focus on the Suitability in Annuity Sales Transactions Model Regulation rather than continuing to discuss whether a model bulletin should be developed.

Annuities Disclosure Working Group

The working group met via conference call several times this summer and at the Fall National Meeting and discussed the following items:

Draft Guarantee Association Coverage Disclosure Document

The working group has held several conference calls to discuss the draft of the Guaranty Association Disclosure that was jointly written by the ACLI and National Organization of Life & Health Insurance Guaranty Associations. Section 10 of the Life and Health Insurance Guaranty Association Model Act does not allow reference to the guarantee association in advertising, and also requires that a general disclosure concerning the existence of the guaranty association be made to the consumers at the time of the contract delivery; this requirement has not been updated in 30 years. Another focus of the disclosure is to ensure that purchasers of variable annuities and variable life insurance contracts understand that guaranty

associations typically do not cover these non-guaranteed contracts.

The working group and interested parties are in disagreement over whether the disclosure should include information about the existence of the free-look period during which time a consumer can return their policy. A representative from the ACLI noted that they object to this disclosure as they feel the free-look period information is irrelevant to the purpose of this disclosure, and it is included in other notices to consumers. Therefore, they already have that information. It was ultimately agreed upon by the working group to send two versions of this disclosure to the Receivership and Insolvency Task Force. The September 16 draft Guaranty Association Disclosure document will include one with the paragraph regarding the free-look period and one without the paragraph.

Buyer's Guides Exposed for Comment

The working group has continued its work on the Annuity Disclosure Model Regulation Buyer's Guides for fixed annuities, fixed deferred annuities and variable annuities and have exposed the three guides for comments due back in 30 days, 45 days, and 60 days, respectively. The purpose of the replacements for the current three Buyer's Guides is to provide consumers an "unbiased and factual guide" that will assist them in understanding which annuity they are considering for purchase. The working group plans to finalize the Buyer's Guides at the Winter National Meeting. Insurance companies would then be required to purchase these Buyer's Guides from the NAIC or request permission to reproduce the Buyer's Guides in their own type, style and format.

Annuity Illustration Guidelines

The American Academy of Actuaries' provided a discussion draft of Proposed Annuity Illustration Guidelines to the working group. The intent of the ACLI is to provide guidelines for companies preparing sales illustrations for specific prospective consumers of fixed deferred annuities. These should disclose the benefits and risks of the annuity and provide sufficient information for the consumer to make an informed decision. This illustration is in addition to the Buyer's Guide as referred to above and other required disclosures. The proposal has a one year effective date for companies to implement systems to comply with these guidelines and is only applicable for fixed deferred annuities. The Academy is concerned that if illustrations are not provided at time of sale, then they do not feel this document will be helpful later. This illustration plus the buyer's guide and

any other required disclosures need to be combined all together to assist the consumer in making an informed decision about his or her purchase.

The working group has distributed for comment the revised draft for a 30 day period. They plan to have another interim conference call at beginning of November to discuss a new draft for comment.

Financial Regulation Standards and Accreditation Committee

The committee has not met since the Summer National Meeting.

Climate Change and Global Warming Task Force

Climate Risk Disclosure Survey

The task force reviewed voluntary Climate Risk Disclosure Survey sample submissions from three health insurers, one life insurer and one property/casualty insurer. The task force expects to receive additional examples from P/C insurers prior to the Winter National Meeting. The samples have been posted to the task force's webpage on the NAIC's website.

The survey will be mandatory for insurers with direct written premium in excess of \$500 million for 2009 reporting year and is due in May 2010. Insurers with direct written premium in excess of \$300 million are required to complete the survey following the 2010 reporting year. Surveys are required when an individual insurer or affiliate group of insurers meet the established thresholds, only one survey is required for the group of insurers. However, one insurer, AIG has provided responses for individual entities and the group and the task force asked that other insurers use this survey as an example. No decision has been made as to whether a formal analysis of the sample responses will be completed.

SEC Consideration of Climate Disclosures

The task force received an update from Commissioner Dilweg (WI) on recent discussions with the SEC regarding potential changes to Form 10-K and Form 10-Q which would require publicly traded companies include climate change disclosures. It is expected that the SEC will appoint an Investor Advisory Committee to further consider this topic.

Climate Change and Global Warming Summit

The task force discussed holding a Climate Change and Global Warming Summit in conjunction with the Winter National Meeting in San Francisco. (The Summit was previously expected to be held in conjunction with National Meeting in Washington, D.C., but was deferred.) The suggested agenda for the Summit would include an introductory keynote speaker or plenary session, followed by breakout sessions on such topics as PAYD, green buildings, climate scientists and risk modelers, disclosure issues and SEC actions. Due to budgetary concerns, webcasting of the event will not be available, although conference call participation might be. There were also suggestions to have a breakout session around the Climate Risk Disclosure Survey and the pilot survey results.

International Solvency Working Group

During the summer, precipitated by the departure of the chair of the International Solvency and Accounting Working Group to join the NAIC as the Director of the Center for Insurance Policy and Research, the NAIC decided to split the working group into two new working groups, the International Solvency Working Group and the International Accounting Standards Working Group. The new working groups will be chaired by Arizona and Arkansas, respectively.

The International Solvency Working Group met in Washington, D.C. and discussed the following items:

IAIS Technical Committee Roadmap

The IAIS Technical Committee presented to the working group the roadmap for standard setting that will cover two years. This technical group's charge is to oversee what the other insurance working groups are covering and then through their roadmap identify what standards they should be setting. The current proposed themes in the roadmap are issues on financial stability concerns and revising the insurance core principles.

Regulator-to-Regulator Interim Meeting

The working group discussed that their regulator-to-regulator interim meeting in New York on October 5-6 will focus on solvency systems with Swiss and Canadian regulators.

Solvency Modernization Initiative (SMI) Work Plan (Roadmap)

The working group discussed its first draft of the Solvency Modernization Initiative (SMI) roadmap,

which will be its working document. The purpose of the SMI is to perform a critical self-review of the United States' insurance solvency regulation framework and include a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their possible use in U.S. insurance regulation. The SMI will focus on the following five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues.

The NAIC adopted on June 14 the first draft of a working document titled "Issues for Consideration in the Solvency Modernization Initiative." This paper is designed to share initial ideas for consideration in the Solvency Modernization Initiative. This roadmap is an expansion of this paper and eventually NAIC charges will be created from this document.

The short-term tasks identified in this draft roadmap are focused on studies of international insurance solvency systems and U.S. banking supervision and Basel II, the creation and exposure of discussion topics about capital requirements and enterprise risk management issues, and the study of the IASB and IFRS. Some of the long-term tasks are focused on reinsurance modernization and continuing the implementation of principles-based reserving.

International Accounting Standards Working Group

The working group received updates on decisions of the International Accounting Standards Board and Financial Accounting Standards Board in the past quarter relating to the Insurance Contracts Project, the Financial Instruments Replacement Project, and the exposure draft on fair value measurement. The working group also discussed the activities of the Financial Crisis Advisory Group and the International Association of Insurance Supervisors' Insurance Contracts Subcommittee. As a result of these updates, the chair encouraged the working group to provide input to the IAIS Insurance Contracts Subcommittee on the forthcoming exposure draft on insurance contracts and the future further exposure drafts on financial instruments.

The working group also voted to recommend that its parent task force add the following charge to the group for 2010: "coordinate responses to the FASB on joint projects with the Statutory Accounting Principles Working Group." The goal of this charge is to ensure that responses to the IASB through the

IAIS process and NAIC responses to the FASB on joint projects do not unnecessarily diverge.

Group Solvency Issues Working Group

The working group met in Washington, D.C. and discussed the following items:

Insurance Holding Company System Model Act and Insurance Holding Company System Model Regulation with Reporting Forms and Instructions

The working group members discussed its proposed revisions to these two models with a focus on access to information, authority to audit the work papers of the holding company, and required holding company filings. The working group plans to continue its discussions of the revisions and will focus on updating the draft revisions before they expose the documents for comment.

Subgroup on Supervisory Colleges and Methods of Cross-Border Communication

The chair of the Supervisory College Subgroup discussed the results of its conference call on August 27. The subgroup is drafting amendments to the Model Holding Company Act and Regulation regarding authorizing supervisory colleges and assisting in the sharing of information by state regulators with federal and international regulators. The subgroup is planning on having a draft amendment for the working group by the middle of October to then expose for comment.

Restructuring Mechanism for Troubled Companies

The subgroup met in Washington, D.C. to discuss its Alternative Mechanisms for Troubled Mechanisms for Troubled Insurers White Paper, which has been developed for situations in which a legal entity is in a financially troubled condition and could possibly result in insolvency in the near future. (This white paper does not relate to instances where a legal entity is not generating the profits anticipated from particular book of business or wants to exit the insurance business for reasons not due to insolvency.)

Recent updates made to the white paper include the following:

- Sample outline for run-off plans;
- Discussion of New York Regulation 141 - This regulation allows an impaired or insolvent New

York domestic insurer or an impaired or insolvent U.S. branch of an alien insurer entered through New York to commute reinsurance agreements in order to eliminate an impairment or insolvency. This regulation also extended the voidable transfer period from four to twelve months and requires that a commutation of a reinsurance agreement to be commuted pursuant to the regulation shall not be avoidable as a preference. In addition, a case study and detailed analysis of how this regulation actually works were added.

- Discussion of Rhode Island Statute and Regulation for Voluntary Restructuring of Solvent Insurers - This statute allows for voluntary restructuring of solvent insurers. The statute was designed to provide an alternative to a typical run-off by bringing "solvent schemes of arrangement." For solvent companies that are in run-off they reach a court ordered agreement with creditors to accelerate completion of the run-off which provides certainty of payment to creditors and decreases administrative costs associated with long run-off plans.
- Benefits, risks and controls - Guidance was added for U.S. claimants and policyholders when a non-U.S. insurer restructures. This addition addresses key considerations that should be evaluated to benefit the U.S. policyholders and creditors when their non-U.S. insurer is restructured.

The white paper has been exposed for comment through October 15. The subgroup plans to have another conference call in mid-November to discuss the comments received and then hopes to have a final white paper to provide to the Financial Condition Committee at the Winter National Meeting.

Risk Retention Group Task Force

The task force met via conference call on September 3 to discuss comments received on the previously exposed Part B and Part C accreditation standards summary memos. Only one comment letter was received. The letter was submitted by an industry association expressing full support for the task force's conclusions as to the applicability of the Part B: Regulatory Practices and Procedures and Part C: Organizational and Personnel Practices Standards to risk retention groups organized as captives. As a result the task force voted to adopt the summary memos as exposed

and to present them to the Financial Condition Committee for consideration and subsequent referral to the Financial Regulation Standards and Accreditation Committee.

During this call the task force also discussed changes made to some of the Part A: Laws and Regulations accreditation standards following the group's previous consideration of these standards. The task force concluded that the new Property and Casualty Actuarial Opinion Model Law and the 2001 revisions to the Annual Financial Reporting Model Regulation should be applicable to captive RRGs.

In Washington, DC the task force discussed the 2006 revisions to the Annual Financial Reporting Model Regulation relating to auditor independence, corporate governance and internal control over financial reporting which become effective in 2010. The task force noted that some of the audit committee requirements may conflict with corporate governance standards applicable to RRGs previously adopted by the Property and Casualty Insurance Committee. After reviewing each of the audit committee requirements in the model regulation, the task force concluded that further time was needed to consider possible conflicts, and that the issue would be discussed further on a conference call.

The task force also considered questions regarding certain items contained in the previously adopted Part A summary memo. Specifically, the task force discussed whether RRGs are required to file RBC with the NAIC. Some members recalled that the group's intent was that RRGs should be required to file RBC, although this was only to be used as an analysis tool. Currently, the Part A summary memo states that RRGs are not required to file RBC reports. The task force agreed to continue the discussion on its next conference call.

The next National Meeting of the NAIC will be held in San Francisco December 5-8, 2009. We welcome your comments regarding issues raised in this newsletter. Please give your comments or email address changes to your PricewaterhouseCoopers LLP engagement team, or directly to the NAIC Meeting Notes editor: Jean Connolly, Managing Director, PricewaterhouseCoopers LLP, 200 Public Square, 18th Floor, Cleveland, Ohio, 44114-2301 — (440) 893-0010 or jean.connolly@us.pwc.com.

Disclaimer

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.